Panama Wind Energy Private Limited

June 30, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	236.37	CARE A-; Stable	Assigned
Long-term / Short-term bank facilities	70.00	CARE A-; Stable / CARE A2	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities consider Panama Wind Energy Private Limited (PWEPL) to be a part of a restricted group (RG), comprising three special purpose vehicles (SPVs), viz., Panama Wind Energy Private Limited (PWEPL), Panama Wind Energy Godavari Private Limited (PWEGPL), and Prakreetee Solar Energy Godavari Private Limited (PSEGPL) herein referred to as Panama RG. The ratings favourably factor in the tie-up of 94% of the combined capacity through medium-term power purchase agreement at pre-determined tariff with Maharashtra State Electricity Distribution Company Limited (MSEDCL) along with the long track record of the projects. Furthermore, the ratings favourably factor the ample surplus cash flow fungibility among the SPVs and maintenance of debt service reserve account (DSRA). The structure further covers the risk of tariff adequacy, continuation of PPA among the assets and maintenance of adequate working capital which is a credit positive. The ratings also factor in the strong parentage and experienced management team under O2 Power SG Pte Limited (O2PSPL) (the holding company of O2 Power group), which is backed by reputed private equity investors, viz., Temasek Holdings Limit ed and EQT Partners, having strong commitment towards investment in renewable projects in India.

The aforementioned rating strengths are, however, tempered by modest generation track record of the SPVs and counterparty risk evidenced from stretched average receivable period in the past. The ratings are constrained by the exposure of the SPVs to non-timely renewal of PPA, exposure to regulatory, climatic and interest rate risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Higher-than-envisaged generation on a sustained basis along with better-than-base case coverage and leverage metrics.
- Timely contracting of PPA with off-takers having strong credit profile with favourable terms of contract.

Negative factors

- Lower-than-envisaged generation or increase in the borrowing cost significantly impacting the coverage indicators.
- Significant delay in contracting PPA in line with base case assumptions.
- Significant deterioration in the credit profile of the promoter or dilution in its support philosophy towards its SPVs.
- Deterioration in the credit risk profile of the off-takers leading to stretch in receivables, adversely impacting the liquidity of the SPVs under the RG.
- Any adverse change in regulatory environment concerning C&I space.

Analytical approach:

Combined - All the three SPVs referred to as Panama RG (i.e PWEPL, PWEGPL and PSEGPL) are subsidiaries of O2 Power SG Pte Ltd (O2PSPL) and are engaged in similar lines of business. Moreover, these SPVs are also expected to have fungibility of the surplus cash post servicing of their respective debt. Hence the financial and business risk profiles of these entities have been combined. Furthermore, the linkage of Panama RG with the ultimate parent entity i.e O2PSPL has also been considered.

Outlook: Stable

The stable outlook reflects maintenance of steady generation and collection across all the three SPVs including PWEPL by virtue of the medium-term PPAs.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:

Key strengths

Medium-term PPAs provide some revenue visibility

For PWEPL and PWEGPL, entire capacity (i.e., 94% of the combined capacity of the RG) is tied up with MSEDCL for a period of 13 years at pre-determined fixed tariff.

Reasonable operational track

All wind assets are operational for more than eight years. The solar asset, i.e., PSEGPL, has an operational track record of more than five years.

Contractual comforts exist in the refinanced loan

The SPVs are required to make DSRA equivalent to one quarter of debt and interest obligation. The presence of a structured waterfall mechanism, fungibility of the surplus cashflows among the SPVs provides comfort. There is sponsor and promoter undertaking for debt resizing in case of non-maintenance of base case tariff, delay in signing of PPA, higher-than-base case O&M expenses along with mandatory cash sweep in case of non-maintenance of threshold debt service coverage ratio. As per the stipulation, the sponsor shall provide the downsizing support, debt shortfall support, contractual damage support or DSRA support (if applicable) within the timelines.

Strong parentage in the form of two financial investors and experienced management team, firm commitment of US$ 500 million to be invested in renewable energy projects across India

O2PSPL, a renewable energy platform, is backed by two reputed global investors, viz., EQT (51%) and Temasek (49%) through EQT Infrastructure IV SG Pte Ltd and MacRitchie Investments Pte Ltd. Headquartered in Sweden, EQT is a differentiated global investment Fee Generating Fund AUM with around EUR 113 billion in assets under management. EQT funds have portfolio companies in Europe, Asia and the US across around 500 investments and approximately 175,000 employees. Temasek is a global investment company headquartered in Singapore, with a net portfolio value of SGD 403 billion, as on March 31, 2022, with exposures in Asia (63%), Americas (21%), and rest of the world (16%). The total aggregate capital committed in O2PSPL by both the investors is US$ 500 million, which will be invested in various renewable energy projects in India. The current portfolio of O2PSPL of 2.70 GW includes 515.6 MW of operational capacity as on May 31, 2023. The management of O2PSPL is experienced, having an established track record in the renewable sector in India. The management team is led by Parag Sharma (Founder and Chief Executive Officer), who has more than 22 years of experience in the Indian power sector. Given O2PSPL's aggressive growth plans in India with a reasonably long-term investment horizon, importance of PWEPL's share in its overall portfolio, and promoter's past track record of financially supporting other projects, PWEPL is expected to benefit from the operational and financial linkages with its parent.

Industry Outlook

India has an installed renewable capacity of around 110 GW (excluding large hydro) as on March 31, 2022, comprising solar power of 54 GW, wind power of 40 GW, small hydro of 5 GW, and other sources including biomass of 11 GW. There has been significant traction in solar power installations over the last few years and the cumulative solar power capacity has surpassed the installed wind power capacity, despite its late and slow start. The overall renewable energy installations have increased at a compounded annual growth rate (CAGR) of 17% from FY16-FY22. Over the years, the renewable energy industry has benefitted on account of Government's strong policy support, India's large untapped potential, presence of creditworthy central nodal agencies as intermediary procurers and improvement in tariff competitiveness. Going forward, with India setting up an ambitious target of achieving 450-GW renewable capacity by 2030, the regulatory framework is expected to remain supportive. However, the developers are expected to face challenges in the near term on account of the rising cost of modules, turbines and other ancillary products along with imposition of basic custom duty on cells and modules from April 2022 onwards, which is expected to drive-up costs and result in increase in bid tariffs for new projects. This apart, challenges for acquisition of land and availability of transmission infrastructure also remain a key bottleneck. However, the Indian renewable industry continues to be a preferred investment alternative for both domestic as well as foreign investors and is expected to post robust growth going forward as well, which results in CARE Ratings assigning a Stable outlook to the industry.

Key weaknesses

Modest generation in the past; measures taken by the current promoter to improve generation

Generation for all the three plants has been moderate and below the envisaged level of P90, mainly on account of erratic wind patterns in the country. Generation in FY22 was affected due to issues with respect to conflict among the erstwhile promoters. Panama RG, through appointment of new O&M contractor and improved O&M practices, is also envisaging improvement in the generation going forward, which will be crucial from the credit perspective.

Counterparty risk characterised by erratic collection track record in the past
The credit profile of MSEDCL is below average due to sizeable regulatory assets and high ACS-ARR gap. It has also been observed in the past that MSEDCL has made delayed payments to projects like PWEPL and PWEGPL, where the tariff has been less competitive.
The combined collection efficiency, which stood very low at 5% in FY21, significantly improved to 165% in FY22 and more than 100% in FY23. As per the management, settlement time for MSEDCL bills has reduced recently. Generation-based incentives is also getting realised fairly on time. Moreover, the C&I off-takers have been consistently paying on time.

PPA renewal risk
The PPAs of PWEPL and PWEGPL will be due for renewal during FY26-FY28 period. For PSEGPL, entire capacity has been tied up with multiple C&I off-takers through medium-term PPAs having short lock-in periods and mediocre termination protections. Since the PPA tenure is lower than the debt servicing tenure, timely tie-up of capacity with strong counterparty at remunerative tariff will be important for Panama RG to sustain adequate debt coverage metrics.

Exposure to regulatory and interest rate risk
PSEGPL has PPAs under the open-access model that are exposed to the regulatory risks on account of changes in open-access charges and banking norms. The risk is mitigated to some extent by the passthrough of such charges and losses to the C&I customers in the PPAs. However, in case of any upward revision in these charges and losses or adverse change in regulations, the landed cost of power for the C&I customers could increase, impacting the tariff cost competitiveness.
Given the leveraged capital structure and single-part nature of the fixed tariff in the PPA, profitability remains exposed to any increase in the interest rates, given the floating interest rates for the term loan availed by the entity.

Dependence on favourable climactic conditions and wind patterns
Wind projects are exposed to the inherent risk of weather fluctuations, leading to variations in the wind patterns, which affects the plant load factor (PLF).

Liquidity: Adequate
The lender has also stipulated for creation of one quarter DSRA which has been created for PWEGPL and in process of creation for other two entities. The working capital lines for all three entities provide additional liquidity cushion. Moreover, given the parentage of these entities, they are likely to enjoy financial flexibility.

Applicable criteria

- Definition of Default
- Consolidation
- Factoring Linkages Parent Sub JV Group
- Financial Ratios – Non financial Sector
- Liquidity Analysis of Non-financial sector entities
- Policy On Curing Period
- Rating Outlook and Rating Watch
- Short Term Instruments
- Infrastructure Sector Ratings
- Wind Power Projects
- Solar Power Projects

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Generation

PWEPL was operating a 72-MW wind power plant in the Satara district of Maharashtra, which was later revised to 70.40 MW due to breakage in one of the wind turbine generators (WTGs). The plant consists of 44 WTGs of 1.6 MW each and was commissioned in February 2013. The SPV was acquired by the O2 Group from M/s Berkeley Energy Wind Mauritius Limited (BEWML) and Indo

Magnus Energy Private Limited (IMEPL) in December 2022. The company has a medium-term PPA for entire capacity with Maharashtra State Distribution Company Limited for a period of 13 years from the date of commissioning.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	75.75	40.06	NA
PBILDT	49.18	14.46	NA
PAT	-17.37	-51.65	NA
Overall gearing (times)	1.54	2.01	NA
Interest coverage (times)	1.70	0.50	NA

A: Audited || NA. Not Available || UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	December 2034	236.37	CARE A-; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	70.00	CARE A-; Stable / CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	236.37	CARE A-; Stable				
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	70.00	CARE A-; Stable / CARE A2				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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