Adani Solar Energy AP Seven Private Limited

February 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	925.00	CARE A+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the long-term bank facilities of Adani Solar Energy AP Seven Private Limited (ASE7), which is operating a 250-MW (AC) solar power plant in Ananthapuramu solar park, Andhra Pradesh, factors in its satisfactory operating track record of more than 3.5 years as of December 2023. This is demonstrated by the generation performance remaining above designed energy levels since commissioning and healthy collection profile of the company. ASE7 has been receiving payments in an average of 30 days since commissioning. The rating is also supported by the presence of a long-term, 25-year power purchase agreement (PPA) at a fixed tariff of ₹2.73/kWh. Furthermore, the counterparty credit risk for the project remains low on account of NTPC being the offtaker for the entire capacity. Moreover, the rating takes into account the moderate debt protection metrics as reflected by average debt service coverage ratio (DSCR) around 1.16x till the tenor of the rated facility and the presence of debt service reserve account (DSRA) equivalent to two quarters of debt servicing. Further, CARE Ratings notes that, the company has filed for a safeguard duty (SGD) reimbursement of Rs. 137 crore which is pending for approval at Appellate Tribunal of Electricity (APTEL). The outcome of the same would be a key monitorable from a credit standpoint.

The rating is, however, constrained on account of leveraged capital structure as reflected by total debt/Earnings before interest, taxes, depreciation, and amortisation (EBIDTA) of 5.2x as of FY23-end. The company is expected to witness an enhancement in debt by around ~₹70 crore, and consequently the capital structure will remain leveraged with total debt/ EBITDA likely to remain over 6.5x till FY25. Furthermore, the project is exposed to interest rate fluctuation risks since the interest rates on the proposed facility are floating in nature. CARE Ratings also takes note of the exposure of project cash flows to adverse variations in weather conditions given the single part nature of tariff for the project.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Actual generation remaining better than P-90 resulting in improvement in coverage indicators as reflected by average DSCR above 1.25x on a sustained basis
- Receipt of favourable order from APTEL approving SGD claim of Rs. 137 crore
- Faster-than-expected deleveraging of the project

Negative factors

- Significant delays in payments from NTPC adversely affecting the liquidity position of the project
- Underperformance in actual generation on a sustained basis and/or any increase in the debt levels resulting in weakening of debt service coverage ratio (DSCR) of project debt

Analytical approach: Standalone

Outlook: Stable

The stable outlook on the 'CARE A+' rating of ASE7 reflects CARE Ratings' opinion that the company would benefit from its long-term PPA with NTPC. Also, expectations of satisfactory generation and collection performance support the outlook.

Detailed description of the key rating drivers:

Key strengths

Strong and resourceful parentage with established track record of operations in the renewable sector

The operations in the underlying assets of ASE7 are managed by the Adani Green Energy Limited (AGEL), which is the flagship company of the Adani Group in the renewable energy segment. AGEL is amongst the leading renewable energy companies in

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

India having an operational capacity of around 8.3 GW and capacity under development of around 12 GW as on September 30, 2023.

Long-term revenue visibility on account of presence of PPAs for the entire capacity with off-taker having strong credit risk profile

CARE Ratings factors in the presence of the long-term PPAs signed with the offtaker. ASE7 has entered into long-term PPA with NTPC for a tenor of 25 years at a tariff ₹2.73/kwh providing long-term revenue visibility. NTPC is an intermediary counterparty and energy generated from this project is sold to distribution utilities, which are the ultimate offtakers. NTPC has signed Power Sale Agreement (PSA) with distribution utilities in Andhra Pradesh. The presence of a strong intermediate counterparty like NTPC has led to the timely realisation of payments under the PPA.

Satisfactory operational track record of more than six years with generational performance above P90 estimates during last 12 months

The 250-MW AC grid connected solar photovoltaic technology constructed by ASE6, located in Rajasthan, was fully commissioned in July 2017, and has an operational track record of more than six years. The generation performance in trailing twelve months (ending December 2023) has been higher than the designed energy levels. Company reported TTM PLF of 27.0% as against P90 estimate of 24.7% (adjusted for annual degradation). Further, the company witnessed actual PLFs of 26.3% and 25.7% during FY23 and FY22 respectively. Going forward, CARE Ratings expects the generation levels to be in line with past trends.

Key weaknesses

Leveraged capital structure along with exposure to interest rate risk

ASE7's capital structure is leveraged on account of the debt-funded capex incurred for setting up the project which is customary to the renewable sector. The same is reflected by total debt/EBITDA of 5.2x as on FY23-end. The capital structure is expected to remain leveraged with total debt/EBITDA expected to stay above 6.5x in FY24 and FY25 on account of the proposed debt top up. Further, the EBITDA for FY23 was buoyed by sale of carbon credits which contributed ~Rs. 35 crore in FY23, and CARE Ratings in its base case has not accounted for this income.

However, the coverage indicators of the company are expected to remain moderate as reflected by DSCR of around 1.16x till the tenor of the rated facility as per CARE Ratings' base-case scenario. CARE Ratings further notes that given the leveraged capital structure, and single-part nature of fixed tariff in PPA, the company's profitability remains exposed to fluctuation in interest rates.

SGD reimbursement pending

ASE7 incurred SGD of Rs. 137 crores while setting up the project. This SGD classifies as a "Change in Law" event as at the time of bidding, no SGD was applicable. The company along with other winners had approached Andhra Pradesh Electricity Regulatory Commission (APERC) for a reimbursement which was rejected in April 2023. The same was subsequently contested by the developers in APTEL in May 2023. A final decision from APTEL in this regard is still awaited. The outcome of the same would be a key monitorable from a credit standpoint.

Vulnerability of cash flows to variation in weather conditions

As tariffs are one part in nature, the company may book lesser revenues in the event of non-generation of power due to variation in weather conditions and/or equipment quality. This, in turn, would affect its cash flows and debt servicing ability. The geographical concentration of asset amplifies the generation risk.

Liquidity: Adequate

As on December 31, 2023, the company had cash and bank balance of ~Rs. 45 crores and DSRA balance of Rs. 62 crores in the form of FDs which is equivalent to two quarters of debt servicing. Going forward, CARE Ratings expects the generation profile to remain in line with historical trends and collection efficiency to remain satisfactory given the presence of strong counterparty for the offtake.

As per CARE Rating's base case, GCA for FY24 and FY25 is expected to be ~Rs. 50-55 crore as against annual repayments of around Rs. 35 crores.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Infrastructure Sector Ratings
Solar Power Projects

About the company and industry

Industry classification

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

Adani Solar Energy AP Seven Private Limited (ASE7), incorporated in March 2018, is a step-down wholly owned subsidiary of Adani Nine A Holdings Limited, a 100% step-down subsidiary of Adani Energy Holding Limited. AEHL is a wholly owned subsidiary of Adani Green Energy Limited (AGEL).

ASE7 has set up 250 MW AC (375 MW DC) solar power project in Ananthapuramu solar park, Andhra Pradesh. The project achieved commissioning in March 2020. Further, the company has entered into a power purchase agreement with NTPC for a period of 25 years and is supplying power from the entire capacity to NTPC at a fixed tariff Rs. 2.73/kWh.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9M FY24 (UA)
Total operating income	151.1	188.3	NA
PBILDT	121.4	157.9	NA
PAT	-54.8	22.2	NA
Overall gearing (times)	2.7	2.3	NA
Interest coverage (times)	1.6	1.9	NA

A: Audited UA: Unaudited; NA: Not Available, 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	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	September 2041	925.00	CARE A+; Stable

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	925.00	CARE A+; Stable				

**Long term*

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities - NA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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