Adani Green Energy Twenty Four Limited

September 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	4,524.00	CARE A-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Adani Green Energy Twenty Four Limited (AGE24L), which is setting up a hybrid power plant of 929 MW split across Rajasthan (~54%) & Gujarat (~46%), factors in the strong parentage by virtue of it being a wholly owned subsidiary of Adani Renewable Energy Holding Four Limited (AREH4L), which in turn is a 100% subsidiary of Adani Green Energy Limited (AGEL). AGEL is the largest renewable energy developer in India having a total operating capacity of ~11 GW and under development capacity of ~11 GW as on June 2024 end. The stated posture of AGEL towards AGE24L is strong as reflected by a limited period sponsor undertaking which mandates infusion of additional funds by the sponsor (AGEL) in case of a cost overrun, increase in operating expenses, shortfall in debt servicing, maintenance of DSRA or any other cash flow mismatch.

The rating derives strength from the presence of a long-term (25 years) Power Purchase Agreement (PPA) for the 500 MW capacity (~54% of the total capacity) with Solar Energy Corporation of India (SECI) at a fixed tariff of ₹ 2.42/unit. For the remaining capacity, AGE24L plans to sell the power on a merchant basis. As per CARE Ratings' base case, assuming a merchant tariff of ₹ 3.25 per unit, the debt coverage indicators are expected to be moderately comfortable as reflected by an average Debt Service Coverage Ratio (DSCR) being around 1.20x. At present, 25 MW solar capacity is commissioned and the generation performance since commissioning i.e., March 2024, has been better than the P90 levels despite being into stabilisation phase. The average realisation from this capacity has been ~₹ 3.5 per unit.

CARE Ratings takes note that out of the total debt requirement of ₹ 4,404 crore, ~54% of the entire requirement has been tied up and for the remaining portion, in-principal approval has been received. Per the terms mentioned in the sanction letter, the company has to create and maintain DSRA of one quarter within 12 months from the Commercial Operations Date (COD). As articulated by the management, the pending debt would be tied up by the end of this quarter.

The rating is, however, constrained on account of exposure to execution risk as majority of the capacity under this project is under implementation stage and is expected to be commissioned in phases between September 2024-June 2025. Further, the capital structure of the company is expected to be leveraged as the project is expected to be funded through a debt-equity mix of 75:25 thereby leading to an expected Total Debt/EBITDA of 6.8x in FY27 (first full year of operations). As of July 2024, promoters have infused equity to the tune of ~₹ 630 crore as against the committed equity of ₹ 1,468 crore. The rating also factors in exposure of project cash flows to adverse movement in merchant prices and interest rates. CARE Ratings also takes into account vulnerability of project cash flows to adverse variation in weather conditions.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Successful commissioning of the project along with stabilisation of operations as reflected by actual PLF being in line with the designed energy estimates on a sustained basis
- Actual realisation for the 429 MW merchant capacity remaining above ₹ 3.75 per unit on a sustained basis leading to faster than expected deleveraging of the asset

Negative factors

- Significant underperformance in generation, lower than envisaged realisations for the merchant capacity and/or any increase in the debt levels weakening the cumulative DSCR to less than 1.15x on a sustained basis
- Any material time or cost overrun leading to significant delay in commissioning of the project, adversely impacting project's profitability
- Any weakening of the credit profile of the parent, i.e., AREH4L, or any change in linkages/support philosophy between the parent and AGE24L

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

Analytical approach: Standalone plus factoring in parent support of AREH4L

Outlook: Stable

The stable outlook on the CARE A- rating of AGE24L reflects CARE Ratings' opinion that the company would benefit from its long-term PPA with SECI for ~54% capacity. Also, the satisfactory execution progress supports the outlook.

Detailed description of key rating drivers:

Key strengths

Strong parentage and operating track record of Adani Group in renewable energy segment

AGE24L is a 100% owned subsidiary of AREH4L which in turn is 100% held by AGEL. AGEL is promoted by the Adani Group for foraying into renewable energy projects. The Company, together with its subsidiaries currently has multiple power projects located at various locations with a combined installed and commissioned operational capacity of ~11 GW and under development capacity of ~11 GW as on June 30, 2024. AGEL, along with its subsidiaries sells power generated from these projects under a combination of long-term Power Purchase Agreements (PPA) and on a merchant basis. The equity shares of AGEL are listed on BSE Limited and National Stock Exchange of India Limited.

Further, the stated posture of AGEL towards AGE24L is strong as reflected by presence of a limited period sponsor support undertaking which shall be valid till fulfilment of certain conditions as stipulated by the lender. CARE Ratings notes that in any case, the support cannot be released before June 2028 i.e., three years from the COD.

Long-term revenue visibility on account of PPA with SECI for 500 MW capacity at a competitive tariff

AGE24L has entered into a long-term (25-year) PPA with SECI at a fixed tariff of ₹ 2.42 per unit for the entire duration of the project, i.e. till November 2049, which provides revenue visibility. The presence of a strong intermediate counterparty like SECI is expected to lead to timely realisation of payments under the PPA. Further, CARE Ratings notes that the PPA tariff may witness an upward revision on account of Change in Law with respect to GST and imposition of basic custom duty on the solar modules as per the PPA terms and therefore, may lead to an uptick in the tariff.

CARE Ratings takes note that the remaining capacity i.e., 429 MW is exposed to offtake risk as the company plans to sell the power on merchant market. Further, the price of the power traded on the merchant market are volatile in nature and thus any sharp decline may impact the cash accruals and debt coverage indicators adversely.

Moderately comfortable debt coverage metrics

As per CARE Ratings' base case, assuming a merchant tariff of ₹ 3.25 per unit, the debt coverage metrics of the project are expected to be moderately comfortable as reflected by average DSCR being around 1.20x for the tenure of the rated facility. Further, the project has a tail life of ~5 years providing financial flexibility to the project. Moreover, the company is expected to maintain Debt Service Reserve Account (DSRA) equivalent to one quarter of debt servicing obligations assuming the same terms for the untied debt portion, which is expected to aid the liquidity profile of the company.

Key weaknesses

Execution risk on account of project being under implementation phase

The project is exposed to execution risk on account of project being under implementation stage. Out of the 904 MW capacity (25 MW already commissioned in March 2024), 500 MW solar capacity is expected to be commissioned by the end of September 2024 and the remaining 404 MW which is split into 104 MW of wind capacity and 300 MW of solar capacity is expected to be commissioned in phases between March 2025 - June 2025. The entire 929 MW capacity is being developed in the Solar Park of Rajasthan and Gujarat and thus land parcel and connectivity approvals are already in place. Further, the group's strong expertise and track record in the renewable energy segment is expected to aid in timely project execution. The project is being set up with a total investment outlay of ~₹ 5,872 crore, which is expected to be funded in the debt equity mix of 75:25. As on July 2024 end, out of the total cost incurred of ~₹ 1,528 crore, the promoters have infused funds to the tune of ₹ 630 crore. The ability of company to commission the entire capacity under development in a timely manner, without any major cost overrun, will be critical from a credit standpoint

Leveraged capital structure along with exposure to adverse variation in interest rates

The capital structure is expected to be leveraged on account of debt-funded capex (75:25) being incurred for setting up the project. In CARE Ratings base case assessment, the Total Debt/EBITDA is expected to remain high above 6.5x over the course of FY27 and FY28. However, assuming a merchant tariff of ₹ 3.25 per unit, the debt coverage indicators are expected to be comfortable as reflected by average DSCR around 1.20x for the tenor of the term debt. Given the leveraged capital structure, single-part nature of the fixed tariff in the PPA for ~54% of the capacity and floating interest rates subject to annual rest, the profitability remains exposed to any increase in the interest rates.

Vulnerability of cash flows to variation in weather conditions and actual realisation in the merchant market

As tariffs are one part in nature, the company may report lesser revenues in the event of non-generation of power due to variation in weather conditions and/or equipment quality. Also, the price of the power traded on the merchant market are volatile in nature, and thus, any sharp decline may impact the revenues adversely. This, in turn, would affect the cash flows and to some extent debt servicing ability also.

Liquidity: Adequate

The liquidity of the company is expected to be adequate given strong linkages with the promoter group reflected by limited period sponsor undertaking. Further, as per the sanction terms, the repayment starts from Dec 2025 i.e., within six months from the date of COD and DSRA of one quarter of debt servicing to be created and maintained within 12 months from COD which is a part of the project cost. Going forward, the internal accruals are anticipated to be adequate to service its debt obligations.

As per CARE base case scenario, Adjusted GCA for FY26 and FY27 is expected to be ~₹ 176 crore and ~₹ 230 crore respectively as against annual repayments of ~₹ 44 Crore and ~₹ 99 Crore in FY25 and FY26 respectively.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Infrastructure Sector Ratings
Solar Power Projects
Wind Power Projects

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power Generation

AGE24L, incorporated on January 07, 2020 is a special purpose vehicle promoted by the AREH4L. AREH4L is a 100% subsidiary of AGEL. AGE24L was incorporated for setting up 929 MWAC (1228.25 MWDC) renewable energy power projects out of which 500 MW Solar Project has a PPA tied up with Solar Energy Corporation of India Limited (SECI), whereas power from the 300 MW Solar, 104 MW Wind and 25 MW Solar Projects will be sold on the Merchant Market. The 25 MW Merchant Project is already operational and was commissioned in March 2024.

Brief Financials: Not Applicable, as the project is under construction

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	March 31, 2045	4404.00	CARE A-; Stable
Non-fund-based - LT-Bank Guarantee	-	-	-	-	120.00	CARE A-; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	4404.00	CARE A-; Stable				
2	Non-fund-based - LT-Bank Guarantee	LT	120.00	CARE A-; Stable				

LT: Long term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Non-fund-based - LT-Bank Guarantee	Simple

Annexure-5: Lender details

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

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