

Azure Power Makemake Private Limited

October 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	151.00	CARE A-; Stable	Final Rating Confirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating action on the long-term debt facilities of the captioned entity considers execution of the inter-company agreement between seven entities of the Azure Group, namely, Azure Power Make Make Private Limited (AP-MM), Azure Power Uranus Private Limited (AP-U), Azure Power Venus Private Limited (AP-V), Azure Power Earth Private Limited (AP-E), Azure Power Thirty-Three Private Limited (AP-33), Azure Power Thirty-Four Private Limited (AP-34) and, Azure Power Thirty-Six Private Limited (AP-36), herein referred to as Azure's Restricted Group (RG). The said agreement is in line with the proposed terms of the transaction and is characterised by free fungibility of cash flows, t-minus structured payment and invocation mechanism and presence of cross default clause amongst seven entities in the structure. The arrangement makes them jointly and severally responsible for servicing the debt obligations towards the lender. The agreement is unconditional, irrevocable, and valid for the full tenure of the rated debt facilities.

The rating on the bank facilities of the RG, which is operating a total solar capacity of 615 MW (AC), continues to factor in long track record of more than 5 years and satisfactory operating performance as reflected by actual generation above designed energy estimates and collections remaining within 70 days on a sustained basis. The rating is supported by the presence of long-term PPAs for the entire 615 MW capacity with multiple central and state counterparties. Further, the RG structure also benefits on account of geographical diversification as the assets are spread across five states.

CARE Ratings also notes that the stated posture of Azure Power India Private Limited (APIPL) towards these entities is strong, as reflected by presence of unconditional and irrevocable corporate guarantee (CG) which will remain valid until project achieves stabilisation per the terms stipulated by the lender.

Nevertheless, the rating strengths are tempered by leveraged capital structure as reflected by Total Debt/ EBITDA above 6.0x for FY24 end. The rating is also constrained on account of vulnerability of cash flows to variations in weather conditions.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Achievement of generation levels better than envisaged levels as per CARE Ratings base case on a sustained basis, thereby positively impacting the debt coverage indicators above 1.25x
- Faster than expected deleveraging of the portfolio

Negative factors

- Significant deterioration in the generation profile on a sustained basis or significant increase in debt levels leading to moderation of DSCR below 1.15x
- Elongation in receivable cycle beyond 150 days on a sustained basis

Analytical approach: Combined

CARE Ratings has applied combined approach for rating the bank facility of the entity, on account of the co-obligor structure for pooling of surplus cash flows from the individual entities to service shortfall in debt servicing if any, in any of these entities. The agreement is unconditional, irrevocable, valid for the full tenor of the rated debt facilities and is characterised by free fungibility of cash flows, t-minus structured payment and invocation mechanism and presence of cross default clause amongst seven entities in the structure.

In 'Combined Approach', CARE Ratings evaluates the group of entities as if it were a single entity and combines the financials and business risk profiles of these entities to take a view on the ratings. All the seven entities (i.e. AP-MM, AP-U, AP-V, AP-E, AP-33, AP-34, AP-36) are part of the Azure Group and are engaged in similar lines of business.

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

Outlook: Stable

CARE Ratings believes that the Azure RG would continue to benefit on account of long term PPAs for the portfolio under the RG. The operational performance of the assets is likely to remain in line with the existing trend which supports the outlook.

Detailed description of key rating drivers:

Key strengths

Presence of a co-borrower arrangement for assets under the RG

The seven SPVs (AP-MM, AP-U, AP-V, AP-E, AP-33, AP-34, AP-36) of Azure group have formed an RG wherein these entities would be jointly and severally servicing the combined debt obligations. The shortfall in meeting the debt obligations by one entity shall be met through surplus cash flows from the other entities in the structure. The agreement is unconditional, irrevocable, valid for the full tenor of the rated debt facilities and is characterised by free fungibility of cash flows, t-minus structured payment and invocation mechanism and presence of cross default clause amongst seven entities in the structure.

Revenue visibility on account of long term PPAs for majority capacity

CARE Ratings factors in the presence of long term PPAs for the entire capacity under the RG pool with the weighted average tariff of Rs. 3.22 per unit, thus providing revenue visibility. Moreover, around 58% of the portfolio is tied up with stronger counterparties, viz, SECI, GUVNL etc and the remaining is held by state discoms, viz, MSEDCL, BESCOM, HESCOM etc. CARE Ratings notes that the collection cycle remains satisfactory with average DSO standing within 70 days on a sustained basis.

Satisfactory operational track record with generation performance better than the designed energy estimates

The portfolio has a satisfactory operational track record of ~5.4 years, wherein the generation performance has been above the designed energy estimates with FY24 PLF level at 24.3% vis-à-vis P90 estimate of 23.8% and FY23 PLF of 25.2%.

Assets being a part of Azure Group, which has long operating track record in renewable energy segment

The entities under the Azure RG-II are wholly owned subsidiaries of APIPL. APIPL is a subsidiary of Azure Power Global Limited (APGL), which is the flagship company of the Azure group. The group is engaged in the business of developing and operating renewable power capacity and has an experience of over a decade in this segment. The shareholders of APGL include CDPQ, which holds 53.4%, followed by OMERS, which holds 21.4%, and the remaining is owned by multiple financial investors, including mutual funds, hedge funds, etc.

The major shareholder, CDPQ, is fully involved in the group's strategy, including investment plans and oversight of operations, and continues to strengthen the company's risk management practices. CDPQ continues as a strategic long-term investor in the platform and its stake is expected to remain above 50% in the group. CDPQ and OMERS who jointly hold around 75% shareholding at the group level have maintained their stance of backing the Azure group and provide need-based support in case of a funding mismatch.

CARE Ratings also notes that the stated posture of Azure Power India Private Limited (APIPL) towards these entities is strong, as reflected by presence of unconditional and irrevocable corporate guarantee (CG) which will remain valid until project achieves stabilisation per the terms stipulated by the lender.

Key weaknesses

Leveraged capital structure for the RG with moderate debt protection metrics

The capital structure of the RG is leveraged as reflected by Total Debt/EBITDA of 6.1x as on FY24 end. The overall debt as on March 2024 end is ~Rs. 2140 crore which has a scheduled bullet repayment in December 2024. The said debt is being refinanced through a domestic term loan of ~Rs. 2,440 crore.

Going forward, Total Debt/ EBITDA is estimated to remain leveraged between 6.5x-6.3x for FY25-FY26. The debt protection metrics for the RG are expected to remain moderate as reflected by a cumulative DSCR of 1.2x and minimum DSCR of ~1.1x as per CARE Ratings' base case.

Moderate financial risk profile of off-takers

The RG is exposed to counterparty related risks as ~42% of the capacity under the portfolio is contracted with state discoms which have weak to moderate credit profiles. Nonetheless, the overall receivable cycle remained comfortable as reflected by receivable cycle of ~65 days as on FY24 end. Going forward, CARE Ratings expects the collection cycle to remain rangebound within 60-90 days and significant deterioration in the same regard would be a key credit monitorable.

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.

Liquidity: Adequate

The RG has adequate liquidity as reflected by free cash and bank balance of ~Rs. 154 crore on a combined basis as on August 2024 end. Going forward, CARE Ratings expects the generation performance of assets to be in-line with estimated figures and collection to remain timely. The internal accruals from the structure are expected to be adequate to service its debt obligations.

As per CARE Ratings' base case, gross cash accruals (GCA) for FY25 and FY26 is expected to be rangebound between Rs. 142 crore to Rs. 135 crore as against the annual repayments of Rs. 91 crore and Rs. 118 crore respectively.

Applicable criteria

[Consolidation](#)

[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](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power Generation

AP-MM was incorporated on January 03, 2015, as a 100% subsidiary of APIPL. The SPV was incorporated for developing and operating 28 MW solar power plant in the state of Punjab, India. The company has signed long term PPA with PSPCL for a period of 25 years, at a fixed tariff of Rs. 7.21 per unit. The plant has been operational for more than eight years.

Financial Performance: Combined

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	484	431
PBILDT	398	365
PAT	-54	-54
Overall gearing (times)	4.5	5.0
Interest coverage (times)	1.3	1.2

A: Audited; Note: 'the above results are latest financial results available'

Financial Performance: AP-MM (Standalone)

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	31	30
PBILDT	27	28
PAT	7	8
Overall gearing (times)	1.7	1.5
Interest coverage (times)	1.8	1.7

A: Audited; 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: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	Sep 30, 2037	151.00	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	151.00	CARE A-; Stable	1)Provisional CARE A-; Stable (28-Jun-24)	-	-	-

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

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:

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