Adani Solar Energy AP Seven Private Limited

December 31, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	907.43 (Reduced from 925.00)	CARE A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in 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 4.5 years. The generation has remained above designed energy levels since commissioning as reflected by FY24 PLF of 27.0% and FY23 PLF of 26.3% as against P90 estimate of 25.2%. Going forward, CARE Ratings Limited (CARE Ratings) expects generation to remain in line with the historical trend. Further, the rating factors in the robust collection efficiency of the project with NTPC clearing its dues within a week of the date of invoice since January 2024.

The rating continues to be 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 1.15x till the tenor of the rated facility and the presence of debt service reserve account (DSRA) equivalent to two quarters of debt servicing. The rating derives strength from the strong parentage of Adani Green Energy Limited (AGEL) which is amongst the leading renewable energy companies in India having an operational capacity of ~11 GW and capacity under development of ~12 GW as of September 30, 2024.

Further, CARE Ratings notes that, the company has filed for a safeguard duty (SGD) reimbursement of Rs. 137 crore which was approved by Appellate Tribunal of Electricity (APTEL) in August 2024 subsequent to which APERC (Andhra Pradesh Electricity Regulatory Commission) challenged the aforesaid APTEL's judgment in October 2024 in the Supreme court. The matter is sub-judice and its outcome 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/ EBIDTA of 6.9x as of FY24 end. The capital structure is expected to remain leveraged with total debt/EBITDA to remain above 6.6x in FY25 and FY26. Furthermore, the project is exposed to interest rate fluctuation risks since the interest rates 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 levels being better than the designed energy estimates and collection cycle remaining below 30 days on a sustained basis resulting in improvement in coverage indicators and liquidity profile
- Receipt of favourable order pertaining to 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 plus factoring in parent support

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.

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

Detailed description of 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 India having a combined installed and commissioned operational capacity of 11,184 MW as on Sept 30, 2024.

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 ASE7, located in Andhra Pradesh, was fully commissioned in March 2020, and has an operational track record of more than 4.5 years. The generation performance in trailing twelve months (ending December 2024) has been higher than the designed energy levels. Company reported FY24 PLF of 27.0% and FY23 PLF of 26.3% as against P90 estimate of 25.2%. 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 6.9x as on FY24-end. The capital structure is expected to remain leveraged with total debt/EBITDA expected to stay above 6.6x in FY25 and FY26.

The coverage indicators of the company are expected to remain moderate as reflected by DSCR of around 1.15x 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 which has been approved by APTEL. Pursuant to this, Andhra Pradesh Discom has challenged the aforesaid APTEL's judgment in the Supreme court. 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 report 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

The liquidity of the company is adequate as exhibited by the cash and bank balance at SPV level of Rs. ~13 crores as on 30th November 2024. This apart, company is maintaining DSRA of Rs. 74 crores in the form of FDs which is equivalent to two quarters of debt servicing. As per CARE Rating's base case, GCA for FY25 and FY26 is expected to be ~Rs. 52 crore as against annual repayments of around Rs. 39 crore.

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]

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power Generation

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, 2023 (A)	March 31, 2024 (A)
Total operating income	188.3	156.9
PBILDT	157.9	132.4
PAT	22.2	22.6
Overall gearing (times)	2.3	2.3
Interest coverage (times)	1.9	2.3

A: Audited; Note: these are latest available financial results

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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	Sept 30, 2041	907.43	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	907.43	CARE A+; Stable	-	1)CARE A+; Stable (20-Feb-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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@careedge.in	Jatin Arya Director **CARE Ratings Limited** Phone: 91-120-4452021 E-mail: Jatin.Arya@careedge.in Prachi Gupta Assistant Director **CARE Ratings Limited** Phone: 91-120-4452057 E-mail: prachi.gupta@careedge.in Simran Dargan Rating Analyst **CARE Ratings Limited** E-mail: Simran.dargan@careedge.in

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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