Azure Power Forty Private Limited

December 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	354.40 (Reduced from 400.00)	CARE BBB (RWD)	Continues to be on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings reaffirmation on the bank facilities of Azure Power Forty Private Limited (APFPL) which is operating a 90-megawatt (MW) (AC) solar power plant in the state of Assam takes into account track record of more than three years with satisfactory operational performance and timely collections. The company reported Plant Load Factor (PLF) of 21.8% in FY24 against 16.4% in FY23 and 19.6% in FY22. The PLF in FY23 was impacted due damage caused by floods in the region, however the PLF has recovered in FY24 and the PLF in H1FY25 was 21.0%. Going forward, CARE Ratings expects generation to remain rangebound between 21%-23%.

The ratings continue to be on rating watch with developing implications (RWD) primarily due to the pending litigation against the ultimate parent; Azure Power Global Limited (APGL) in U.S. district court with respect to violations of U.S. securities laws. At this point, it is difficult to ascertain the extent of liabilities from the ongoing class action lawsuit. Furthermore, The United States Department of Justice (DoJ) on November 20, 2024 has issued an indictment charging Mr. Ranjit Gupta and Mr. Rupesh Agarwal who both were ex-employees of the Azure group and three ex-employees (Mr. Cyril Cabanes, Mr. Saurabh Agarwal & Mr. Deepak Malhotra) of Caisse de Depot Et Placement du Quebec (CDPQ) which is the largest shareholder of Azure Power Global Ltd. The indictment charges them with a conspiracy to violate the Foreign Corrupt Practices Act (FCPA) in connection with a bribery scheme involving solar energy project in India. The indictment alleges executives mentioned above were involved in an apparent scheme to bribe Indian Government officials to obtain lucrative solar energy supply contracts with state owned discoms. While the indictment is directed towards individuals rather than any company of the group, it is difficult to ascertain if any additional penalties can be levied by the DoJ/other regulators on Azure group, given the fact that the ultimate holdco of the group was listed in the US markets previously.

CARE Ratings is in active discussion with the management and will continue to closely monitor the way the events unfold in the near term and assess the impact thereof on the business and financial performance of the underlying entities. Additionally, impact on the fund-raising capabilities -both equity as well as debt; consequent leverage levels, government or regulatory action, and debt covenants of Azure group borrowings in light of the aforesaid developments will also be closely monitored. The rating watch would be resolved once more clarity is obtained on the financial impact of ongoing legal issues.

The rating continues to factor the presence of long-term (25 years) Power Purchase Agreement (PPA) for the entire capacity at a fixed tariff of Rs. 3.34 per unit with Assam Power Distribution Company Limited (APDCL), which provides revenue visibility. Further, the company is receiving payments from the APDCL in around 30 days since commissioning resulting in moderate debtor days for the company and therefore ensuring adequate liquidity. This apart, the liquidity profile of the company is expected to remain adequate supported by presence of a debt service reserve account (DSRA) equivalent to one-quarter of debt servicing. Going forward, CARE Ratings expects the project's coverage indicators to remain comfortable with cumulative Debt Service Coverage Ratio (DSCR) being above 1.2x for the term debt tenure. The rating continues to derive strength from the experienced promoters having a track record of successfully commissioning and operating solar power projects in multiple geographies.

The rating is, however, constrained on account of the leveraged capital structure, as reflected by total debt to earnings before interest, taxation, depreciation, and amortisation (TD/EBITDA) of ~8.1x as on FY24 end. Going forward, per CARE Ratings' base case, the capital structure will continue to remain leveraged with TD/EBITDA multiple to remain above 6.8x over the next few years. The project's cash flows are exposed to adverse movement in interest rates, which is floating for the project debt and subject to periodic reset. CARE Ratings also factors in exposure of project cash flows to adverse variations in weather conditions given the single part tariff of the project coupled with asset concentration risk given the full capacity is located in a one state.

Further, CARE Ratings notes that the FY24 audited financial statements continue to be qualified with the auditor highlighting the group level issues such as gaps in internal control systems, weaknesses in financial reporting etc. Additionally, there is a penal interest of 1% per annum being charged by the lenders for the delay in security perfection.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in credit profile of parent i.e., APIPL
- Improvement in generation resulting in sustenance of coverage metrics & improvement in liquidity.
- Faster than expected deleveraging of the project

Negative factors

- Significant underperformance in generation or sustained elongation in receivables, adversely impacting liquidity profile.
- Increase in debt level or interest rates, adversely impacting coverage metrics with cumulative DSCR declining to less than 1.15x.
- Weakening of the credit profile of the parent, i.e., APIPL, or any change in linkages/support philosophy between the parent and APFPL
- Non-compliance of various covenants as per sanction terms including continued maintenance of DSRA equivalent to 1 quarter of debt servicing

Analytical approach: Standalone plus factoring in parent support

CARE Ratings expects APFPL's parent APIPL to be willing to extend financial support to APFPL, should there be a need, given the high strategic importance that APFPL has for APIPL.

Detailed description of the key rating drivers:

Key strengths

Experience promoter group having a strong track record of operating solar power projects

APJPL is a part of Azure Group which is among the leading renewable energy players in India; and is backed by renowned groups as its shareholders. The Group reported an operational solar portfolio of ~3 GW and a capacity of ~1 GW under pipeline as on October 2024 end. APJPL is a subsidiary of Azure Power India Private Limited [APIPL; rated CARE BBB+ (RWD)/ CARE A2 (RWD)], which is the flagship Indian company of the Azure Group and a subsidiary of Azure Power Global Limited (APGL). CDPQ which is pension fund of Canada holds more than 50% stake in the Azure group. The second largest shareholder in the group is OMERS which is also a Canadian pension fund. The credit profile of APFPL is supported by presence of limited period corporate guarantee from APIPL.

Long-term revenue visibility on account of long-term PPA for the entire capacity

APFPL has low offtake risks owing to the presence of long-term (25-years) PPA with APDCL at weighted average tariff of Rs. 3.34/kWh for the entire duration of the project. Long-term PPA provides revenue visibility for the company.

Further, the company is receiving payments from the offtaker in around 30 days since commissioning resulting in moderate debtor days for the company and therefore ensuring adequate liquidity.

Operational track record of over three years

The 90 MW AC solar power project in the state of Assam, has a satisfactory track record of over three years. The company reported Plant Load Factor (PLF) of 21.8% in FY24 against 16.4% in FY23 and 19.6% in FY22. The generation performance of the plant was impacted during FY23 a part of the plant got damaged due to floods in May 2022 and consequently ~25 MW capacity was not operational for the period between May 2022 and March 2023. However, with replacement of modules and change in design of the plant the generation performance has improved and the same is reflected by PLF of 21.8% in FY24. Going forward, CARE Ratings expects generation to remain rangebound between 21%-23%.

Key weaknesses

Leveraged capital structure, however, supported by moderately comfortable debt coverage indicators

APFPL'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, as reflected in TD/EBITDA of 8.1x as on FY24 end. Going forward, CARE Ratings expects capital structure to remain leveraged with TD/EBITDA to remain above 6.8x over the next few years with expectation that the company will draw the undisbursed balance of Rs. 40 crore by FY26. However, CARE Ratings expects project's coverage to remain comfortable with cumulative DSCR being above 1.2x for the term debt tenure.

Vulnerability of cash flows to variation in weather conditions

Project cash flows are exposed to adverse variations in weather conditions given the project's single part tariff. As tariffs are one part in nature, the company may book lesser revenues from non-generation of power due to variation in weather conditions and/or equipment quality. This would affect its cash flows and debt servicing ability. The geographical concentration of asset amplifies the generation risk.

Further, the project's cash flows are exposed to adverse movement in interest rates, which is floating for project debt and subject to periodic reset.

Liquidity: Adequate

The liquidity of the company is adequate, as reflected by cash and bank balance of ~Rs. 58.8 crore as on August 31, 2024. This apart, the company is maintaining DSRA of ~Rs. 15.8 crore covering one quarter of debt service obligations. Going forward, CARE Ratings expects the generation and collection performance of the project to remain satisfactory and in line with the existing trends. The internal accruals are anticipated to be adequate to service its debt obligations.

As per CARE Ratings' base-case scenario, the adjusted gross cash accruals (GCA) for FY25 and FY26 is expected to be ~Rs. 12.7 crore and ~Rs. 20.0 crore against annual repayments of ~Rs. 19.2 crore and ~Rs. 16.8 crore 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

About the company and industry

Industry classification

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

APFPL, incorporated in June 2016, is a wholly owned subsidiary of APIPL. APFPL has commissioned 90MW (AC) solar power plant based on photovoltaic technology in phased manner from September 2020 to March 2022 located at Udalguri, Kamrup, Nagar and Cachar district in Assam. The company is supplying power to APDCL at weighted average tariff of Rs. 3.34/kWh under a 25-years Power Purchase Agreement (PPA).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	41.76	56.57
PBILDT	19.34	44.49
PAT	6.20	-3.55
Overall gearing (times)	2.57	2.50
Interest coverage (times)	0.55	1.14

A: Audited; PBILDT: Profit Before Interest, Lease Rental, Depreciation and Tax; PAT: Profit after Tax; 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 (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		-	-	March-2042	354.40	CARE BBB (RWD)

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 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	354.40	CARE BBB (RWD)	1)CARE BBB (RWD) (25-Jun-24)	1)CARE BBB (RWN) (07-Mar-24) 2)CARE BBB (RWN) (18-Jul-23)	1)CARE A-; Stable (13-Feb-23) 2)CARE A; Stable (28-Apr-22)	-

LT: 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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