

WAA Solar Limited

September 21, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	48.00 (Reduced from 59.25)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Total Bank Facilities	48.00 (₹ Forty-Eight Crore Only)		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the rating assigned to the bank facilities of WAA Solar Limited (WSL) considers decline in Capacity Utilisation Factor (CUF) of its solar power plant located at district Surendranagar, Gujarat during FY22 (refers to the period April 01 to March 31), increase in need-based support in guaranteed entities, upward revision in rate of interest on project debt resulting in reduction in profitability and lower than envisaged surplus available for debt servicing. The rating also takes into consideration expected moderation in WSL's liquidity post downward revision in tariff rates from January 2024 onwards.

The rating, however, continues to derive strength from extensive experience of WSL's promoter group in the infrastructure industry, its operational track record of over 10 years in solar power generation, presence of long-term power purchase agreement (PPA) with a strong counterparty i.e. Gujarat Urja Vikas Nigam Limited (GUVNL; rated CARE AA; Stable/ CARE A1+) demonstrated by an established track record of timely receipt of monthly payments since inception.

The rating also takes cognizance of WSL's adequate liquidity backed by presence of funded Debt Service Reserve Account (DSRA) and sub-ordinated lien marked fixed deposit as per sanction terms, comfortable capital structure and debt coverage indicators along with reduction in guaranteed debt, and stable industry outlook for solar power segment.

The above rating strengths are, however, partially offset by vulnerability of power generation to variation in climatic conditions and technology risk associated with solar power projects and client concertation risk. The rating also takes cognizance of increase in loans & advances and investment in its group companies as on March 31, 2022 along with need-based support required to be made to one of its three Special Purpose Vehicles (SPV), wherein WSL has extended its corporate guarantee.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- WSL's ability to demonstrate improvement in its Capacity Utilisation Factor (CUF) levels above 20% on a sustained basis, resulting in improvement of its profitability and cash flow available for debt servicing.
- Recovery of loans & advances/ investments in group companies or reduction in recourse nature of debt resulting in improvement in liquidity position.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Reduction in its CUF levels below 17.50% on a sustained basis.
- Consistent delay in receipt of payments from GUVNL beyond 30 days.
- Additional investment in group companies or increase in recourse nature of debt and impact on its debt coverage indicators and liquidity position.

Detailed description of the key rating drivers

Higher than envisaged decline in CUF levels and increase in operational & borrowing cost resulting in deterioration in coverage ratio and surplus liquidity:

During FY22, WSL reported average CUF level and total operating income (TOI) of 17.69% (18.64% in FY21) and Rs.23.52 crore (Rs.25.44 crore in FY21) respectively. While the moderation was partly attributable to prolonged monsoon and cyclonic storm in May 2021, average CUF levels remained low in H2FY22 as compared to previous years. Additionally, increase in operation & maintenance cost and upward revision in interest rates by ~70 bps since last review resulted in deterioration of coverage ratios and surplus liquidity. During Q1FY23, CUF level reported to 20.61% (19.67% in Q1FY22).

Notwithstanding above, CARE expects WSL's liquidity cushion to reduce post revision in tariff to Rs.5/kWh from current tariff of Rs.15/kWh w.e.f. January, 2024.

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

Increase in support required towards guaranteed group entities:

WSL has extended its un-conditional and irrevocable corporate guarantee towards debt of three operational SPVs/ associates of the Madhav group namely Madhav (Phoolsagar Niwas Shahpura Corridor) Highways Private Limited (MPHPL; rated CARE BBB+; Stable/ CARE A2), Madhav (Sehora Silodi Corridor) Highways Private Limited [MSHPL; rated CARE BBB+(CE); Stable] and Madhav Solar (Vadodara Rooftop) Private Limited [MSVRPL; rated CARE BBB+(CE); Stable, CARE BBB-; Stable]. MPHPL is self-sustainable and generating cash surplus; albeit MSHPL and MSVRPL required need-based support from its sponsors. Decline in WSL's surplus from power generation and increased support to its SPVs (specially MSVRPL), necessitated WSL to liquidate group investments during FY22. CARE expects, SPVs will require need-based support from WSL in the medium term and with expected reduction in surplus levels, the amount of support to SPVs and its funding remains crucial from the credit perspective.

Key rating strengths**Established operational track record of over ten years along with long-term PPA with GUVNL and timely receipt of payments:**

WSL had commissioned 10.25-MW (AC -10MW) grid-connected solar plant in January 2012 and till August 31, 2022, it has operational track record of over 10 years. WSL has entered into a long-term PPA of 25 years with GUVNL for the entire power generation capacity at a fixed tariff of Rs.15/ kWh for the first 12 years (till January 2024) and Rs.5/kWh for the remaining 13 years. GUVNL, a wholly owned subsidiary of Government of Gujarat (GoG) and holding company of Gujarat state power utilities, has a strong financial risk profile. The long-term PPA alleviates the counterparty credit risk, ensures assured offtake and cash flow sustainability. This is indicated by timely receipt of payments from GUVNL within 5-8 days of monthly invoices raised by WSL for sale of solar power.

Comfortable capital structure and moderate debt coverage indicators:

WSL's capital structure continued to remain comfortable marked by below unity overall gearing, which further improved to 0.30x as on FY22 end (0.37x as on FY21 end) on account of scheduled repayment of its debt obligations. Debt coverage indicators remained moderate as indicated by PBILDT interest coverage of 3.58x in FY22 (2.74x in FY21) and total debt to GCA of 3.40 years in FY22 (5.00 years in FY21).

Overall gearing adjusted for recourse nature of debt of SPVs albeit high, it improved as on March 31, 2022 due to reduction in overall amount of debt guaranteed by WSL on account of scheduled repayment of debt obligations by its respective SPVs.

Experienced promoter group with established presence in the infrastructure industry:

WSL is a part of Vadodara-based Madhav group which has demonstrated satisfactory track record in executing various solar power projects on EPC basis for third parties as well as for group companies. The group has executed more than 88 MW solar power projects till August 31, 2022 in multiple states. WSL is promoted by Mr. Ashok Khurana and his son Mr. Amit Khurana, who possess vast experience in the infrastructure industry. The promoters are duly supported by a team of experienced professionals in their day-to-day operations.

Stable industry outlook:

India has an installed renewable capacity of around 110 GW (excluding large hydro) as on March 31, 2022, comprising solar power of 54 GW, wind power of 40 GW, small hydro of 5 GW, and other sources including biomass of 11 GW. There has been significant traction in solar power installations over the past few years and the cumulative solar power capacity has surpassed the installed wind power capacity, despite its late and slow start. The overall renewable energy installations have increased at a CAGR of 17% from FY16-FY22. Over the years, the renewable energy industry has benefitted on account of the government's strong policy support, India's largely untapped potential, the presence of creditworthy central nodal agencies as intermediary procurers, and an improvement in tariff competitiveness. Going forward, with India setting up an ambitious target of achieving 450 GW renewable capacity by 2030, the regulatory framework is expected to remain supportive. However, developers are expected to face challenges in the near term on account of the rising cost of modules, turbines, and other ancillary products along with the imposition of basic customs duty on cells and modules from April 2022 onwards, which is expected to drive up costs and result in an increase in bid tariffs for new projects. This apart, the challenges for the acquisition of land and availability of transmission infrastructure also remain a key bottleneck. However, the Indian renewable industry continues to be a preferred investment alternative for both, domestic as well as foreign investors and is expected to post robust growth going forward as well, which results in CARE Ratings assigning a 'Stable' outlook to the industry.

Key rating weaknesses**Vulnerability of power generation to variation in climatic conditions and technological risk associated with solar power projects:**

The CUF level of a solar power plant primarily depends upon solar radiation levels, climatic conditions, degradation of modules and technology used. Furthermore, the performance track record of the thin film type PV modules, used by WSL, in Indian

conditions is relatively limited. Although, the modules and other equipment have been sourced from reputed suppliers, adverse variation in weather conditions has impacted WSL's CUF levels and cash flows during last two years ending March 2022 as tariff is fixed in nature. The impact was also accentuated due to asset concentration risk, as the entire capacity is located at a single site in Gujarat.

Interest rate risk: Considering the term loan availed is on a floating rate basis and the power tariff with GUVNL is fixed, WSL's profitability remains exposed to any upward revision in interest rates.

Liquidity: Adequate

WSL's liquidity position remained adequate characterized by defined cash flow mechanism, maintenance of adequate funds in DSRA, comfortable tail period of five years and timely receipt of payments from GUVNL within 5-8 days of monthly invoices raised. As on June 30, 2022, WSL had funded DSRA of Rs.4.95 crore (incl. interest accrued thereon) in the form of fixed deposit (FD) [equivalent to around one quarter of debt servicing obligations] and sub-ordinated FD of Rs.1.07 crore (incl. interest accrued thereon), in line with sanction terms.

While cash flow available for debt servicing for FY23-24 is envisaged to remain adequate, it is expected to be tightly matched with repayment obligations from FY25 onwards, resulting in low cushion for need-based support towards SPVs/ up streaming to its group companies. Free cash and bank balance stood low at Rs.0.47 crore as on June 30, 2022 (Rs.0.93 crore as on March 31, 2021).

Analytical approach: Standalone financials of WSL along with combined cashflows of WSL and its SPVs, wherein WSL has extended its un-conditional and irrevocable corporate guarantee towards the bank facilities of such SPVs, has been considered while assigning rating to WSL.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Power Generation Projects](#)

[Solar Power Projects](#)

[Infrastructure Sector Ratings](#)

About the company

Incorporated in November 2009, Vadodara-based WSL is a subsidiary of Madhav Power Private Limited, promoted by Mr. Ashok Khurana and Mr. Amit Khurana. The promoters of WSL were the erstwhile promoters of MSK Projects India Limited, which was subsequently taken over by the Welspun group (now known as Welspun Enterprises Limited). WSL had commissioned 10.25-MW (AC -10MW) grid interactive solar PV power project at Dist. Surendranagar, Gujarat, which is operational since January, 2012 and signed a PPA for 25 years with GUVNL under the Gujarat Solar Policy 2009 framework for the sale of generated solar power. This apart, WSL has also commissioned a 0.10 MW grid interactive solar PV power project at Rajabhoj Airport, Bhopal, which is operational since July 2013. Apart from the above, WSL has sponsored Madhav group's various project specific SPVs in the road construction and solar power segments.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (P)
Total operating income	24.44	23.52	NA
PBILD	21.63	20.35	NA
PAT	3.31	4.94	NA
Overall gearing (times)	0.37	0.30	NA
Interest coverage (times)	2.74	3.58	NA

A: Audited; P: Provisional; NA: Not Available being listed on SME BSE Stock Exchange.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/ facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4
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 along with Rating Outlook
Term Loan-Long Term	-	-	-	March, 2032	48.00	CARE BBB+; 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term Loan-Long Term	LT	48.00	CARE BBB+; Stable	-	1)CARE A-; Stable (01-Oct-21)	1)CARE A-; Stable (03-Mar-21) 2)CARE A-; Stable (31-Aug-20)	1)CARE A-; Stable (24-Jul-19) 2)CARE A-(CWN) (21-Jun-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable
Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Term Loan-Long Term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on 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:

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