Azure Power (Rajasthan) Private Limited

November 21, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	38.65 (Reduced from 43.41)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Total bank facilities	**38.65** **(₹ Thirty-eight crore and sixty-five lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating reaffirmation of the bank facilities of Azure Power (Rajasthan) Private Limited (APRPL) which is operating a 5 MW (AC) solar power plant in Rajasthan factors in satisfactory operational and collection performance since the previous review along with the long track record of more than ten years for the project. The rating continues to be supported by the presence of a long-term, 25-year power purchase agreement (PPA) at a fixed tariff of ₹11.94/kWh. Furthermore, the counterparty credit risk for the project remains low on account of NTPC Vidyut Vyapar Nigam Limited (NVVN) being the offtaker for the entire capacity. Moreover, the rating takes into account the healthy debt protection metrics as reflected by average Debt Service Coverage Ratio (DSCR) being upwards of 1.30x till the tenor of the rated facility and maintenance of Debt Service Reserve Account (DSRA) equivalent to one quarter of debt servicing as per sanction terms.

The rating is, however, constrained on account of leveraged capital structure as reflected by total debt/EBIDTA of 5.5x as on FY22 end. Furthermore, the project is exposed to interest rate fluctuation risk, however the same is mitigated as the rate of interest is fixed till April 2026. CARE Ratings Limited (CARE Ratings) also factors in the exposure of project cash flows to adverse variations in weather conditions given the single part tariff of the project.

This apart, CARE Ratings notes that the Azure group has received whistle-blower complaints in the month of May 2022 pertaining to misconduct by certain employees at a plant belonging to one of its subsidiaries. The management has since clarified to Care Ratings that it has implemented mechanisms to remediate the above and is initiating relevant disclosure to appropriate authorities. Furthermore, the group is yet to release the audited financials of various entities and has taken an approval from the Ministry of Corporate Affairs (MCA) till December 31, 2022. The group has also approached its lenders for a similar extension in timelines and has received the same. The key events at the group level have been detailed in the following press release (Click here).

Despite the presence of these group level issues, CARE Ratings draws comfort for this project on account of its strong operating and performance track record and presence of a long-term PPA with a strong counterparty. Whatever the outcome of the internal group review, any further significant delay in the release of the audited financials, or any observation in the audited financials leading to any material impact on the financial flexibility of the group will be a key credit monitorable.

Rating sensitivities

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

- Actual generation remaining significantly better than the past few years resulting in improvement in the average DSCR above 1.5x
- Significant reduction in the leverage level

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

- Negative pressure on APRPL's rating could arise if there are significant delays in payments from NVVN leading to accumulation of receivables and adversely affecting the liquidity position
- Also, any underperformance in generation and/or any increase in the debt levels weakening the cumulative DSCR on project debt to less than 1.2x, on a sustained basis
- Non-compliance of various covenants as per sanction terms including continued maintenance of DSRA equivalent to one quarter of debt servicing

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

Detailed description of the key rating drivers

Key rating strengths

Strong parentage and operating track record of Azure Group in solar segment:

APRPL is a subsidiary of Azure Power India Private Limited (APIPL), which is the flagship Indian company of the Azure group and a subsidiary of NYSE listed Azure Power Global Limited (APGL). The shareholders of APGL include CDPQ (A Canadian Pension Fund), 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. APIPL has an operational capacity of 2.9 GW as on July 2022. Furthermore, the company has entered into a PPA for 2.9 GW capacity pertaining to the manufacturing-linked tender, 0.27 GW of other (wind/hybrid) under-construction projects and has received a letter of award (LoA) for 0.2 GW hybrid capacity. Furthermore, the group has 1 GW capacity in the manufacturing linked tender for which the PPA is yet to be signed. Once this capacity becomes operational, the group is expected to have a total capacity of around 7.4 GW.

Long-term revenue visibility on account of presence of PPAs for the entire capacity with off-taker having strong credit profile

CARE Ratings factors in the presence of the long-term PPAs signed with the off-taker. APRPL has entered into long-term PPA with NVVN for a tenor of 25 years at a tariff ₹11.94/kwh providing long-term revenue visibility. As regards to the off-taker, NVVN is a wholly owned subsidiary of NTPC Ltd and is engaged in the business of sale and purchase of electric power and holds Category-I license issued by Central Electricity Regulatory Commission (CERC) of India permitting unlimited trading of power.

Operational track record of more than ten years with satisfactory generational performance:

The 5 MW grid connected solar photovoltaic (PV) technology constructed by APRPL, located at Kathoti in Jayal, District Nagaur, Rajasthan was commissioned on December 31, 2011 and has an operational track record of around 10.86 years. The revised P-90 estimate as per the Energy Yield Assessment Report by Mahindra Teqo is 18.82%. During FY22, the plant achieved CUF of 18.3%, i.e. 2.76% lower than the P-90 level on account of lower solar irradiation. As per the management, the plant has received 14.58% lower irradiance w.r.t. to budgeted irradiance in FY22, hence the CUF is on lower side. However, the generation has improved which can be reckoned from the 6MFY23 CUF of 19.1% as compared to 6MFY22 CUF of 18.5%. Also, the generation level of the plant has remained above P-90 in previous years since commissioning. Going forward, CARE Ratings expects the generation to remain in line with past generation trends.

Presence of a strong off-taker results in timely payments and mitigates counterparty credit risks:

The presence of a strong intermediate counterparty like NVVN is expected to lead to timely realisation of payments under the PPA. Since the commissioning of the project, all the payments by NVVN have been made on or before due date. During FY22, the payment track record remained satisfactory; on an average the company has been receiving its payments in about 10 days as against payment period of about 30 days from the receipt of invoice as per the PPA terms, resulting in satisfactory liquidity. Furthermore, the counterparty credit risk for the project is low on account of NVVN being the off-taker for the full project capacity for a tenor of 25 years. Moreover, the strengths for the project emanate on account of (i) having PPA with a strong counterparty, (ii) presence of LC mechanism, (iii) NVVN bundling this power with cheaper thermal power, thereby improving the cost competitiveness. NVVN will sell power to DISCOMs after bundling the solar power received from Solar Power Developer (SPD) and from NTPC in the ratio of 1:1.

Key rating weaknesses

Leveraged capital structure along with exposure to interest rate risk:

The company's capital structure is leveraged on account of the debt-funded capex incurred for setting up the project resulting to Total Debt/EBITDA of 5.5x. Gearing levels for the project are relatively high on account of accrued losses for the project resulting in significant depletion of net worth for the entity. Going forward, as per CARE Ratings base-case scenario the total debt/EBITDA is expected to be 5.0x in FY23. The coverage indicators of the company are expected to remain comfortable as reflected by upwards DSCR of 1.30x till the tenor of the rated facility as per CARE Ratings' base-case scenario. Given the leveraged capital structure, single-part nature of fixed tariff in PPA, the company's profitability remains exposed to fluctuation in interest rates. However, CARE Ratings notes that the rate of interest for the company is fixed for a period of five years till July 2026 and would be reset after every five years, thereby mitigating the interest rate risk to some extent.

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. The geographical concentration of asset amplifies the generation risk.

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 a significant traction in solar power installations over the last 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 Government's strong policy support, India's large untapped potential, presence of creditworthy central nodal agencies as intermediary procurers and 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 rising cost of modules, turbines and other ancillary products along with the imposition of basic custom duty on cells and modules from April 2022 onwards which is expected to drive up costs and result in increase in bid tariffs for new projects. This apart, challenges for acquisition of land and availability of transmission infrastructure also remains 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 Ltd assigning a Stable outlook to the industry.

Liquidity: Adequate

As on September 30, 2022, the company had cash balances of around ₹4.4 crore and encumbered cash balance of around ₹1.84 crore, covering one quarter of DSRA as per the sanction terms. Going forward, CARE Ratings expects the generation and collection performance to remain satisfactory, in line with the existing trends as NVVN accounts for the full energy offtake. As per CARE Ratings base case, GCA for FY23 and FY24 is expected to be around ₹6 crore as against annual repayment of ₹4 crore.

Analytical approach

CARE Ratings has taken standalone approach on the credit profile of APRPL

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Infrastructure Sector Ratings
Solar Power Projects
Policy on Withdrawal of Ratings

About the company

APRPL incorporated in June 2010, is a wholly-owned subsidiary promoted by APIPL. APRPL has set up a 5 MW (AC) solar power plant based on Photo Voltaic (PV) technology located at Kathauti in Jayal, District Nagaur, Rajasthan. The project got fully commissioned on December 31, 2011. The company is supplying the entire power to NTPC Vidyut Vyapar Nigam Limited at a fixed tariff of Rs.11.94/kWh under a 25-year Power Purchase Agreement

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (C)	H1FY23
Total operating income	10.37	9.61	NA
PBILDT	9.84	8.96	
PAT	6.51	-0.97	
Overall gearing (times)	NM	NM	
Interest coverage (times)	1.68	1.43	

A: Audited; C: Certified; NA: Not Available; NM: Not Meaningful

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 (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		-	-	31/12/2031	38.65	CARE AA-; 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	Fund-based - LT-Term oan	LT	38.65	CARE AA-; Stable	-	1)CARE AA-; Stable (31-Aug-21)	1)CARE A+; Stable (16-Jun-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	Minimum DSCR = 1.15x
B. Non-financial covenants	
Debt Service Reserve Account (DSRA)	DSRA equivalent to one quarter of debt servicing (principal and interest) to be maintained in the form of fixed deposit or bank guarantee.
Cash Sweep	The lender will have an option to sweep excess cash as below 50% of surplus above DSCR of 1.0x to be used towards repayment of principal instalments of the facility.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Jatin Arya
Phone: 9899136877
E-mail: Jatin.Arya@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@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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