

Azure Solar Private Limited

November 21, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	232.87 (Reduced from 255.00)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Total bank facilities	232.87 (₹ Two hundred thirty-two crore and eighty-seven lakh only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating reaffirmation of the bank facilities of Azure Solar Private Limited (ASPL) which is operating a 35 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 nine 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 ₹8.21/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 1.25x 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 4.9x 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 September 2026. CARE Ratings Limited (CARE Ratings) also factors in 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. However, 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 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 ASPL'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 1 quarter of debt servicing

¹Complete 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 the Azure group in solar segment:

ASPL 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 31, 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 risk profile

CARE Ratings factors in the presence of the long-term PPAs signed with the off-taker. ASPL has entered into long-term PPA with NVVN for a tenor of 25 years at a tariff ₹8.21/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 nine years with satisfactory generational performance:

The 35 MW AC grid connected solar photovoltaic technology constructed by ASPL, located at Kathoti in Jayal, District Nagaur, Rajasthan was fully commissioned on February 13, 2013 and has an operational track record of around 9.78 years. The average generation of the past nine years was around 20.5%. The capacity utilisation factor (CUF) in FY22 was 20.1% as compared to CUF in FY21 of 20.4% 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 20.5% as compared to 6MFY22 CUF of 20.3%.

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 receipt of invoice as per the PPA terms, resulting in less amount of funds being blocked as debtors for the company and therefore ensuring 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 4.9x. 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 expected to be 4.6x in FY23. The coverage indicators of the company are expected to remain comfortable as reflected by upwards DSCR of 1.25x till the tenor of the rated facility as per CARE's 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 October 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 compounded annual growth rate (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 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 Limited (CARE Ratings) assigning a Stable outlook to the industry.

Liquidity: Adequate

As on September 30, 2022, the company had cash balances of around ₹14.71 crore and encumbered cash balance of around ₹9.63 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 ₹28-29 crore as against annual repayments of around ₹20 crore.

Analytical approach

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

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

ASPL incorporated in October 2010, is a wholly-owned subsidiary promoted by APIPL. ASPL has set up a 35 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 February 13, 2013. The company is supplying the entire power to NTPC Vidyut Vyapar Nigam Limited at a fixed tariff of ₹8.21/kWh under a 25-year PPA.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (C)	H1FY23
Total operating income	52.55	51.04	NA
PBILDT	48.00	49.00	
PAT	-23.07	4.97	
Overall gearing (times)	NM	NM	
Interest coverage (times)	0.95	1.63	

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	-	-	-	31/03/2033	232.87	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 loan	LT	-	-	-	1)Withdrawn (05-Nov-21)	1)CARE A+; Stable (07-Jan-21)	-
2	Fund-based - LT-Term loan	LT	232.87	CARE AA-; Stable	-	1)CARE AA-; Stable (05-Nov-21)	-	-

*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
	Fixed Asset Coverage Ratio = 1.15x
B. Non-financial covenants	
DSRA	DSRA equivalent to one quarter of debt servicing (principal and interest) to be created.
Cash sweep	The lender will have an option to sweep excess cash as below 50% of surplus above DSCR of 1.15x 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.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**