Azure Power Forty Private Limited

April 28, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	400.00	CARE A; Stable (Single A; Outlook: Stable)	Assigned
Total Bank Facilities	**400.00 (Rs. Four Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to bank facilities of 90 MW solar power plant operated by Azure Power Forty Private Limited (APFPL) factors in the strong parentage by virtue of APFPL being a wholly-owned subsidiary of Azure Power India Private Limited (APIPL, rated CARE AA-; Stable/CARE A1+) which has a strong track record of operating renewable energy projects. The ratings also factors in the revenue visibility for the project owing to the presence of a long term Power Purchase Agreement (PPA) with Assam Power Distribution Company Limited (APDCL). Further, CARE makes note of successful commissioning of the full project capacity in a phased manner from September 2020 to March 2022 wherein the generation from the first unit (25 MW capacity) has been satisfactory and in line with designed energy levels while the balance capacity is still under stabilisation phase. The collection efficiency for the project has also remained satisfactory with payments being made by the counterparty in 30 days. CARE further factors in comfortable debt-protection metrics, reflected by average Debt-service coverage ratio (DSCR) being upwards of 1.3x for the debt tenor.

The rating is, however, constrained on account of leveraged capital structure given the debt funded nature of capex for setting up the project and interest rate fluctuation risk given that the interest rate is fixed only for the first three years. Thereafter, there remains uncertainty regarding the cost of debt as well as whether it will be fixed or floating in nature. CARE also factors in exposure of project cash flows to adverse variations in weather conditions given the single part tariff of the project. The ability of the company to stabilise operations in a timely manner will be a credit monitorable.

Rating Sensitivities

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

- Actual generation in line with P90 levels along with receivable cycle remaining below 30 days on a sustained basis resulting in strong liquidity position
- Significant reduction in the leverage level
- Improvement in credit profile of parent i.e., APIPL

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

- Negative pressure on APFPL's rating could arise if there are significant delays in payments from APDCL 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 1.2 times, on a sustained basis
- Any weakening of the credit profile of the parent, i.e., APIPL, or any change in linkages/support philosophy between the parent and APFPL would be a negative factor

Detailed description of the key rating drivers

Key Rating Strengths

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

APFPL is a subsidiary of APIPL (rated CARE AA-; Stable/CARE A1+), which is the flagship Indian company of the Azure Group and a subsidiary of APGL (listed on NYSE). CDPQ, which is a pension fund of Canada, holds majority stake in the Azure group. The second largest shareholder in the group is OMERS which is also a Canadian pension fund. APIPL has reported an operational solar portfolio of ~2.7 GW and capacities under development of ~3.7 GW as on February, 2022 end making APIPL one of the largest renewable IPPs in India. The company's portfolio of solar power assets is well diversified in terms of project location as well as off-takers with more than 70% exposure towards offtakers having relatively strong credit profile.

Long-term revenue visibility on account of long-term PPA with APDCL

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 starting from actual commissioning of capacities of project. Long-term PPA provides revenue visibility for the company.

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

Successful commissioning of 90MW (AC) capacity
The 90MW grid connected solar photovoltaic (PV) under APFPL is located at Udalgiri, Kamrup, Nagar and Cachar district in Assam and was commissioned in phases from September, 2020 to March, 2022. The generation performance from the first unit (25 MW capacity) has been satisfactory and in line with designed energy levels whereas the remaining capacity is still under stabilisation phase. Going forward, CARE expects the generation performance for all the plants to be in line with the designed energy levels and the same would continue to be a key rating monitorable.

Timely payments from offtaker mitigating counterparty credit risk
The company is receiving payment from the offtaker within less than 30 days since commissioning resulting in moderate debtor days for the company and therefore ensuring satisfactory liquidity.

Comfortable debt protection metrics
APFPL has comfortable debt-protection metrics as reflected by average DSCR being upwards of 1.3x for the tenure of the term debt. Further, in-line with sanctioned terms, company has earmarked the funds equivalent to one quarter of debt obligations which provides comfort from a credit perspective.

Industry Outlook
India has an installed renewable capacity of ~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 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 Ltd assigning a Stable outlook to the industry.

Key Rating Weaknesses

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.

Leveraged capital structure along with exposure to interest rate risk
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. The project has been funded in a debt equity ratio of 74:26. As per CARE's base case estimates, the overall gearing for the project is estimated at ~2.8 times as on FY22 end. Given the leveraged capital structure and single-part nature of the fixed tariff in the PPA, its profitability remains exposed to any increase in the interest rates. At present the interest rate is fixed only for the first three years. Thereafter, there remains uncertainty regarding the cost of debt as well as whether it will be fixed or floating in nature. This will be a key credit monitorable.

Liquidity: Adequate
As on February 2022 end, APFPL had cash balances comprising Rs. 35 crore which also includes FDs of Rs. 16 crore which have been earmarked for the fulfilment of 1 quarter DSRA condition. CARE expects the generation and collection performance to remain satisfactory, in line with the envisaged levels. The internal accruals are anticipated to be adequate to service its debt obligations. As per CARE's base case, GCA for FY2023 and FY2024 is expected to be ~Rs. 26 crore as against annual repayments of Rs. 17-19 crore.

Analytical approach: Standalone plus factoring in parent support.
CARE 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.

Applicable Criteria
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Infrastructure Sector Ratings
Power Generation Projects
Solar Power Projects

About the Company
Azure Power Forty Private Limited (APFPL) is a special purpose vehicle (SPV) promoted by Azure Power India Private Limited (APIPL; rated CARE AA-; Stable/CARE A1+). The SPV has commissioned 90MW (AC) solar power plant based on photovoltaic technology in phased manner from Sept, 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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9M FY2022 (Prov.)
Total operating income	0.00	6.66	18.76
PBILDT	-0.30	6.06	16.72
PAT	-0.24	-2.72	3.42
Overall gearing (times)	0.76	1.39	1.61
Interest coverage (times)	NM	1.82	2.28

A: Audited, Prov: Provisional, NM: Not Meaningful

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March, 2042	400.00	CARE A; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	400.00	CARE A; Stable				

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

Name of the Instrument	Detailed explanation
A. Financial covenants	Minimum DSCR level – not less than 1.1x
B. Non-financial covenants	
Put Option	The lender shall have the option to seek repayment of facility (together with interest) in full at the end of 15th year from the date of first disbursement by giving 90 days written notice to the borrower.

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 instrument: CARE Ratings Ltd. 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
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Jatin Arya
Contact no.: 9899136877
Email ID: Jatin.Arya@careedge.in

Relationship Contact
Name: Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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