

Avaada Power Private Limited (Revised)

March 27, 2019

Rating

| Facilities/Instruments* | Volume (Rs. Cr) | Rating | Remark |
|---|---|---|------------|
| Long-term/Short-term-Bank Facilities – Fund Based | 125.00 | CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus) | Reaffirmed |
| Long-term/Short-term-Bank Facilities – Non-Fund Based | 200.00 | CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus) | Reaffirmed |
| Long-term-Bank Facilities – Non-Fund Based | 493.00 | CARE A-; Stable (Single A Minus; Outlook: Stable) | Reaffirmed |
| Total | 818.00 (Rs. Eight hundred and eighteen crore only) | | |

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Avaada Power Private Limited (APPL) continues to factor in experienced and resourceful promoters, proven track record in renewable energy business, expected equity infusion by a strategic/financial partner and availability of land bank for undertaking future solar power projects. The ratings are also supported by the government led reforms to encourage the investments in the renewable energy sector.

The ratings are however tempered by exposure to project implementation risk, short track record of operational projects, unrelated business diversification in road sector, dependency on group companies for EPC business, equity commitment in SPVs, intense competitive industry and susceptibility to government regulations.

Going forward, completion of projects within stipulated timelines and budget, envisaged power generation, increase in the scale of operations, improvement in profitability and successfully ramping up the road business and mitigating the business risk will remain the key rating sensitivities.

Detailed description of the key rating drivers
Key Rating Strengths

Resourceful Promoter: Avaada group is owned and managed by Mr. Vineet Mittal, who is an alumnus of Harvard Business School and an experienced entrepreneur. Under Mr. Vineet Mittal, Welspun Energy Private Limited (WEPL) became a significant player in the renewable energy industry. Within a short span of 3 years, Mr. Mittal had built a renewable energy portfolio of 1,141 MW in WEPL and monetized the same by selling it for Rs. 9,249 crore.

Mr Vineet Mittal is on the board of infrastructure steering committee of the World Economic Forum, B20 Green Growth Action Alliance and Clean Energy Finance Forum, as well as industry advisor to multiple Indian government bodies.

EPC order book to provide medium term visibility: Apart from developing solar power projects, APPL also undertakes EPC work for subsidiaries/group companies. As of Jan 31, 2019, the company has an outstanding order book of over Rs. 1,963 crore to be executed over the next 18 months providing revenue visibility in the medium term.

PE funding received in Q4FY19; albeit delays: Avaada group received Rs. 360 crore (USD ~50 mn) from PE investors in AEPL. The investors further have an option to invest additional USD 150 mn over a period of next 12 months. Initially, the funding was scheduled to happen in Q1FY19, which got delayed and was received in Feb 2019. The funding will act as a seed in capital towards new projects.

Pan India Land Bank: The promoters have identified 4,556 acres of land spread across various states of which acquired rights to 1712 acres of land. The availability of land bank gives significant competitive advantage to the group.

Key Rating Weaknesses

Limited track record of the entity: Avaada group has a limited track record in the renewable energy segment. The company through its subsidiaries has a total portfolio of 1041MW (AC) of which 463MW (AC) is operational which has a track record of less than six months. Further, some of the operational projects faced delays in commissioning. The other projects are at various stages of development. The ability of the company to generate units as envisaged and successfully execute projects without any delays or cost overruns remains a key rating monitor able.

Plans to enter into execution of road projects: APPL through its wholly owned subsidiary is planning to diversify its business and looking to enter the road sector mainly in the Hybrid Annuity Projects (HAM) space. The company initially would enter into a pre-bid tie up with a reputed EPC player to gain experience in the road sector. The company has so far not bid for any road projects. Given, no prior track record of the company in the sector, the successful execution of the same is to be seen. The ability of the company to successfully bid and execute projects without any delays or cost overruns remains a key rating monitorable.

High exposure to SPVs/group companies: The company's revenues are derived by undertaking EPC contracts for setting up group's power projects, which is contingent to the SPV winning them thereby exposing the company to uncertainties in revenue visibility.

Equity Commitments in SPVs: APPL has to commit equity in the subsidiaries once the project is won thereby exposing the company to equity commitment risks.

Fixed time and price contracts: APPL enters into EPC contracts wherein the price, timelines and performance parameters are fixed, failing which APPL is liable to pay damages. The above conditions expose the company to project implementation risk, in case of any delays in execution and increase in input costs. The company enters into back to back orders for procuring materials from the suppliers thereby mitigating the risk to a certain extent.

Increased level of competitive intensity in the industry: Due to technological advancements relatively faster execution of solar energy projects compared with conventional sources is envisaged. Cheaper cost of raw materials and borrowings, government impetus to solar power, renewable purchase obligation targets, renewable energy certificates, etc. has increased the number of players in this industry.

Analytical approach: Combined including Avaada Power Pvt. Ltd., Avaada Energy Pvt. Ltd. along with SPV's on account of operational and financial linkages.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios - Non-Financial sector](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

About the Company

Avaada Power Private Limited (APPL) (erstwhile Candor Power Private Limited) is a Vineet Mittal [former co-founder of Welspun Energy Pvt. Ltd. (WEPL)] group entity. APPL is the holding company of Avaada Energy Private Limited (AEPL) (CARE A- Stable / A2+) (erstwhile Giriraj Renewables Private Limited) and Clean Sustainable Energy Pvt. Ltd. The promoters of WEPL (Mr. Goenka and Mr. Mittal) sold WEPL's subsidiary, Welspun Renewable Energy Private Limited (WREPL) to Tata Power Renewable Energy Ltd. (TPREL) for Rs. 9,249 crore in September 2016. Post the sale of WREPL, the EPC business of WEPL was demerged to AEPL.

APPL undertakes EPC projects for the renewable power projects won by its SPVs. The company through its subsidiaries has a total portfolio of 1041MW (AC) of which 463MW (AC) is operational and the balance is under various stages of development.

(Rs. crore)

| Brief Financials | FY17 (UA) | FY18 (UA) |
|---------------------------|-----------|-----------|
| Total operating income | 1,382.64 | 1,516.19 |
| PBILDT | 323.23 | 113.14 |
| PAT | 270.52 | 75.39 |
| Overall Gearing (times) | 0.07 | 1.59 |
| Interest Coverage (times) | 25.10 | 6.41 |

UA: Unaudited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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Disclaimer

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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 |
|-------------------------------------|------------------|-------------|---------------|-------------------------------|---|
| Non-fund-based - LT-Bank Guarantees | - | - | - | 493.00 | CARE A-; Stable |
| Non-fund-based-LT/ST | - | - | - | 200.00 | CARE A-; Stable / CARE A2+ |
| Fund-based/Non-fund-based-LT/ST | - | - | Dec 2022 | 125.00 | CARE A-; Stable / CARE A2+ |

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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Non-fund-based - LT-Bank Guarantees | LT | 493.00 | CARE A-; Stable | 1)CARE A-; Stable (18-Oct-18) 2)CARE A-; Stable (10-Apr-18) | 1)CARE BBB+; Stable (16-Feb-18) 2)CARE BBB+; Stable (16-May-17) | - | - |
| 2. | Non-fund-based-LT/ST | LT/ST | 200.00 | CARE A-; Stable / CARE A2+ | 1)CARE A-; Stable / CARE A2+ (18-Oct-18) 2)CARE A-; Stable / CARE A2+ (10-Apr-18) | 1)CARE BBB+; Stable / CARE A2 (16-Feb-18) 2)CARE BBB+; Stable / CARE A2 (16-May-17) | - | - |
| 3. | Fund-based/Non-fund-based-LT/ST | LT/ST | 125.00 | CARE A-; Stable / CARE A2+ | 1)CARE A-; Stable / CARE A2+ (18-Oct-18) 2)CARE A-; Stable / CARE A2+ (10-Apr-18) | 1)CARE BBB+; Stable / CARE A2 (16-Feb-18) | - | - |

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