Avaada Ventures Private Limited

December 20, 2019

Ratings

Facilities/Instruments	Volume (Rs. Cr)	Rating	Remark
Long Term/Short term Bank Facilities-Fund Based	125.00	**CARE A-; Negative/CARE A2+ (Single A Minus; Outlook: Negative/A Two Plus)**	**Reaffirmed and outlook revised from Stable**
Long Term/Short term Bank Facilities- Non Fund Based	200.00	**CARE A-; Negative/CARE A2+ (Single A Minus; Outlook: Negative/A Two Plus)**	**Reaffirmed and outlook revised from Stable**
Long term Bank Facilities-Non-Fund Based	375.00	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	**Reaffirmed and outlook revised from Stable**
Total	**700.00 (Rs. Seven Hundred Crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Avaada Ventures Private Limited (AVPL) takes into account experienced and resourceful promoters, proven track record in renewable energy business, equity infusion by strategic/financial PE investors (USD 115 Mn in last 9 months) and availability of land bank for under-construction solar power projects. The ratings also factor in revenue visibility in the near term on account of EPC orders of SPV's for under implementation projects and adequate liquidity position. The ratings are also supported by the government led reforms to encourage the investments in the renewable energy sector.

The ratings are constrained by significant deviation in the actual execution of projects under construction (on account of deferment) and subsequent financial performance as compared to envisaged during last review. The company has total operational capacity of ~38% (917 MW – DC) out of total portfolio of projects while balance are under construction thus exposing the company to project risks. The ratings are further tempered by short track record of operational projects, equity commitment risk in SPV's and criticality with respect to raise the same going forward, exposure to counterparty credit risk for incremental capacity in pipeline for implementation which has been tied up with off-takers with overall weak credit profile, as well as high competitive intensity in the industry.

Going forward, completion of project within stipulated timelines and budget, improvement in profitability and envisaged power generation will remain the key rating sensitivities.

Rating Sensitivity

Positive rating sensitivities:

- Operational projects constituting more than 2/3 of total portfolio of assets with minimum of one year of track record

Negative rating sensitivities:

- Delay in receipt of payments from power off-takers by more than 3 months
- Any delay in execution of solar projects than envisaged timelines.
- Deterioration in Combined Debt/Combined EBIDTA exceeding above 6x for consecutive two years.

Outlook: Negative

The outlook is 'Negative' on account of criticality with respect to successful implementation of under construction projects as envisaged without any delay along with meeting equity commitment for the same which remains crucial for its credit profile. Further, with significant pipeline of projects to be implemented (~62% of total portfolio), project risk remains high. The rating will be downgraded in case of inability to meet planned operational capacity in stipulated timelines, inability to generate sufficient accruals from the same as envisaged or any deterioration in margins. The rating will be revised to stable in case of timely execution of commissioning of projects resulting in operating capacity at expected levels.

Detailed description of the key rating drivers

Key Rating Strengths

Resourceful Promoter: Avaada group is owned and managed by Mr. Vineet Mittal, who 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 5 years, Mr. Mittal 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, AEPL also undertakes EPC work for group company projects. As of Sep 30, 2019, the company had total order book of over Rs. 5198 crore to be executed over the next 2 years providing revenue visibility in the near to medium term. AVPL plans to undertake third party EPC contracts however the company has no definitive agreements for the same as on date.

Fund infusion by PE investors: PE investors DEG (Germany) and FMO (Netherlands) have infused USD 50 mn during February 2019, Asian Development Bank (ADB) has invested USD 50 mn during April 2019 and PROPARCO (French financial institution) has invested USD 15 mn in November 2019 resulting in total PE infusion of ~Rs.805 crore, in AEPL (Subsidiary of AVPL) in the form of Compulsory Convertible Debentures (CCD). The investors further have an option to invest additional funds on similar terms.

Pan India land bank

The land requirement for a typical solar project is ~3.54 acres per MW. The company has acquired rights to land possession to the tune of about 4030 acres (~75%) out of total 5300 acres target of ongoing projects pan-India as on November 2019. The availability of land bank gives significant competitive advantage to the group.

Key Rating Weaknesses

Limited track record of the operational projects and project risk: Avaada group has a limited operational track record in the renewable energy segment. The company through its subsidiaries has a total portfolio of 2395 MW (DC) of which 917 MW (DC) is operational as on December 19, 2019 with operational track record of less than 2 years (565 MW – DC operational for more than 1 year) and the balance is under various stages of development. Further, the company has slowed down the commissioning of some projects mainly on account of imposition of safe guard duty on solar modules for two years and accordingly projects are planned for commissioning post July 2020. During Last review in the month of April 2018, the company had projected 1GW (DC) of capacity to be operational by March 2019, out of which 700 MW (DC) had been commissioned. The ability of the company to successfully execute projects without any delay or major 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 under competitive bidding. Additionally, tariff caps in auctions may squeeze EBITDA margins for EPC business. The company has high dependency on SPV contracts as on date. Recent auctions have received tepid responses from developers due to aggressive tariff caps on account of limited scope for margin of error in bidding.

Counterparty credit risk:

The company is exposed to counterparty credit risk with respect to generation of sufficient accruals from off-takers going forward, which may impact its ability to meet its debt obligations. ~30% of the capacity is tied up with SECI while balance capacity is tied up with state utilities and private parties. Although payment security mechanism is in place, however payment track record from these off-takers remains key rating monitorable

Equity Commitments in SPVs: APPL has to infuse equity into subsidiaries once the project is won thereby exposing the company to equity commitment risks. The company had earlier envisaged to raise 150-200 mn USD during last review, however has raised 115 mn with additional green shoe option to invest USD 40 mn on similar terms as on November 2019. Out of total equity requirement of Rs.1147 crore for under-construction projects, the company is yet to raise Rs.664 crore to meet its project costs. Further promoters have additional option to infuse ~30 Mn resulting in total option of raising USD 70mn, However ability to raise the same within timelines remains crucial.

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.

Liquidity: Adequate
On a combined basis, total free cash and bank balance stood at Rs. 81.27 crore as on December 19, 2019. Further, the company also has liquid investments in the form of mutual funds and fixed deposits to the tune of Rs.580 crores (excluding BG margin and funds to be used for retirement of Buyer's credit) as on December 19, 2019. The company does not have any fund based limits. The average utilization for the non-fund limits stood at 45% during past 12 months ending October 2019. Liquidity position is adequate due to financial support from promoters/PE infusion and availability of sufficient cushion to cover debt repayment obligations within next 1 year.

Analytical approach:
Combined including Avaada Ventures Pvt Ltd, Avaada Energy Pvt Ltd. along with SPV's on account of operational and financial linkages. Further, AEPL and AVPL have also provided cross corporate guarantee for entire debt to provide security to each other for any financial assistance for commitments by the companies.

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 Ventures Private Limited (AVPL) (erstwhile Candor Power Private Limited) is a Vineet Mittal [former co-founder of Welspun Energy Pvt. Ltd. (WEPL)] group entity. AVPL is the holding company of Avaada Energy Private Limited (AEPL) 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 GRPL.
Until FY19, AVPL executed EPC projects for the renewable power projects won by its SPVs. However, now the company will focus entirely on third party projects while in-house projects will be undertaken by AEPL. The company through its subsidiaries has a total portfolio of 2395 MW (DC) of which 917 MW (DC) is operational and the balance is under various stages of development.

Brief Financials	FY18 (UA)	FY19 (UA)
Total operating income	317.92	666.05
PBILDT	35.84	171.66
PAT	17.01	5.39
Overall Gearing (times)	0.68	1.55
Interest Coverage (times)	6.04	1.48

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

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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	-	-	-	375.00	CARE A-; Negative
Non-fund-based-LT/ST	-	-	-	200.00	CARE A-; Negative/ CARE A2+
Fund-based/Non-fund-based-LT/ST	-	-	December 31, 2022	125.00	CARE A-; Negative / 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT-Bank Guarantees	LT	375.00	CARE A-; Negative	-	1)CARE A-; Stable (27-Mar-19) 2)CARE A-; Stable (18-Oct-18) 3)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-; Negative / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (27-Mar-19) 2)CARE A-; Stable / CARE A2+ (18-Oct-18) 3)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-; Negative / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (27-Mar-19) 2)CARE A-; Stable / CARE A2+ (18-Oct-18) 3)CARE A-; Stable / CARE A2+ (10-Apr-18)	1)CARE BBB+; Stable / CARE A2 (16-Feb-18)	-

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

	Timeline to be complied by
A. Financial covenants	
1. Minimum asset cover of 1.5x	Within 60 business days from end of each quarter
2. Term debt of borrower(excluding working capital and project debt/Total investments and loans & advances in its SPVs <0.5x	Within 180 business days from end of financial year
3. Total Debt/Tangible Networth <1.5x	Within 180 business days from end of financial year
4. Total Debt of borrower (excluding project debt) not to exceed INR 4.5 Billion	Annually within 180 business days from closure of financial year
5. Consolidated Debt/Consolidated EBIDTA <5x	Annually within 180 business days from closure of financial year
B. Non-financial covenants	
1. AEPL to continue to be EPC arm of majority of power business of the group	
2. Undertaking from AVPL to continue holding 51% shareholding and management control in AEPL	

Annexure-4: List of subsidiaries, associates and joint ventures of Avaada Ventures Private Limited getting consolidated (list as on March 31, 2019)

Name of companies/ Entities	% of holding
Avaada Energy Pvt Ltd	99.99
Clean Sustainable Energy Pvt Ltd	99.99
Avaada Technologies Pvt Ltd	99.99
Avaada Semiconductor Pvt Ltd	99.99
Avaada Foundation Pvt Ltd	99.99
Avaada Infra Pvt Ltd	99.99
Avaada Renewable Pvt Ltd	99.99
Avaada Clean Energy Private Limited	99.99
Avaada Sustainable Energy Private Limited	99.99
Avaada Solar Energy Private Limited	99.99
Avaada Non-Conventional Energy Private Limited	99.99
Welspun Green Energy Private Limited	99.99
Solarsys Non-Conventional Energy Private Limited	99.99
Viraj Solar Maharashtra Private Limited	99.99
Avaada Clean Project Private Limited	99.99
Avaada Clean Sustainable Energy Private Limited	99.99
Avaada Green Sustainable Energy Private Limited	99.99
Avaada Solar Project Private Limited	99.99
Avaada Sustainable Project Private Limited	99.99
Avaada Sustainable Solar Energy Private Limited	99.99
Vaibhav Jyoti Power Utility Services Private Limited	95.67
Fermi Solarfarms Private Limited	49.00
Avaada Floating Solar MH Private Limited	99.99
Avaada Sunbeam Energy Private Limited	99.99
Avaada Green HN Project Private Limited	99.99
Avaada Clean RJ Project Private Limited	99.99
Avaada Clean TN Project Private Limited	99.99
Avaada Green AP Project Private Limited	99.99
Avaada Green KN Project Private Limited	99.99
Avaada Green MP Project Private Limited	99.99
Avaada Green TS Project Private Limited	99.99

Avaada Solar UP Kharpur Private Limited	99.99
Avaada Solar UP Jamini Private Limited	99.99
Avaada Solar UP Lachura Private Limited	99.99
Avaada Solar UP Pahuj Private Limited	99.99
Avaada Non-Conventional Up Project Private Limited	99.99
Avaada Sunce Energy Private Limited	99.99
Avaada Solarise Energy Private Limited	99.99
Avaada Sunrise Energy Private Limited	99.99
Avaada Clean KN project Private Limited	99.99
Gobindsagar Energy Private Limited	99.99
Lachura Solar Private Limited	99.99
Matatila Energy Private Limited	99.99
Pahuj Energy Private Limited	99.99
Rohilik Energy Private Limited	99.99
Grenoble Infrastructure Private Limited	99.99
Avaada Energy (Mauritius) Pte Limited	99.99
Avaada Energy (Singapore) Pte Limited	99.99

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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