

Karvy Solar Power Limited

July 30, 2018

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|---|---|--|---------------|
| Proposed Non-Convertible Debenture issue [^] | 130.00 | Provisional CARE A+ (SO); Stable [Provisional Single A Plus [Structured Obligation]; Outlook: Stable) | Assigned |
| Total | 130.00 (Rs. One hundred and Thirty crore only) | | |

Details of instruments/facilities in Annexure-1

[^]proposed to be backed by unconditional and irrevocable corporate guarantee of Greenko Energies Private Limited (GEPL; rated 'CARE A+; Stable/CARE A1+').

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed long term instrument of Karvy Solar Power Limited (KSPL) take into account the proposed credit enhancement in the form of unconditional and irrevocable corporate guarantee to be extended by Greenko Energies Private Limited (GEPL).

The rating assigned to long term/short term facilities and proposed Non-Convertible Debentures of Greenko Energies Private Limited (GEPL) derives strength from strong parentage of the company with majority of stake in the ultimate holding company being held by Cambourne Investment Pte. Limited (an affiliate of Government of Singapore Investment Corporation) and Abu Dhabi Investment Authority (ADIA), established track record of the group in the renewable energy segment, ability of the group to access international debt market thereby reducing refinancing risk, presence of long-term off-take arrangement for most of the operating and under construction projects, reduced risk of under construction project portfolio and stable outlook for the renewable power sector. The rating also factors in growth in revenue in FY18 (provisional) along with lower cash accrual generation due to subdued performance of the wind energy portfolio during the year. The rating is, however, constrained by the leveraged capital structure with relatively high debt at consolidated level, dependence on climatic conditions and counterparty credit risk with significant proportion of off-take with the State Distribution Utilities. Further, CARE has also noted the announcement of acquisition of renewable energy portfolio of Orange Renewable Holdings Pte. Limited (ORHPL) at the holding company level which is not expected to have any bearing on the credit profile of GEPL.

The ability of the company to achieve the expected generation level along with timely receipts from the off-takers and improvement in capital structure are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage: GEPL is a wholly owned subsidiary of Greenko Mauritius, which in turn, is a wholly owned subsidiary of Greenko Energy Holdings (GEH). GEH is held by Cambourne Investment Pte Ltd, an investment arm of GIC, the Sovereign Wealth Fund of Singapore (65%), Abu Dhabi Investment Authority (15%) and the founders (Mr. Anil Kumar Chalamalasetty and Mr. Mahesh Kolli through Greenko Ventures Limited and associates) (20%).

Strong and experienced promoters: Greenko Group was co-founded by Mr Anil Chalamalasetty and Mr Mahesh Kolli in 2006, with the objective of owning and operating clean energy facilities. The group owns and operates renewable energy plants in India through GEPL.

Established track record in renewable energy segment: The Greenko group has a diversified portfolio of renewable energy assets spread across biomass, hydro-electric, wind, solar and Low Sulphur Heavy Stock (LSHS) based power plants. As on May 31, 2018, GEPL at a consolidated level had cumulative installed capacity of 1.59 GW and the group's cumulatively installed capacity of hydro, wind, solar and biomass projects stood at 3 GW. Further, post-acquisition of portfolio of ORHPL, the renewable energy capacity is expected to reach to 4.4 GW.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Growth in total operating income in FY18: Total operating income of the company registered a y-o-y growth of about 33% in FY18 vis-à-vis FY17 on account of operationalization/commercialization of projects leading to improvement in installed capacity and thereby power generation. However, it was lower vis-à-vis envisaged levels due to subdued performance of the wind segment and hydro assets in the South, in FY18. Growth in revenue resulted in distribution of fixed cost O&M expenses (the largest cost component) thereby resulting in growth in PBILDT margin by about 119 bps to about 81% in FY18. The company has Gross Cash Accruals (GCA) of Rs.279.85 crore in FY18 (Rs.295.30 crore in FY17).

Key Rating Weaknesses

Leveraged capital structure with relatively high debt at consolidated level: With increase in total debt to fund the capex of various new projects, overall gearing of the company (on consolidated basis) deteriorated to 3.13x as on March 31, 2018 as compared to 2.85x as on March 31, 2017. Other coverage indicators, total debt/GCA and interest coverage ratio also deteriorated as on March 31, 2017.

Counter party credit risks: Most of the operational power plants of the group have already entered into PPA with state owned DISCOM's, which provides revenue visibility in the long term, subject to availability of satisfactory wind/hydrology resources. However, the group is exposed to credit risk related to timely realization of dues from state owned DISCOM's with weak financial risk profile; however, to an extent risk is mitigated due to its geographically diversified assets portfolio spread across various states/DISCOM's in India.

Dependence on seasonal wind patterns for power generation: Wind farms are exposed to inherent risk of climate fluctuations leading to variations in the wind patterns which affects the Plant Load Factor (PLF).

Analytical approach:

CARE has analyzed GEPL's credit profile by considering the consolidated financials of GEPL and its subsidiaries operating in the Wind, Hydro, Solar and Biomass energy segment owing to financial and operational linkages between the parent and subsidiaries.

The rating is based on proposed credit enhancement in the form of unconditional and irrevocable corporate guarantee to be extended by Greenko Energies Private Limited (rated 'CARE A+; Stable/CARE A1+').

Applicable Criteria

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

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

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

[Rating Methodology: Infrastructure Sector Ratings](#)

[Rating Methodology: Private Power Producers](#)

[Financial Ratios - Non-Financial Sector](#)

About the Company

Karvy Solar Power Limited (KSPL), incorporated in January 2015 is a special purpose vehicle (SPV) promoted by Karvy group. In November 2017, Greenko group acquired the company. The company was incorporated to develop and operate solar power capacity aggregating 20 MW at Pedahgokularam in Sangareddy district in Telangana. The company had entered into Power Purchase Agreement (PPA) with Southern Power Distribution Company of Telangana Limited (TSSPDCL) at a tariff rate of Rs.6.70/Kwh for the period of 25 years. KSPL has commenced operation from April 2016 onwards.

About the Guarantor

Incorporated in July 2000, Greenko Energies Private Limited (GEPL) is a wholly owned subsidiary of Greenko Mauritius Ltd. (Greenko Mauritius), which in turn, a wholly owned subsidiary of Greenko Energy Holdings (GEH). Currently, Government of Singapore Investment Corporation (GIC) through its subsidiary Cambourne Investment Pte Limited, Abu Dhabi Investment Authority (ADIA) and founders through Greenko Ventures Limited (GVL) and its associates hold stake in GEH. Currently, Cambourne Investment Pte. Ltd (an affiliate of GIC) holds ~65%, Abu Dhabi Investment Authority (ADIA) holds ~15% and the founders through GVL and its associates hold ~20% of stake in GEH. Greenko group owns and operates renewable energy plants in India through GEPL. GEPL is the holding and funding arm for all the wind, hydro and natural gas & biomass projects under various subsidiary companies; and also owns directly two 6 MW operating biomass power plants in India. The group is one of the leading operators of clean energy projects in India.

As on May 31, 2018, Greenko Group's portfolio of assets consists of 3 GW operational power projects and GEPL (consolidated) consists of 1.59 GW operational projects.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (Prov.) |
|------------------------------|----------|--------------|
| Total operating income | 1226.89 | 1631.16 |
| PBILDT | 979.74 | 1322.01 |
| PAT | -65.44 | -254.33 |
| Overall gearing (times) | 2.85 | 3.13 |
| Interest coverage (times) | 1.51 | 1.30 |

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 |
|--|------------------|-------------|---------------|-------------------------------|---|
| Debentures-Non Convertible Debentures* | - | - | - | 130.00 | Provisional CARE A+ (SO); Stable |

proposed*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. | Debentures-Non Convertible Debentures | LT | 130.00 | Provisional CARE A+ (SO); Stable | - | - | - | - |

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