

WAA Solar Limited

June 21, 2019

Ratings

| Facilities | Amount (Rs. crore) | Ratings ¹ | Rating Action |
|---------------------------|--|--|---|
| Long term Bank Facilities | 88.25 | CARE A-(Single A Minus) Under credit watch with negative implications | Placed under credit watch with negative implications |
| Total | 88.25 (Rupees Eighty Eight crore and Twenty Five lakh only) | | |

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of WAA Solar Limited (WSL) has been placed under 'Credit watch with negative implications' in view of delay in publishing of its financial results for the half year and year ended on March 31, 2019 within the stipulated timeframe. CARE will take a view on the rating once the said financial results are published on the stock exchange and the exact implications of the above on the credit risk profile of WSL become clear.

The rating assigned to the bank facilities of WSL continues to derive strength from extensive experience, resourcefulness and established track record of promoters in solar power sector, satisfactory capacity utilisation factor (CUF) of the solar plant since commencement of operations and low off take and counterparty credit risk on account of long term power purchase agreement (PPA) with Gujarat Urja Vikas Nigam Limited (GUVNL; rated CARE AA-; Stable/ CARE A1+).

The rating also take into account established track record of timely receipt of monthly payments, moderate debt coverage indicators, adequate liquidity as evident from maintenance of Debt Service Reserve Account (DSRA) for one quarter of debt obligations and favourable policy framework for solar power generation business on the back of various government-led reforms & incentives to encourage investments in this segment.

The rating also takes cognizance of improvement in WSL's capital structure, reduction in the amount of guaranteed debt as on March 31, 2018 and satisfactory track record of operations of three Special Purpose Vehicles (SPVs) wherein WSL has extended corporate guarantee.

The strengths, however, are partially offset by susceptibility of power generation to variation in climatic conditions, technological risk, interest rate fluctuation and client concentration risk.

Going forward, achievement of envisaged CUF levels, timely receipt of payments from GUVNL and control over operations and maintenance (O&M) expenses shall be the key rating sensitivities.

Furthermore, any additional exposure of WSL towards Madhav group's existing/proposed SPVs, which could adversely impact its capital structure and debt coverage indicators would be crucial from the credit perspective.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of promoters and established track record of the group in solar power generation: WSL is promoted by Mr Ashok Khurana and his son Mr Amit Khurana. Mr Ashok Khurana has an experience of more than three decades in executing various projects in the construction sector (roads & solar power).

The group has an established track record in executing various solar power projects on EPC basis for third parties as well as for group companies. The execution of solar power projects is carried out by in-house EPC arm of the Madhav group i.e. Madhav Infra Projects Ltd (MIPL; rated CARE BBB+/ CARE A3+; under credit watch with negative implications) and Mi Solar Private Limited.

Satisfactory operational performance and generation track record: The solar power plant set-up by WSL at Surendranagar has demonstrated a satisfactory operational track record of around 87 months with an average CUF of 19.99%; till March 2019. During FY19, WSL reported healthy CUF level of 19.22% when compared with 18.21% in FY18. The generation was lower in FY18 on account of incessant rains during July 2017. Owing to flood-like situation, WSL incurred repairs and maintenance expenditure of Rs.1.91 crore during FY18 and has received Rs.1.01 crore from the Insurance Company in FY19.

Low counterparty risk due to long term PPA and timely receipt of payments: WSL has entered into a long-term PPA with GUVNL for supply of power generated from its 10.25 MW plant for a period of 25 years at a tariff of Rs.15 per kWh for the first 12 years and Rs.5 per kWh for the remaining 13 years. This mitigates the off-take risk for WSL. Furthermore, GUVNL is the holding company of Gujarat state power utilities and has a strong financial risk profile. WSL has a satisfactory track record

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

of receiving payments from GUVNL within 5-6 days of submitting invoice for the power purchased during the previous month.

Moderate debt coverage indicators: WSL's debt coverage indicators, albeit deteriorated, continued to remain moderate during FY18. Interest coverage (PBILDT/Interest) and total debt to GCA deteriorated during FY18 to 2.04x (2.27x in FY17) and 9.17x (6.27x in FY17) respectively owing to lower income and high repairs and maintenance expenditure. Any additional exposure of WSL towards group companies adversely impacting WSL's debt coverage indicators shall also remain crucial from credit perspective.

Improvement in capital structure: Post conversion to a public limited company on February 19, 2018, WSL got listed on BSE SME exchange on June 12, 2018. WSL raised Rs.28.18 crore to be utilized towards investment in group companies and general corporate purpose. Consequently, despite increase in total debt as on balance sheet date, overall gearing improved to 0.82x as on March 31, 2018 from 1.20x as on March 31, 2017. Overall gearing, adjusted for recourse nature of debt of SPVs also improved substantially as on balance sheet date on account of reduction in amount of guaranteed debt of SPVs.

Favourable renewable energy framework with stable industry outlook: Outlook for solar industry remains stable due to government's thrust on renewable energy sector, with a targeted solar power generation capacity of 100 GW till FY22 along with various government-led reforms and incentives to encourage investments in this segment. Solar projects have relatively lower execution risks, stable long term cash flow visibility with long term off take arrangements at a fixed tariff and minimal O&M requirements.

However, the industry continues to face operating challenges such as weak financial health of discoms, import of low quality products and bottleneck in transmission infrastructure which requires timely addressal to support the huge capacity addition targets.

Satisfactory operations of guaranteed group entities: All the SPVs for which WSL has extended corporate guarantee are operational and self-sustainable in nature and require no operational/financial support from WSL. Furthermore, during FY19, WSL had sold its entire stake in its two subsidiaries in road sector to third party and acquired stake in one Madhav group entities which is engaged in solar power generation. The decision is in line with the overall plan of management to house all renewable energy assets under WSL.

Key Rating Weaknesses

Susceptibility of power generation to climatic conditions along with technological risk: WSL's solar power plant commenced power generation from January 2012 and the CUF since inception has remained largely satisfactory. However, during FY17 and FY18, the CUF level was adversely impacted and has remained lower than envisaged on account of fluctuations in climatic conditions. Furthermore, WSL's solar project is based on thin film type PV solar cells technology which has a short track record of performance in tropical region such as India. The risk is mitigated to an extent on account of sourcing of equipment from reputed suppliers and performance warranties provided by module suppliers. Nevertheless, in the absence of track record, technological risk persists for the project.

Interest rate risk: WSL is exposed to interest rate risk and the same essentially emanates from the fact that over the life of the project the interest on debt component will be reset at a certain frequency to align with market rates by the lenders.

Client concentration risk: GUVNL is the sole off-taker of the solar power generated from the WSL's plant, which exposes it to client concentration risk. However, strong financial risk profile of GUVNL and its established track record of prompt payments mitigate this risk to a certain extent. Nevertheless, in case GUVNL repudiates the PPA, GUVNL shall be liable to make payment towards compensation to WSL equivalent to three years billing based on first year's tariff considered on normative CUF. Thus, in such a case, WSL will be able to sell the produced power at market rates which are currently much below agreed rate as per PPA.

Liquidity: Adequate

Liquidity position of WSL is comfortable with generation of healthy CUF level and receipt of payments within 5-6 days of submission of monthly bill. Further, WSL's solar project has a comfortable tail period of five years and has also created DSRA equivalent to one quarter of principal and interest repayment in the form of fixed deposit which provides added comfort to the liquidity.

WSL had free cash and bank balance of Rs.0.70 crore (excluding margin money in form of fixed deposits of Rs.0.81 crore) as on March 31, 2018 and reported cash accruals of Rs.10.44 crore during FY18. Against this, WSL has committed debt repayment obligations of around Rs.8.98 crore in FY19.

Analytical approach:

Standalone financials of WSL along with combined cash flows of WSL and the SPVs, wherein WSL has extended corporate guarantee, has been considered while assigning rating to WSL.

Applicable Criteria

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

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

[CARE's methodology for Private Power Producers](#)

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

[Factoring Linkages in Ratings](#)

About the Company

Incorporated in November 2009, Vadodara-based WSL is a subsidiary of Madhav Power Pvt Ltd. (MPPL), promoted by Mr Ashok Khurana and Mr Amit Khurana. The promoters of WSL were the erstwhile promoters of MSK Projects India Ltd (MSK), which was subsequently taken over by the Welspun group [now known as Welspun Enterprises Limited (WEL; rated CARE AA-; Stable/ CARE A1+)].

WSL has set-up a 10.25-MW grid interactive solar PV power project and signed PPA for 25 years with GUVNL under the Gujarat Solar Policy 2009 framework for the sale of generated power. The project is located at Surendranagar district in Gujarat and the plant has an operational track record of more than seven years (87 months till March 2019) since commencement of its operations in January 2012. This apart, WSL has also commissioned a 0.10-MW grid interactive solar PV power project at Rajabhoj Airport, Bhopal, which started operations in July 2013.

Apart from the above, WSL has sponsored Madhav group's various project-specific SPVs in the road construction and solar power segments.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|----------------------------------|----------|----------|
| Total operating income | 26.07 | 25.17 |
| PBILDT | 24.55 | 21.63 |
| PAT | 0.15 | 2.75 |
| Overall gearing (times) | 1.20 | 0.82 |
| PBILDT Interest coverage (times) | 2.27 | 2.04 |

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

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 |
|------------------------|------------------|-------------|---------------|-------------------------------|---|
| Term Loan-Long Term | - | - | April 2032 | 88.25 | CARE A- (Under Credit watch with Negative Implications) |

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. | Term Loan-Long Term | LT | 88.25 | CARE A- (Under Credit watch with Negative Implications) | - | 1)CARE A-; Stable (05-Oct-18) | 1)CARE A-; Stable (09-Oct-17) | 1)CARE BBB+ (09-Nov-16) |
| 2. | Non-fund-based - LT/ST-Bank Guarantees | LT/ST | - | - | - | - | 1)Withdrawn (09-Oct-17) | 1)CARE BBB+ / CARE A2 (09-Nov-16) |

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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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.

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