

WAA Solar Limited

July 24, 2019

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	81.44 (reduced from Rs.88.25 crore)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Removed from credit watch with negative implications; Rating reaffirmed
Total	81.44 (Rupees Eighty One crore and Forty Four 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 removed from credit watch with negative implications on account of publication of its financial results for the half year and year ended on March 31, 2019 on the stock exchange. The rating was placed under credit watch in view of delay in publication of the financial results for the aforesaid period within the stipulated regulatory timeframe. CARE takes note of the improvement in overall gearing, debt coverage indicators and adequate liquidity for FY19.

The rating assigned to the bank facilities of WSL continues to derive strength from its experienced and resourceful promoter group, long and established track record of the group in infrastructure sector (including solar power projects), satisfactory capacity utilisation factor (CUF) of the company's solar power plant since commencement of operations and low counterparty credit risk due to presence of long term power purchase agreement (PPA) with Gujarat Urja Vikas Nigam Limited (GUVNL; *rated* CARE AA-; Stable/ CARE A1+).

The rating further takes into consideration established track record of timely receipt of monthly payments from GUVNL, 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 consistent improvement in WSL's capital structure, further reduction in the amount of guaranteed debt as on March 31, 2019 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, exposure to technology risk, and interest rate fluctuation & client concentration risk.

Ability of WSL to efficiently operate the plant at envisaged CUF, any change in business activity including venturing into Engineering Procurement & Construction (EPC) business leading higher working capital intensity and reliance on external debt, maintain profitability through control over operations and maintenance (O&M) expenses and timely receipt of payments from GUVNL shall be the key rating sensitivities.

Furthermore, any additional exposure of WSL towards group's existing or 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

Experienced promoter group 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). He is ably supported by his son Mr Amit Khurana who has an experience of over two decades in the road sector and looks after the day to day operations of the group companies. The companies together are referred to as 'Madhav' group.

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.

Improvement in total operating income and profitability on account of satisfactory operational performance: The solar power plant set-up by WSL at Surendranagar has demonstrated a satisfactory operational track record of around

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

89 months with an average CUF of 19.57%; till May 2019. During FY19, WSL reported average CUF level of 18.86% when compared with 18.34% in FY18.

During FY19, WSL reported a total operating income of Rs.25.37 crore (FY18: Rs.24.67 crore) with healthy profit margins owing to low O&M expenses and satisfactory generation.

Low counterparty risk due to long term PPA with strong off-taker 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 and provides a long term revenue visibility. Further, GUVNL is the holding company of Gujarat state power utilities and has a strong financial risk profile which is also reflected in its prompt payment for power purchases, within 5-6 days of submission of the monthly invoices by WSL.

Improvement in capital structure and moderate debt coverage indicators: WSL's overall gearing has improved consistently to 0.55x as on March 31, 2019 from 1.20x as on March 31, 2017 on account of scheduled repayments along with receipt of Initial Public Offer (IPO) proceeds during FY19.

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 debt guaranteed by WSL for its SPVs.

The debt coverage indicators remained moderate with an improvement during FY19; as indicated by a PBILDT interest coverage of 2.65x (FY18: 2.04x) and total debt to GCA of 5.37x (FY18: 9.17x), on account of decrease in debt level and healthy operating profitability.

Satisfactory operations of guaranteed group entities with changes in group structure: WSL has guaranteed debt for three SPVs of Madhav group, all of which are operational and self-sustainable in nature and require no operational/financial support from WSL.

Further, during FY19, WSL has sold its entire stake in two of its subsidiaries in the road sector to a third party and acquired stake in three Madhav group entities in road & solar sector from Madhav Infra Projects Limited (*rated* CARE BBB+/ CARE A3+; placed under credit watch with negative implications), out of which debt of two entities is guaranteed by WSL. This has resulted in an increase in WSL's aggregate investment in the group entities; however the capital structure has improved as on March 31, 2019.

Any additional exposure or increase in debt guaranteed by WSL which could adversely impact its capital structure and debt coverage indicators would remain crucial from credit perspective.

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, long term cash flow visibility with off take arrangements 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 redressal to support the huge capacity addition targets.

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, the plant is susceptible to fluctuations in climatic conditions, as indicated by lower than envisaged CUF generated by the plant during FY17 and FY18.

Furthermore, WSL's solar project is based on thin film type photo voltaic (PV) solar cells technology which has a short track record of performance in tropical region such as India. Although, the modules and other equipment have been sourced from reputed suppliers, 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 by the lenders to align the same with market rates.

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.

In case GUVNL repudiates the PPA, it 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. However, in such a case, for subsequent years, 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 of WSL is comfortable with 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 it routes its receipts & payments through the designated Trust & Retention Account (TRA) wherein term loan repayment has priority over payments & withdrawal of surplus by the company for other uses. Moreover, WSL 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.2.35 crore (excluding margin money in form of fixed deposits of Rs.23.77 crore) as on March 31, 2019 and reported cash accruals of Rs.15.47 crore during FY19. Against this, WSL has committed debt repayment obligations of around Rs.9.69 crore in FY20.

Analytical approach:

Standalone financials of WSL along with combined cash flows of WSL and the SPVs, wherein WSL has extended corporate guarantee to the debt of such SPVs, 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+)].

Further, WSL got listed on BSE SME exchange on June 12, 2018.

WSL has set-up a 10.25-MW grid interactive solar PV power project and signed a 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 since commencement of its operations in January 2012 (89 months till May 2019). 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)	FY18 (A)	FY19 (A)*
Total operating income	25.17	27.01
PBILDT	21.63	25.17
PAT	2.75	5.29
Overall gearing (times)	0.82	0.55
PBILDT Interest coverage (times)	2.04	2.65

A: Audited; *based on abridged financial results published on BSE.

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	81.44	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 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	81.44	CARE A-; Stable	1)CARE A- (Under Credit watch with Negative Implications) (21-Jun-19)	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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