

WAA Solar Limited

August 31, 2020

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	69.58 (reduced from 81.44)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total	69.58 (Rs. Sixty nine crore and fifty eight 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) continues to derive strength from its experienced promoter group with an established track record in infrastructure sector, satisfactory operational track record of the project of over eight years, long term revenue visibility due to presence of power purchase agreement (PPA) with Gujarat Urja Vikas Nigam Limited (GUVNL; rated CARE AA-; Stable/CARE A1+) at a fixed tariff for twenty five years, timely receipts of monthly payments from GUVNL, moderate debt coverage indicators, adequate liquidity marked by maintenance of funded Debt Service Reserve Account (DSRA) equivalent to one quarter of debt obligations and stable industry outlook.

The rating also takes cognizance of consistent improvement in WSL's capital structure along with reduction in loans and advances granted to group companies and guaranteed debt as on March 31, 2020 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 & technology risk associated with solar power plants, interest rate fluctuation and client concentration risk.

CARE also takes cognizance that WSL has not availed moratorium on debt repayment for its bank facilities, as a COVID-19 relief measure.

Rating Sensitivities

Positive Sensitivities:

- Ability of the company to demonstrate a sustained improvement in its capacity utilization factor (CUF) levels above 20% along with improvement in its profitability.
- Improvement in credit profile of off taker i.e. GUVNL.

Negative Sensitivities:

- Reduction in CUF levels below 16.00% on sustained basis which will result in decline in profitability and weakening of liquidity position of the company.
- Delay in receipt of payments from GUVNL beyond 30 days on a sustained basis.
- Deterioration in credit profile of off taker i.e. GUVNL.
- Any change in business activity including venturing into Engineering, Procurement & Construction (EPC) business which results in deterioration of WSL's financial risk profile.
- Investment in group companies or extending corporate guarantees which has a detrimental impact on its debt coverage indicators and liquidity position.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoter group and established presence of the group in infrastructure sector: WSL is a part of Vadodara-based Madhav group which has an established track record in executing various solar power projects on EPC basis for third parties as well as for group companies. Till date, the group has executed solar power projects of around 84MW in various states.

WSL is promoted by Mr Ashok Khurana and his son Mr Amit Khurana, who possess vast experience in the infrastructure industry. The promoter group is ably supported by team of experienced professionals in day to day operations of the group companies.

Satisfactory operational performance of the solar project: WSL's solar plant was commissioned in January 2012 and has an operational track record of more than eight years till June 2020. During FY20, average CUF declined marginally to 18.43% (FY19: 19.33%) due to adverse weather conditions. Resultantly, WSL reported total operating income of Rs.26.81 crore during FY20 (FY19: 27.01 crore). Further, as per the clarifications issued by Ministry of New & Renewable Energy, the must run

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

status granted to the renewable power assets remains unchanged during nation-wide lockdown. Consequently, it had minimal impact on operations of the company.

Long-term PPA with GUVNL having strong credit profile and satisfactory payment track record: WSL has signed PPA for the entire capacity with GUVNL for a term of 25 years at a fixed tariff of Rs.15 per kWh for the first 12 years and Rs.5 per kWh for the remaining 13 years. The presence of long-term PPA at a fixed tariff for the tenure of 25 years with a strong counterparty ensures cash flow sustainability & low off take risk. Further, WSL has a satisfactory track record of receiving prompt payments from GUVNL against the monthly invoices drawn on it for sale of power.

Comfortable capital structure and moderate debt coverage indicators: Owing to scheduled repayment of term loan and accretion to reserves, WSL's overall gearing improved further to 0.45x as on March 31, 2020 (0.55x as on March 31, 2019). Further, overall gearing adjusted for recourse nature of debt of SPVs, albeit high, also improved as on balance sheet date due to reduction in amount of debt guaranteed by WSL for its SPVs.

The debt coverage indicators are expected to remain moderate over the tenor of the loan. However, going forward decline in CUF levels, leading to decline in GCA and debt coverage indicators will remain a key rating monitorable.

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. Out of which two SPVs are self-sustainable and one SPV requires need based support from WSL in case of low power generation.

Further, during FY20, WSL sold its entire stake in two of its subsidiaries to third parties and acquired stake in one entity from a related party. On sale of stake, WSL earned profit of Rs.9.43 crore resulted in improvement in its PAT and GCA during FY20.

Stable industry outlook: There is great thrust from Govt. for improving the share of solar power in India's overall power mix which is reflected from various policy initiatives. There had been muted solar power generation capacity additions during last two years due to imposition of safeguard duty on import of solar modules and cancellation of large amount of solar auctions among others. However, looking at the already allotted capacity and government's push for achieving targeted solar capacity of 100 GW by end of FY22, capacity additions are likely to improve in next two to three years. However, there are concerns like increased difficulties in land acquisition, poor evacuation infrastructure, very high dependence on imported solar cells & modules, regulatory haze in terms of renegotiation of tariff in concluded PPAs and cancellation of concluded auctions, weak financial risk profile of few Discoms resulting in significant delays in payment and increased difficulties in debt tie-up. Overall, positive and negative developments in the sector counterbalance each other, thereby resulting in a stable outlook.

Key Rating Weaknesses

Exposure of the project towards climatic conditions and technological risk: The CUF level of a solar power plant primarily depends upon solar radiation levels, climatic conditions, degradation of modules and technology used. Furthermore, the performance track record of the thin film type PV modules, used by WSL, in Indian conditions is relatively limited. Although, the modules and other equipment have been sourced from reputed suppliers, technological risk persists for the project duration.

Interest rate risk: Interest rate on debt is reset periodically to align with market rates by the lenders. Any significant adverse variation in the interest rates could potentially lower project return and affect the debt coverage indicators, since the tariff is fixed as per PPA.

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.

Further, in case WSL terminates the PPA on GUVNL's default, GUVNL shall be liable to make payment equivalent to three years billing based on first year's tariff considered on normative CUF within 30 days as compensation to WSL. 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 rate as per the PPA.

Liquidity: Adequate

WSL's liquidity position remained adequate with defined cash flow mechanism in place, maintenance of adequate DSRA along with healthy free cash & bank balance and receipt of payments within 7 days of submission of monthly bill. Further, WSL's solar project has a comfortable tail period of five years.

WSL has funded DSRA equivalent to one quarter of debt servicing obligations of Rs.4.71 crore in the form of fixed deposit which provides added cushion to the liquidity. Apart from DSRA, WSL had free cash and bank balance of Rs.13.21 crore (apart from lien marked fixed deposits of Rs.17.85 crore) as on March 31, 2020 and reported healthy cash accruals of Rs.22.40 crore

during FY20. Going forward, the company is envisaged to generate cash accruals of around Rs.15-16 crore which is sufficient to cater the debt servicing obligations of around Rs.10-11 crore in FY21.

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' and 'credit watch' to Credit Ratings](#)

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

[CARE's Policy on Curing period](#)

[Rating Methodology - Private Power Producers](#)

[Rating Methodology: Solar Power Projects](#)

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

[Liquidity Analysis of Non-Financial Sector Entities](#)

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

About the Company

Incorporated in November 2009, Vadodara-based WSL is a subsidiary of Madhav Power Private Limited, promoted by Mr Ashok Khurana and Mr Amit Khurana. The promoters of WSL were the erstwhile promoters of MSK Projects India Ltd., which was subsequently taken over by the Welspun group [now known as Welspun Enterprises Limited (WEL; rated CARE A1+)]. Further, on June 12, 2018, WSL got listed on BSE SME exchange.

WSL has set-up a 10.25-MW (AC -10MW) 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. This apart, WSL has also commissioned a 0.10 MW grid interactive solar PV power project at Rajabhoj Airport, Bhopal, which commenced its 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)	FY19 (A)	FY20 (A)
Total operating income	27.01	26.81
PBILDT	25.17	23.74
PAT	5.29	10.29
Overall gearing (times)	0.55	0.45
PBILDT Interest coverage (times)	2.65	2.77

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	69.58	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	69.58	CARE A-; Stable	-	1)CARE A-; Stable (24-Jul-19) 2)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)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	-	-	-	-	-	1)Withdrawn (09-Oct-17)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Term Loan-Long Term	Simple

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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