

## WAA Solar Limited

October 5, 2018

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long term Bank Facilities	88.25 (reduced from Rs.98.57 crore)	<b>CARE A-; Stable</b> <b>(Single A Minus; Outlook: Stable)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>88.25</b> <b>(Rupees Eighty Eight crore and</b> <b>Twenty Five lakh only)</b>		

*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 experienced promoter group, 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+), satisfactory operational track record with timely receipt of payments from its sole off taker (GUVNL), moderate debt coverage indicators including 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 and 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 balance four Special Purpose Vehicles (SPVs) wherein WSL has extended corporate guarantee.

The rating, however, continues to remain constrained owing to susceptibility of power generation to variation in climatic conditions as well as technological, interest rate fluctuation and client concentration risk.

Going forward, achievement of envisaged Plant Load Factor (PLF), 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 the 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

**Experienced promoter group:** The promoters of WSL have over three decades of experience in execution of relatively large-sized projects in various segments of the construction sector, viz. industrial buildings, roads and residential buildings. The promoters have demonstrated strong project execution capability in the solar segment too through execution of multiple solar power projects on EPC basis for third parties and 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+; Negative / CARE A3+) and Mi Solar Private Limited.

**Satisfactory generation track record:** As on July 2018, the 10.25 MW grid connected solar power plant set-up by WSL at Surendranagar has demonstrated a satisfactory operational track record of around 79 months with an average PLF of 19.66%. During FY18, the income from sale of solar power dipped marginally to Rs.24.67 crore in FY18 (Rs.25.61 crore in FY17) due to marginal dip in PLF from 19.05% in FY17 to 18.21% in FY18. The dip in income was 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 claimed Rs.1.75 crore from the Insurance Company.

**Low off-take and counterparty credit risk:** 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 continued to receive timely payments from GUVNL within 5-6 days of submitting invoice for the power purchased during the previous month.

**Moderate debt coverage indicators and maintenance of DSRA:** 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 generation income and high repairs and maintenance expenditure. 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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

comfort from credit perspective. Nevertheless, 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 due to funds raised via initial public offer (IPO) in June 2018:** 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. However, the industry continues to face operating challenges such as weak financial health of discoms, import of low quality products, regulatory enforcement of RPO targets and bottleneck in transmission infrastructure which entail 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 September 2018, the Board of Directors approved sale of WSL's stake in two subsidiaries in road sector to a third party and acquisition of stake in four Madhav group entities which are 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 PLF since inception has remained largely satisfactory. However, during FY17 and FY18, the PLF level was adversely impacted and has remained lower than envisaged on account of fluctuations in climatic conditions. Notwithstanding above, WSL's solar project is based on thin film type PV solar cells technology which has short track record of performance in tropical region such as India; albeit mitigated to an extent by performance warranties provided by module suppliers. Although the modules and other equipment have been sourced from reputed suppliers, however, technological risk persists for the project duration.

**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 company'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 only equivalent to three years billing based on first year's tariff considered on normative PLF. 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.

#### 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 six years (79 months till July 2018) 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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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-; 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 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.	Term Loan-Long Term	LT	88.25	CARE A-; Stable	-	1)CARE A-; Stable (09-Oct-17)	1)CARE BBB+ (09-Nov-16)	1)CARE BBB+ (08-Oct-15)
2.	Non-fund-based - LT/ST-Bank Guarantees	LT/ST	-	-	-	1)Withdrawn (09-Oct-17)	1)CARE BBB+ / CARE A2 (09-Nov-16)	1)CARE BBB+ / CARE A2 (08-Oct-15)

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