WAA Solar Private Limited

October 09, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long term Bank Facilities	98.57 (enhanced from 80.44)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Revised from CARE BBB+ (Triple B Plus)**
Long term / Short term Bank Facilities	0.00 (reduced from 20.00)	-	**Withdrawn#**
Total	**98.57 (Rupees Ninety Eight crore and Fifty Seven lakh only)**		

Details of instruments/facilities in Annexure-1

#CARE has withdrawn the outstanding ratings assigned to the long-term / short-term bank facilities of IDBI Bank with immediate effect. The above action has been taken at the request of WSPL and 'No Objection Certificate' received from the bank.

Detailed Rationale & Key Rating Drivers

The revision in the long-term rating assigned to the bank facilities of WSPL takes into account establishment of healthy track record of over five years of operations of its solar power plant with satisfactory Plant Load Factor (PLF) levels, improvement in credit risk profile of its sole off taker [Gujarat Urja Vikas Nigam Limited (GUVNL; rated CARE AA-; Stable / CARE A1+)] and reduction in receivable period during FY17 (FY refers to the period April 01 to March 31) and 4MFY18.

The rating continues to derive comfort from vast experience of the promoters in the construction industry, low off-take and credit risk on account of long-term Power Purchase Agreement (PPA) with GUVNL, moderate leverage and 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 satisfactory track record of operations of majority of the Special Purpose Vehicles (SPVs) where WSPL has extended corporate guarantees for their bank facilities, albeit with marginal support required for two SPVs.

The rating, however, continues to be constrained by susceptibility of power generation of WSPL's solar power plant to variation in climatic conditions as well as technological risk, given the relatively short performance track record of photovoltaic (PV) solar equipment in Indian conditions, and client concentration risk as GUVNL is the sole off-taker; though the same is mitigated by a relatively comfortable credit profile of GUVNL alongwith a demonstrated track record of timely payment of bills raised by WSPL.

The ability of WSPL to operate its solar power plant at the envisaged PLF along with timely receipts of payment against the sale of power and control over operations and maintenance (O&M) expenses shall be the key rating sensitivities. Furthermore, any additional exposure of WSPL towards the group's existing/proposed SPVs which could adversely impact its debt coverage indicators would also be a rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Over five years of solar power generation track record with satisfactory CUF: The 10.25 MW grid connected solar power plant set-up by WSPL at Surendranagar was commissioned in January 2012 and has an operational track record of around 67 months till July 2017. During this tenure, the plant has consistently reported healthy PLF level, averaging at 19.97%.

Income from sale of solar power dipped marginally to Rs.25.61 crore in FY17 (Rs.27.28 crore in FY16) due to marginal dip in PLF from 20.24% in FY16 to 19.05% in FY17 due to adverse weather conditions during the year. Overall TOI of WSPL dipped by 44% in FY17 since WSPL did not undertake any EPC or trading activities in FY17, as in previous years.

Experienced promoters with strong project execution capabilities in construction sector: The promoters of WSPL 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 and have also demonstrated their project execution capability in the solar segment over past few years through execution of projects on EPC basis for third parties and group companies, alongwith setting up of own solar power plants including WSPL and Madhav Infra Projects Ltd (MIPL; rated CARE BBB+; Positive / CARE A2). MIPL is the in-house EPC arm of Madhav group and has executed various solar projects of

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

small to large size with an aggregate installed capacity of around 38 MW till CY16 (refers to the period January 01 to December 31). Madhav group comprises entities in road and solar segment, including WSPL.

Low off-take and credit risk due to long-term PPA with GUVNL: WSPL had 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 WSPL. Furthermore, GUVNL is the holding company of Gujarat state power utilities and has strong financial risk profile with improvement witnessed over past few years. This is reflected in prompt payment track record established by GUVNL. Since March 2016, GUVNL has been making payment to WSPL for the power purchased by it within 5-7 days post receipt of invoice, as against contracted credit period of 30 days. Thus, credit risk also remains low.

Moderate leverage and debt coverage indicators: WSPL's overall gearing and debt coverage indicators remained moderate and stable during FY17, with an overall gearing stood of 1.20x as on March 31, 2017 as against 1.24x as on March 31, 2016 and interest coverage (PBILDT/Interest) and total debt to GCA of 2.27x (2.34x during FY16) and 6.27x (5.60x during FY16) respectively during FY17. WSPL refinanced its existing term loans during the year with a higher amount, longer tenure and lower interest rate term loan, which was utilised for working capital and capex requirements of group entities. Despite this, debt coverage indicators are expected to improve in the medium term with assured project cash flows and elongated repayment schedule. Also, WSPL's solar project has a comfortable tail period of five years and the company has created DSRA equivalent to one quarter of principal and interest repayment in the form of fixed deposit. Nevertheless, any additional exposure of WSPL towards the group's existing/proposed SPVs which could adversely impact its debt coverage indicators shall be 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 alongwith 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 majority guaranteed entities: WSPL has guaranteed debt for six SPVs, out of which four are self-sustainable and require no operational/financial support from WSPL, while marginal support of around Rs.1-2 crore per annum might be required in the balance two entities.
Apart from probable financial support, no investment is required in any of the project SPVs. Also, the project cash flows of the SPVs are routed through their designated escrow accounts and the SPVs also have DSRA in place, which provides some comfort from credit perspective.

Key Rating Weaknesses
Profitability vulnerable to variation in climatic conditions and technological risk: WSPL's solar power plant commenced power generation from Jan 2012 and the CUF since inception has remained satisfactory. However, the plant is inherently vulnerable to fluctuations in climatic conditions which may adversely affect the CUF levels going forward. Also, WSPL'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; though the same is 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.

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 WSPL only equivalent to three years billing based on first year's tariff considered on normative PLF. Thus, in such a case, WSPL will be able to sell the produced power at market rates only which is currently much below agreed rate as per PPA.

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

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](#)
[Policy on Withdrawal of ratings](#)

About the Company

Incorporated in November 2009, Vadodara-based WSPL is a wholly-owned subsidiary of Madhav Power Pvt Ltd. (MPPL), promoted by Mr Ashok Khurana and Mr Amit Khurana. The promoters of WSPL 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 A+; Stable / CARE A1+)].

WSPL 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 five years (67 months till July 2017) since commencement of its operations in January 2012. This apart, WSPL 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, WSPL has sponsored Madhav group's various project-specific SPVs in the road construction and solar power segments.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	46.90	26.07
PBILDT	27.57	24.55
PAT	-0.90	0.15
Overall gearing (times)	1.24	1.20
PBILDT Interest coverage (times)	2.34	2.27

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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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
Term Loan-Long Term	-	-	April 2032	98.57	CARE A-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	0.00	Withdrawn

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	98.57	CARE A-; Stable	-	1)CARE BBB+ (09-Nov-16)	1)CARE BBB+ (08-Oct-15)	1)CARE BBB (08-Dec-14) 2)CARE BBB (03-Apr-14)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	-	-	-	1)CARE BBB+ / CARE A2 (09-Nov-16)	1)CARE BBB+ / CARE A2 (08-Oct-15)	1)CARE BBB / CARE A3+ (08-Dec-14) 2)CARE BBB / CARE A3+ (03-Apr-14)

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