IREDA Grading of Renewable Energy Companies/Projects proposing to avail of IREDA assistance

[In supersession of 'IREDA Grading' methodology issued in February 2919]

Background:

Indian Renewable Energy Development Agency Limited (IREDA) has introduced the requirement of credit rating for seeking / availing credit facilities from IREDA, from independent external credit rating agencies (CRAs) such as CARE Ratings. Accordingly, "IREDA Grading Methodology" has been developed specifically for this purpose, based on meetings and discussions held with IREDA, which involves an assessment of the various risk parameters typically associated with these projects and grading them on an eight point grading scale with respect to overall project risk evaluation. The assessments of the entities being graded on each of these parameters are designed to evaluate the ability of these entities for repaying the debt availed from IREDA in a timely manner. Further there is also sponsor risk evaluation on a three point grading scale viz. strong, moderate and average.

The project grading is communicated to IREDA vide a detailed grading report. The sponsor grading is also communicated to IREDA vide a detailed sponsor grading report, which has a more detailed analysis of the sponsor risk along with a grading on sponsor risk parameter alone. CARE Ratings also delivers a grading report to the entity being graded, however the same only contains the overall project grading without any scoring breakups.

Overall Project/Entity Grading Scale

The overall project/entity grading scale and definitions are as follows:

Rating	Definition
Grade 1	Excellent ability to repay IREDA debt as per terms
Grade 2	Very good ability to repay IREDA debt as per terms
Grade 3	Good ability to repay IREDA debt as per terms
Grade 4	Satisfactory ability to repay IREDA debt as per terms
Grade 5	Adequate ability to repay IREDA debt as per terms
Grade 6	Moderate ability to repay IREDA debt as per terms
Grade 7	Weak ability to repay IREDA debt as per terms
Grade 8	Very weak ability to repay IREDA debt as per terms

Methodology:

Various parameters which are assessed include Sponsor/Management Risk, Permitting risk, Execution risk, Operating risks, Generation/fuel availability risks, off take/counter party credit risks and Financing/funding risks.

For carrying out the evaluation of the entities being graded on these parameters, CARE Ratings obtains data pertaining to these from the companies (as well as IREDA). CARE team also holds meetings with key officials in the technical, marketing and financial functions of these companies. Also, feedback is also sought from auditors, bankers (in case of any existing relationship) and owners engineers and lenders engineers, if applicable. Based on these data and interactions, CARE scores and grades these entities.

Various sub-parameters for each of the risks mentioned above are as below:

Sponsor Risks

- Business and financial strength of the promoter company/group, Industry analysis, competitive positioning and financial analysis
- Ability of the promoter company/group to infuse equity and arrange for debt funds, including funding of cost and time overrun, if any.
- Track record of the promoter group in power generation/RE generation. Past track record in installing and maintaining renewable energy projects in India and/or abroad
- Management evaluation and quality of organizational structure, internal control and systems, quality of management team.
- Constitution, ownership structure, Shareholding Pattern and parentage.
- Nature of equity (convertible instruments, hybrid etc.)
- Financial track record with other lenders/ financial institutions
- Corporate Governance practices

Permitting Risks

- Receipt of all requisite permissions and clearances applicable.
- Evaluation of seismic risks or any geological issues
- Acquisition of land/right of way for plant, transmission line and ancillary facilities.
- Regulatory Risks, evaluation of consistency in state and central policies (whichever is applicable)

Execution Risks

- Availability of infrastructure at site.
- Accessibility of the site
- Evaluation of risks associated with execution of project within stipulated costs and time.
- Nature and quality of contract (EPC or non EPC, fixed-time or not, adequate guarantees pertaining to delay in commissioning, non-performance etc.).
- Evaluation of key contractors/vendors, capability for interconnection and commissioning (of contractor)
- Performance Guarantees for equiment
- Evacuation Infrastructure - Evaluation of availability of grid infrastructure, whether the site area has grid congestion concerns

Operating Risks

- Suitability of technology to Indian conditions.
- Experience of equipment suppliers, especially in the Indian condition.
- Choice of O&M contractor, O&M plans
- Insurance Coverage (if any)
- Availability of water and spares
- Nature and quality of O&M contracts
- Evacuation risks.
- Analysis of actual operating performance of the project (if the project is operational)

Generation/Fuel Availability Risks

- Adequacy of energy/PLF/CUF levels based on wind power density/hydrological/irradiation studies or raw material availability at reasonable prices (for biomass/cogen units)
- Quality of energy assessment (wind/hydrological/irradiation studies)
- Revenue potential of the project
- Assessment of regulatory/policy framework.

Off-take/Counterparty Credit Risks

- Status of Off take Agreements
- Assessment of off take arrangements (PPAs etc) in place - Long term PPAs or short term merchant PPA
- Quality of signed PPA – availability of any exit options to off-taker, termination clauses (if any), payment security provisions (LCs, payment security fund, BG or not defined), deemed energy generation clauses etc
- Diversification benefits – PPAs with single or multiple counterparties
- Likely cost competitiveness in relation to other suppliers supplying to the same region
- State Policy (Assessment of regulatory/policy framework such as RPO and RPO enforcement which may impact off take)
- Track record of payment to power suppliers.

- State of state government finance (in case counterparty utilities are state-owned).
- Credit quality of off-taker (State discom/3rd party)

Funding and Financial Risks

- Expected project cost. Assessment of project equipment (Equipment suppliers track record in India, if available).
- Expected debt-equity mix.
- Nature of equity (convertible instruments, hybrid etc.)
- Expected cost of debt.
- Extent of Forex funding and hedging possibilities for management of forex risk.
- Status of debt and equity tie-ups.
- Assessment of cash flow adequacy in relation to debt servicing requirements based on key sensitive assumptions.
- Financial Decision parameters (DSCR & Project IRR)
- Access to cash flows/profits from other business, if available
- Financial support in form of corporate guarantees/sponsor undertakings/letter of comfort from other group entities.
- Status of liquidity reserves in the project

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