June 24, 2022

Vena Energy JMD Power Private Limited: Rating reaffirmed for existing limits and assigned for enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	127.99	130.00	[ICRA]A- (Stable); reaffirmed/assigned
Total	**127.99**	**130.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's rating continues to factor in the limited demand risk for the 26-MW wind power project of Vena Energy JMD Power Private Limited (VEJPPL/the company), given the long-term (25-year) power purchase agreement (PPA) with the Madhya Pradesh Power Management Company Limited (MPPMCL) for its entire capacity at a fixed tariff. The rating positively factors in the project's satisfactory operating track record since commissioning in March 2015; with the average plant load factor (PLF) from FY2016 to FY2022 remaining in line with its P-90 generation estimate of 24.9%. While the generation improved by ~9% year-on-year (YoY) in FY2022, it remained below the P-90 estimate. Nonetheless, the generation remained adequate in relation to the debt servicing requirements. Also, the revenue from generation-based incentive (GBI) benefit of Rs. 0.5 per unit (with a cap of Rs. 1 crore per MW) enhance VEJPPL's cash flows and provide additional comfort.

The company refinanced its entire project debt in March 2022, extending the repayment tenure by four years and reducing the interest rate by 65 bps. Moreover, the interest rate remains fixed for a period of five years for this loan facility. The company availed a top-up debt of ~Rs. 12.5 crore as part of the refinancing. The satisfactory operating performance, the long-tenure of the project debt and the competitive interest rate is expected to lead to comfortable debt coverage metrics for the company, going forward.

The rating, however, is constrained by the single location and single asset nature of the company's operations and the vulnerability of revenues and cash flows to wind power density and seasonality, given the single-part tariff under the PPA. The rating is also constrained by the susceptibility of cash flows to counterparty credit risks arising from the exposure to MPPMCL, which has a weak financial profile. The payment cycle from MPPMCL has increased to over 12 months as of May 2022 from eight months as of March 2021.The financial profile of the discoms in Madhya Pradesh is constrained due to high distribution losses and inadequate tariff in relation to the cost of supply. Nonetheless, the company's liquidity profile remains adequate, supported by the two-quarter DSRA and free cash balances of Rs. 25.08 crore, which would be sufficient to meet the debt obligations over the ensuing 21 months. Further, wind power projects, including VEJPPL, which have higher tariff than the average power purchase cost of the state distribution utilities, are exposed to the risk of grid curtailment as seen in a few other states, though Madhya Pradesh has not witnessed any such cutback so far.

ICRA notes that the sponsor contribution towards VEJPPL is largely funded through non-convertible debentures (NCDs) subscribed by the project sponsors, which are subordinated to the project debt. The interest payment on the sponsor NCDs is subject to the restricted payment conditions stipulated under the loan agreement. ICRA also notes that the company's operations remain exposed to the regulatory challenges of implementing the scheduling and forecasting framework of the State Electricity Regulatory Commission (SERC) of Madhya Pradesh. This is mainly due to the limited experience of the industry players in India in scheduling and forecasting and the highly variable nature of wind energy generation. Nonetheless, the financial implication under these regulations is yet to be implemented in Madhya Pradesh.

The Stable outlook assigned to the company factors in the revenue visibility offered by the long-term PPA with MPPMCL, the experience of the management in operating wind power plants and the company's adequate liquidity position.

Key rating drivers and their description

Credit strengths

Limited demand and tariff risks – VEJPPL has signed a long-term PPA with MPPPCL for the entire capacity at the approved feed-in tariff rate for 25 years, thereby mitigating demand and pricing risks. Besides, the registration of the project for availing a GBI benefit of Rs. 0.5 per unit augurs well for the project, enhancing its cash flows.

Satisfactory operating track record of wind power capacity under VEJPPL – The operating track record of the 26-MW capacity under VEJPPL remains satisfactory, with the average PLF over FY2016-FY2022 remaining in line with the P-90 estimate. However, the generation remained lower than the initial P-90 estimate in the last two years due to a weak wind season. Nonetheless, the generation improved in FY2022 over FY2021 and is adequate for the debt servicing requirement.

Long tenure of project debt with interest rate fixed for five years; coverage metrics expected to remain comfortable – The company has refinanced the project debt in March 2022, leading to a longer repayment tenure and lower interest rate, which is fixed for five years. The demonstrated wind power generation, the remunerative tariff rate and a competitive interest rate are expected to result in comfortable debt coverage metrics for the project debt, with cumulative DSCR estimated to remain at 1.3 times.

Credit challenges

Single asset operations; sensitivity of debt metrics to energy generation – VEJPPL is entirely dependent on power generation by the wind power project for its revenues and cash accruals, given the single-part tariff. As a result, any adverse variation in wind conditions may impact the PLF and consequently, the cash flows. The single location of the company's operations amplifies this risk. Nonetheless, the track record of generation demonstrated so far is a source of comfort.

Counterparty credit risks from exposure to MPPMCL – The company's counterparty credit risks remain high owing to its exposure to MPPMCL, which has a weak financial profile. The payment cycle has increased to over 12 months as of May 2022 from eight months as of March 2021. Nonetheless, the liquidity profile of the company is supported by the two-quarter DSRA and free cash available.

Exposure to interest rate movement –The company's debt metrics remain exposed to the movements in interest rates given the fixed tariff under the PPA and the leverage capital structure. However, this risk is mitigated for the company over the medium term as the interest rate on the long-term debt is fixed for a period of five years from March 2022.

Grid curtailment risk due to relatively high tariff – Given the relatively high PPA tariff of the project and the absence of a deemed generation clause, the company's operations remain exposed to the risk of grid curtailment in the future as seen in a few other states. However, Madhya Pradesh has not seen any such cutback so far.

Challenges of implementing forecasting and scheduling regulations – The regulatory challenges of implementing the scheduling and forecasting framework for wind power projects in Madhya Pradesh pose a risk. This is mainly because of the variable nature of wind energy generation.

Liquidity position: Adequate

The liquidity profile of the company remains adequate, supported by a two-quarter DSRA and free cash balances, amounting to Rs 25.08 crore as on June 7, 2022. This includes a two-quarter DSRA of Rs 6.62 crore, an O&M reserve of Rs 2.00 crore and cash & cash equivalents of Rs 16.46 crore. Although, the company has a working capital limit of Rs. 16.70 crore, it is fully utilised as on May 31, 2022. The available DSRA and free cash balance would allow the company to largely meet its expenses and repayment obligations over the next 21 months.

Rating sensitivities

Positive factors – ICRA could upgrade VEJPPL's rating if the company is able to improve its receivable position on a sustained basis and achieve a healthy generation performance, with PLF higher than the historical average on a sustained basis.

Negative factors – Negative pressure on VEJPPL's rating could arise in case of further delays in payments from the Madhya Pradesh discoms, weakening its liquidity position. Also, any under-performance in generation by the wind power project, weakening the cumulative DSCR on project debt to less than 1.25 times, would be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Wind Power Producers]
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone profile.

About the company

VEJPPL, incorporated in June 2014, is a special purpose vehicle (SPV) promoted by Vena Energy Wind (India) Renewables Pte Limited, Singapore, which is held by Vena Energy (India) Holdings Pte Limited (earlier known as Equis Energy). Vena Energy (India) Holdings Pte Limited is further held by Global Infrastructure Partners. Global Infrastructure Partners is an independent infrastructure fund manager, which manages US$ 40 billion for its investors. VEJPPL operates a 26-MW wind power project at Jamgodrani in the Dewas district of Madhya Pradesh, which was commissioned in March 2015. The project was developed by Siemens Gamesa Renewable Power Private Limited (SGRPPL) on a turnkey basis, which also manages the operations and maintenance of the plant. The company has a long-term PPA with MPPMCL at a tariff rate of Rs. 5.92 per unit. The Group has an operational wind power capacity of 414 MW and an operational solar power capacity of 200 MW across Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra and Telangana.

Key financial indicators (audited)

VEJPPL Standalone	FY2020	FY2021	FY2022#
Operating income (Rs. crore)	36.4	31.0	34.2
PAT (Rs. crore)	2.3	1.3	1.0
OPBDIT/OI (%)	79.3%	69.2%	74.1%
PAT/OI (%)	6.2%	4.1%	3.0%
Total outside liabilities/tangible net worth (times)*	-99.9	-376.8	551.5
Total debt/OPBDIT (times)	6.1	8.2	11.9
Interest coverage (times)	1.5	1.1	1.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; (#) – Provisional;

**Not meaningful as the ratio considers promoter NCDs as debt, due to which tangible net worth is negative for FY2020 and FY2021*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating as on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					June 24, 2022	-	March 23, 2021	January 24, 2020
1	Term Loan	Long-term	130.0	130.0	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan	Mar-2022	-	FY2037	130.00	[ICRA]A- (Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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