July 29, 2022 (Revised)

Azure Power Thirty Eight Private Limited: Ratings reaffirmed; removed from watch with developing implications; Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund based TL	55.16	40.69	[ICRA]BBB(Stable); reaffirmed and removed from watch with developing implications
Total	**55.16**	**40.69**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in the financial flexibility and managerial strength that Azure Power Thirty Eight Private Limited (APTEPL) derives from its parent, Radiance Renewables Private Limited (RRPL, rated [ICRA]A(Stable)/A2+), which is backed by Green Growth Equity Fund (GGEF). National Investment and Infrastructure Fund (NIIF) and Department of International Development (DFID), Government of UK are the anchor investors in GGEF. RRPL is in the process of acquiring 153 MW rooftop portfolio from Azure Power India Limited (APIPL) and the transaction is expected to be completed by H1 FY2023. While RRPL currently holds a minority stake in the company, (APIPL holds 51.4%), it is expected to acquire the balance stake by November 2024 after the expiry of a five-year lock-in period for APIPL to retain majority stake. Complete operational control wrests with RRPL.

The rating is constrained by the sub-optimal performance of the 16 MW distributed rooftop capacity of APTEPL with the generation remaining substantially lower than P90 estimates necessitating promoter support for meeting funding shortfall/ debt servicing in FY2022. The company has started engaging with the offtaker, Delhi Jal Board (DJB) to address some of the issues relating to tree cutting/ shadowing and availability of adequate water to clean the modules in addition to billing and subsequent payment of deemed energy for FY2022. ICRA expects that these steps, coupled with the integration of the company's rooftop assets with RRPL's own centralised monitoring systems should result in a gradual improvement in the generation performance of the company from H2 FY2023 onwards.

Rating concerns also emanate from the significantly delayed and erratic payment schedule of DJB which exerts pressure on the company's cash flows and liquidity position. The liquidity position of the company is supported by a two-quarter debt servicing reserve account in the form of fixed deposits, as per the project financing requirements, which is expected to be dipped or invoked prior to the due date if the operating cash flows are inadequate for debt servicing. Additionally, ICRA expects RRPL to bring in funding support in case of cash flow mismatches and ensure timely debt servicing on part of APTEPL.

The Stable outlook on the rating reflects ICRA's opinion that APTEPL will continue to benefit from its strong operations and maintenance infrastructure and timely and adequate funding support from parent RRPL in addition to expected improvements in the company's underlying generation performance.

Key rating drivers and their description

Credit strengths

Strong parent support from Radiance – APTEPL derives superior financial flexibility and managerial strengths from its strong parent RRPL, which is backed by Green Growth Equity Fund (GGEF). National Investment and Infrastructure Fund (NIIF) and

Department of International Development (DFID), Government of UK are the anchor investors in GGEF. RRPL, on a consolidated basis, has an operational capacity of over 300MWp+ till date which is expected to increase to 600 MWp+ by FY2023. APTEPL is, thus, expected to benefit from superior operations and maintenance capabilities and the strong financial flexibility of its parent RRPL.

Revenue visibility due to a long-term PPA with Delhi Jal Board – APTEPL has low offtake risk, because of its 25-year PPA with Delhi Jal Board at a remunerative fixed tariff of sub-Rs. 5 per unit for the 16-MW rooftop plants. The PPA provides long-term revenue visibility for the company. The tariff continues to be competitive and at a discount of 20%+ with respect to the grid tariff for DJB.

Liquidity supported by fully funded DSRA and timely support from parent– The company has created a full two-quarter-DSRA of Rs. 3.7 crore as on March 31, 2022 in the form of fixed deposits. ICRA expects the same to be utilised first prior to the due date if the project cash flows are insufficient for debt servicing , lending comfort to the company's liquidity position. In addition, ICRA expects timely and adequate funds for meeting any cash flow mismatches and ensuring timely debt servicing on part of APTEPL which further supports the liquidity position.

Credit challenges

Lower than P90 generation – The 16 MW distributed rooftop achieved a PLF of 9.38% in FY2022 against 12.2% in FY2021 owing to various issues including shadowing, inadequate cleaning. ICRA expects the company's efforts to engage with the offtaker to address these issues, along with the integration of the company's rooftop assets with RRPL's own centralised monitoring systems, to result in gradual improvement in the generation performance from H2 FY2023 onwards.

Counterparty credit risk with Delhi Jal Board (DJB) being the sole offtaker - The counterparty credit risk for APTEPL is high as DJB offtakes all the power generated from the plant for the entire duration of 25 years of the project. At present, the company has received payments at an erratic frequency due to invoice processing issues at DJB, with the receivable cycle exceeding 12 months. The progress in the collection of arrears and a sustained improvement in the receivable pattern remain key rating monitorables.

Cash flows vulnerable to variation in weather conditions – Key factors that may impact the operations of the solar plant are the solar radiation levels, losses in PV systems due to temperature and climatic conditions, design parameters of the plant, inverter efficiency and module degradation due to ageing. Given the fixed & single part nature of tariff, the company's revenues and in turn the cash flows remain exposed to the weather patterns, affecting the solar irradiation levels & hence the solar generation level.

Liquidity position: Adequate

The liquidity profile of the company is adequate reflected in the availability of a DSRA of Rs 3.7 crore maintained in fixed deposits and free cash of Rs 1.3 crore as on March 31, 2022. Going forward the internal cash flow generation from the project is expected to be sufficient to meet the debt servicing obligations with the generation expected to improve through the various measures being adopted by the company. In case of a shortfall in cash flow generation, ICRA expects the promoter group to infuse additional funds to meet the cash flow mismatch, if any.

Rating sensitivities

Positive factors - ICRA could upgrade APTEPL's rating if its actual generation level is in line with the P90 estimates on a sustained basis, leading to healthy cash accruals. Correction in the elongated receivable position or a DSCR above 1.10 times on a sustained basis will also support an upgrade.

Negative factors - Negative pressure on APTEPL's rating could arise if the actual PLF remains lower than 11% on a sustained basis and/or there is further deterioration in the receivable cycle, adversely impacting the liquidity position of the company. Also, the rating could be revised downwards if its linkage with the parent weakens or if the credit profile of its parent. i.e., Radiance Renewables Private Limited, deteriorates.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Implicit Parent or Group Support
Parent/Group Support	Parent – RRPL holds 48.6% stake in Azure Power Thirty Eight and even though the majority stake is with APIPL, RRPL has complete operational control of APTEPL. The assigned rating derives comfort from the strong parent support of RRPL which is expected to meet the funding requirements or cash flow mismatches of APTEPL, as and when required
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

APTEPL was incorporated in 2008 as a subsidiary of Azure Power India Pvt. Ltd. (APIPL) . RRPL has recently acquired a 48.6% stake in April/ May 2022 from APIPL, which presently holds a 51.4% stake in the company. This balance stake is to be transferred to RRPL after the expiry of the PPA lock-in period of five years in November 2024.

APTEPL has set up a solar power capacity of 16 MW (on various rooftops) across 67 project locations provided by the Delhi Jal Board (DJB). These projects are set up under the RESCO model wherein the consumer (DJB) pays only for the electricity generated, while the solar plant is owned by the RESCO developer (Azure Group).

Key financial indicators

	FY2021	FY2022 (Provisionals)
Operating income (Rs. crore)	7.5	6.5
PAT (Rs. crore)	-18.9	-4.8
OPBDIT/OI (%)	73.6%	81.6%
PAT/OI (%)	-250.9%	-73.9%
Total outside liabilities/tangible net worth (times)	4.5	7.2
Total debt/OPBDIT (times)	12.0	12.8
Interest coverage (times)	0.9	0.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Status of non-cooperation with previous CRA: Not Available

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 in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					29-Jul-2022	14-Apr-2021		18-Mar-2020
1	Long Term Fund based TL	Long Term	40.69	40.69	[ICRA]BBB(Stable)	[ICRA]BBB&	-	[ICRA]BBB(Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term Fund based TL	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	June 2017	NA	December 2033	40.69	[ICRA]BBB(Stable)

Source: *Company*

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

Corrigendum

Rationale dated July 29, 2022 has been revised with the changes as below:

Financials for FY2022 (Provisionals) have been revised in the Key financial indicators mentioned on Page 2

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About ICRA Limited:

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