May 31, 2023

# Pipartoda Renewable Energy Private Limited: Rating reaffirmed

## Summary of rating action

| Instrument* | Previous rated amount (Rs. Crore) | Current rated amount (Rs. crore) | Rating action |
|---|---|---|---|
| **Long term – Fund based - Term loan** | 177.00 | 133.29 | [ICRA]A+ (Stable); reaffirmed |
| **Total** | **177.00** | **133.29** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating reaffirmation factors in the revenue visibility for the 26-MW wind power project of Pipartoda Renewable Energy Private Limited (PREPL) because of its 25-year long-term power purchase agreement (PPA) with Gujarat Urja Vikas Nigam Limited (GUVNL) [rated [ICRA]AA-(Stable)/ [ICRA]A1+] at a fixed tariff. Further, the counterparty credit risk for PREPL is low, given the strong financial profile of GUVNL and as observed from the timely payments received so far.

While the generation performance of the wind power plant weakened in FY2023 over the previous year due to weaker wind season, the cash flows remained adequate for the debt servicing requirement. Moreover, the liquidity profile is supported by the presence of a two-quarter DSRA. Further, the rating considers the extensive experience of the operations and maintenance (O&M) contractor – Gamesa Renewable Private Limited (Gamesa) – for the plant. The rating also notes the managerial and operational strength derived from the parentage of PREPL as it is a 50-50 joint venture (JV) between the EDF Group and the Sitac Group.

The rating is, however, constrained by the vulnerability of the company's cash flows to the variation in weather conditions, as the tariffs are single part in nature. This was evident in FY2021 and FY2023, when the generation was impacted by a weak wind season, leading to a decline in cash flows over the previous years. The generation performance shall continue to remain a key monitorable for the company.

The rating also considers the asset concentration risk as it has a single facility in Gujarat and the exposure of the company's debt coverage metrics to the interest rate movement, given the floating interest rates and leveraged capital structure. Further, PREPL's operations remain exposed to the regulatory risks of meeting the scheduling and forecasting requirements applicable for renewable energy projects.

The Stable outlook on the rating reflects ICRA's opinion on the high visibility of the company's revenue and cash flows, supported by the long-term PPA and timely payments from the offtaker.

## Key rating drivers and their description

### Credit strengths

**Revenue visibility of projects** – PREPL has a long-term PPA for 25 years at a tariff of Rs. 4.15 per unit with GUVNL for its full 26-MW capacity. The long-term PPA for the project with the state utility limits offtake risks and provides revenue visibility.

**Low counterparty credit risk with timely payments from offtaker, GUVNL** - As GUVNL offtakes the entire quantum of the power generated, PREPL remains exposed to the discom's credit risk profile. However, GUVNL [rated [ICRA]AA-(Stable)/[ICRA]A1+] has been making timely payments against invoices with the average receivable days of the plant remaining less than 10 since its commissioning. Moreover, the overall financial profile of Gujarat-based discoms remains strong, and hence the counterparty credit risk for PREPL is low.

**Experienced O&M contractor for plant** – PREPL has an O&M contract with Gamesa for 10 years from the date of commencement of operations. Gamesa is an established player in this segment, with considerable capacity installations in India. There are clear guarantees for machine availability, reactive power and power curve from the contractor. However, the extent of these guarantees may not compensate PREPL to the full extent.

**Satisfactory coverage metrics and strong liquidity profile** - The company's leverage level remains high owing to the largely debt-funded nature of the project. Nonetheless, the company's debt coverage metrics are expected to remain adequate, over the debt tenure supported by the PPA at a fixed tariff and the long tenure of the project debt. Also, the company's liquidity profile has remained strong with DSRA and free cash balances equivalent to ~9 months of debt servicing as on April 30, 2023.

**Operational and managerial strengths from JV partners EDF Group and Sitac Group** – PREPL is a 50-50 JV between the EDF Group and the Sitac Group. EDF is a French electric utility company, majorly owned by the French Government. EDF operates ~123-GW capacity (as of December 2022 end) globally, comprising nuclear, gas/fossil-based, hydro and renewable capacity. EDF is among the largest energy producers in the world and a major part of its capacity is in Europe. The presence of resourceful promoters provides operational and managerial strengths to the company.

## Credit challenges

**Vulnerability of debt coverage metrics to energy generation –** Given the single-part tariff under the PPA, the company's cash flows would be linked to the generation by its wind power plant. The generation would be sensitive to weather conditions, equipment quality and O&M practices. The geographic concentration of the assets amplifies the generation risk. PREPL's generation performance was impacted in FY2023 due to lower wind speed at the project site. While the company's generation performance remained below the P-90 estimate since CoD, the performance remains satisfactory in relation to the cash flows required to service debt. The generation performance would remain as a key credit monitorable for the company.

**Interest rate risk –** The company's debt coverage metrics remain exposed to any movement in interest rates given the leveraged capital structure and the single-part nature of the PPA tariff, as the floating interest rates are subject to regular resets.

**Regulatory risks** - The company's operations are exposed to regulatory risks pertaining to the scheduling and forecasting requirements for wind power projects.

## Liquidity position: Strong

The liquidity profile of the company is strong, reflected in the buffer available between cash flows and debt obligations, along with the available liquidity. The company is expected to generate cash flows of Rs. 11.0-11.5 crore in FY2024 against the scheduled debt repayment obligation of Rs. 9.9 crore. Further, the company has unencumbered cash balances of Rs. 4.78 crore and DSRA balance of Rs. 12.42 crore as on April 30, 2023; the liquidity is sufficient to cover the debt obligations over the next ~9 months.

## Rating sensitivities

**Positive factors –** ICRA may upgrade PREPL's rating if the company demonstrates a healthy generation performance above the historical average that would improve the credit metrics along with maintaining a strong liquidity profile.

**Negative factors –** The rating may be revised downwards if a decline in generation adversely impacts the company's coverage metrics and liquidity profile. A specific credit metric that may lead to a downgrade includes the cumulative DSCR staying below 1.25 times on a sustained basis. Also, delays in receiving payments from the counterparty, which will adversely impact the liquidity profile of the company, could be a negative trigger.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Wind Power Producers |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | The rating is based on the standalone financial profile of the rated entity |

## About the company

PREPL operates a 26-MW wind power project at Jamnagar, Gujarat. The project comprises 13 2-MW turbines from Gamesa (G114 model). The EPC and O&M contractor for the project is Gamesa. The project has a 25-year PPA with GUVNL for the entire capacity and the plant commenced generation from March 2017. The applicable tariff (feed-in tariff) for the project is Rs. 4.15 per unit.

PREPL is a 50-50 JV between the EDF Group and the Sitac Group. EDF is a French electric utility company in which the French Government owns a majority stake. EDF operates ~123-GW capacity (as of December 2022) globally, comprising nuclear, gas/fossil-based, hydro and other renewable capacity. The Sitac Group is promoted by Mr. Malvinder Singh and is involved in the construction business in India and abroad (West Asia), apart from being present in the renewable energy business.

## Key financial indicators

| PREPL Standalone | FY2021 | FY2022 |
|---|---|---|
| **Operating income (Rs. crore)** | 31.5 | 35.4 |
| **PAT (Rs. crore)** | -2.2 | 2.3 |
| **OPBDIT/OI (%)** | 79.7% | 79.3% |
| **PAT/OI (%)** | -7.1% | 6.6% |
| **Total outside liabilities/Tangible net worth (times)*** | 8.5 | 7.5 |
| **Total debt/OPBDIT (times)*** | 6.9 | 5.8 |
| **Interest coverage (times)*** | 1.3 | 1.7 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

**The leverage and coverage ratios include promoter contribution in the form of subordinated debt*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. Crore) | Amount outstanding as on April 30, 2023 (Rs. Crore) | Date & rating | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | May 31, 2023 | - | Mar 23, 2022 | Feb 12, 2021 |
| 1 | Term loan | Long-Term | 133.29 | 133.29 | [ICRA]A+ (Stable) | - | [ICRA]A+ (Stable) | [ICRA]A (Stable) |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| 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: Click Here

**Annexure I: Instrument details**

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | **Term loan - I** | June 2018 | - | FY2035 | 56.48 | [ICRA]A+ (Stable) |
| NA | **Term loan - II** | July 2018 | - | FY2035 | 76.81 | [ICRA]A+ (Stable) |

*Source: Company*

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

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