

July 11, 2023

Vena Energy Vidyuth Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Long term – Fund based - Term loan	1024.40	[ICRA]BBB+ (Stable); assigned
Long term – Fund based - Overdraft	25.00	[ICRA]BBB+ (Stable); assigned
Short term – Letter of credit (interchangeable with term loan)#	(742.90)	[ICRA]A2; assigned
Unallocated limits	0.60	[ICRA]BBB+ (Stable); assigned
Total	1050.00	

*Instrument details are provided in Annexure-1; #Sublimit of term loan

Rationale

ICRA's assigned ratings for Vena Energy Vidyuth Private Limited (VEVPL) factors in the limited demand and tariff risks resulting from the presence of a long-term power purchase agreement (PPA) of 25 years with a strong counterparty – Solar Energy Corporation of India (SECI) - for its blended wind-solar project of 160 MW, at a fixed tariff rate. SECI is an intermediary counterparty and has signed a power supply agreement (PSA) with the state-owned distribution utilities (discoms) of Madhya Pradesh for supply from this project. The tariff offered by the company is competitive and at a significant discount to the average power purchase cost of the ultimate procuring discoms.

The offtaker – SECI (rated [ICRA]AAA (Stable)/[ICRA]A1+) – has a strong credit profile, which is expected to result in timely receipt of payments for the project, post commissioning. SECI is included in the tripartite agreement (TPA) with the Government of India, the Reserve Bank of India and the state governments, which guards against payment delays from the discoms. Further, given the long-term PPA at a reasonable tariff, the debt coverage metrics are expected to be satisfactory, post commissioning, subject to the project achieving the P-90 generation estimate.

However, the ratings are constrained by execution risks, given the under-construction status of the project with pending construction work for equipment installation, pooling sub-station and transmission line to the grid sub-station. This risk is partly mitigated by the availability of majority of the land for the project, delivery of equipment at site, and advance progress in the installation of the wind turbine generators (WTGs) and evacuation infrastructure. However, given the ongoing construction of the grid sub-station at Gadag, any delays in the commissioning of this sub-station would adversely impact the commissioning timeline for VEVPL.

The scheduled commissioning date (SCOD) of the project was shifted to December 30, 2023 from the earlier SCOD of March 31, 2023, owing to the delays in regulatory approvals for tariff adoption and PPA. The CoD timeline provides sufficient buffer for project stabilisation, with the debt repayment scheduled to commence in June 2024. Also, the funding risks for the project remain limited, considering the tie-up of requisite debt funding and infusion of 73% of promoter funding. Herein, comfort is drawn from the presence of an experienced sponsor group, Vena Energy (which is ultimately held by Global Infrastructure Partners), with a track record of developing and operating 2.7 GW of renewable portfolio across Australia, India, Indonesia, Japan, Philippines, Taiwan, and Thailand.

Post commissioning, the company's cash flows and debt protection metrics would remain sensitive to its generation performance, given the single-part tariff under the PPA. Any adverse variation in weather conditions and equipment performance can impact the generation levels and consequently the cash flows. The demonstration of generation performance in line with or above the appraised P-90 PLF level would remain a key credit monitorable.

ICRA also notes that VEVPL's debt coverage metrics remain exposed to the interest rate movement as the floating interest rates are subject to regular resets and a leveraged capital structure with the project being funded through debt and promoter contribution of 75:25. Also, the existing facility has a tenure of 5 years, with a refinancing requirement in FY2028. The ability to secure long-term debt at a competitive interest rate would remain a monitorable for the company. Further, the company's operations remain exposed to regulatory risks associated with forecasting & scheduling regulations.

The Stable outlook on the rating factors in the satisfactory progress in construction and the steady cash flow visibility post project commissioning, aided by the long-term PPA and timely collections expected from the offtaker.

Key rating drivers and their description

Credit strengths

Revenue visibility due to long-term PPA; superior tariff competitiveness for ultimate offtakers - VEVPL has signed a PPA for 25 years at a fixed tariff of Rs. 2.99 per unit with SECI for 160-MW capacity, providing revenue visibility, post commissioning. The PPA includes provisions for compensation in case of grid curtailment and backdown and termination payments in case of occurrence of such an event. The PPA also has a provision for additional tariff compensation under change-in-law in case of any changes in the rates such as GST rate and basic customs duty (BCD), resulting in a change in project cost. As the project is incurring additional cost owing to the increase in GST rate for renewable power projects and BCD on imported modules post the bidding date, a suitable tariff hike is expected to offset the cost impact. The timely review and approval of such additional tariff by the concerned regulators remains important. SECI has tied up PSA with Madhya Pradesh discoms for supply from this project. The tariff offered by VEVPL remains highly competitive in relation to the average power purchase cost of the discoms, providing additional comfort.

Presence of strong counterparty expected to result in timely payments - Given the strong credit profile of the counterparty - SECI (rated [ICRA]AAA (Stable) / [ICRA]A1+) - and its payment track record for other renewable energy projects, the payments are expected to remain timely for VEVPL, post commissioning. The TPA with the Government of India, the Reserve Bank of India and the state governments provides comfort against payment delays by the discoms to SECI. Also, SECI is expected to open a letter of credit equal to an average one-month billing as payment security to VEVPL.

Satisfactory debt coverage metrics expected, post commissioning – The company's debt coverage metrics are expected to be adequate, post commissioning, supported by the long-term PPA at a reasonable tariff, availability of project debt at a competitive interest rate and subject to meeting the P-90 generation estimate. The additional tariff to compensate for the higher costs incurred for the hike in GST and hike in BCD on imported modules under the change-in-law provisions of the PPA, once approved, is expected to aid the debt coverage metrics.

Established track record of Vena Energy Group in renewable energy sector – The Group has an established track record in the renewable energy sector, developing and operating 2.7 GW of renewable portfolio across Australia, India, Indonesia, Japan, Philippines, Taiwan, and Thailand as of December 2022. In India, the Group has an operating portfolio of over 700 MW across multiple states.

Credit challenges

Execution risk as project is under-construction; pending completion of grid sub-station – The project is currently under construction with the SCOD in December 2023. While the company has secured majority of the required land for the project, the approval for non-agriculture conversion for a part of the land is pending. Moreover, construction work is ongoing for the main plant, pooling sub-station and the transmission line, thereby exposing the company to execution-related risks. Herein, comfort is drawn from the availability of equipment at site, the advance progress in construction and the track record of the sponsor group in developing renewable power projects.

Also, the funding risks for the project remain limited, with the required debt tied up and 73% of the promoter funding infused. However, the grid sub-station at Gadag is under-construction with scheduled commissioning by September 2023; any delays herein would adversely impact the commissioning timeline for VEVPL's project. For the connectivity from the pooling sub-station to the Gadag sub-station, 85% of the tower erection has been completed, while ~43% of the stringing has been completed. The transmission line is expected to be completed by September 2023, in line with the CoD timeline for Gadag sub-station.

Vulnerability of debt coverage metrics to energy generation – Given the single-part tariff under the PPA, the cash flows of the company would be linked to the generation achieved by its blended wind-solar project. The generation would be sensitive to weather conditions, equipment quality and O&M practices. The geographic concentration of the asset amplifies the generation risk. The demonstration of generation performance in line or above the appraised P-90 PLF levels remains a key credit monitorable, post commissioning.

Debt coverage metrics exposed to interest rate movement, given the high leverage level; refinancing requirement in FY2028 – The company's debt coverage metrics remain exposed to the movement in interest rates with the floating interest rates being subject to regular resets and a leveraged capital structure. Also, the existing project debt has a tenor of 5 years, with refinancing requirement in FY2028. The ability to secure long-term debt at a competitive interest rate would remain a monitorable. Also, any significant delays in getting approval for the additional tariff under change-in-law would adversely impact the project debt coverage metrics.

Regulatory risks from forecasting and scheduling regulations - The company's operations, post commissioning, will be exposed to regulatory risks pertaining to the scheduling and forecasting requirements for solar and wind power projects, given the variable and intermittent nature of generation, and tightening penal provisions under the regulations notified by the Central Electricity Regulatory Commission (CERC).

Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate with the availability of debt and promoter funding sufficient to commission the project. Post commissioning, the cash flows from operations are expected to be sufficient to cover the debt servicing obligations, with sufficient buffer between SCOD (Dec'23) and repayment commencement date (June'24) for project stabilisation. Also, the project is expected to have a debt service reserve account (DSRA) of one quarter and additional cash reserve (ACR) of one quarter, which is to be created upfront.

Rating sensitivities

Positive factors – ICRA could upgrade VEVPL's ratings following the successful commissioning and stabilisation of the project without any major cost overruns.

Negative factors – VEVPL's ratings can be downgraded in case of significant delays in commissioning the project or large cost overruns, impacting the project's debt coverage metrics. The ratings may also be downgraded if the actual generation performance, post commissioning, is lower than the P-90 level on a sustained basis or if there are delays in payments from the

offtaker, impacting its liquidity profile. Further, the ratings could be downgraded in case of significant delays in implementation of the additional tariff under change-in-law on account of increase in costs related to GST/BCD on the equipment procured.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers 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

VEVPL is a subsidiary of Vena Energy (India) Renewables II Pte Ltd, Singapore, which is held by Vena Energy (India) Holdings Pte Limited (earlier known as Equis Energy) and ultimately by Global Infrastructure Partners. The company is setting up a blended wind-solar power project at Gudaddur in Kustagi Taluk, Koppal district in Karnataka, with an aggregate capacity of 164.45 MW (133.2 MW wind and 31.25 MW solar) and a contracted capacity of 160 MW. The PPA has been signed for 160-MW capacity with SECI for a tenure of 25 years. The project is under construction with the commissioning expected by December 2023. The debt to equity (including promoter debt) ratio for funding the project cost is 75:25.

Key financial indicators – Not applicable as the project is not operational yet.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years		
		Amount rated (Rs. Crore)	Amount outstanding as on May 11, 2023 (Rs. Crore)	Date & rating July 11, 2023	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
1	Term loan	1024.40	135.00	[ICRA]BBB+ (Stable)	-	-	-
2	Overdraft	25.00	-	[ICRA]BBB+ (Stable)	-	-	-
3	Letter of credit*	(742.90)	(643.50)	[ICRA]A2	-	-	-
4	Unallocated limits	0.60	-	[ICRA]BBB+ (Stable)	-	-	-

*Sublimit of term loan

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Letter of credit	Very Simple
Overdraft	Simple

Unallocated

NA

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	Dec 2022	-	Dec 2027	1024.40	[ICRA]BBB+ (Stable)
NA	Overdraft	-	-	-	25.00	[ICRA]BBB+ (Stable)
NA	Letter of credit*	-	-	-	(742.90)	[ICRA]A2
NA	Unallocated limits	-	-	-	0.60	[ICRA]BBB+ (Stable)

Source: Company; *Sublimit of term loan

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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