**December 26, 2024**

# Avaada Inclean Private Limited: [ICRA]A- (Stable) assigned

## Summary of rating action

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|
| Long-term fund-based – Term loan | 1329.70 | [ICRA]A- (Stable); assigned |
| Long term – Non-fund based - Interchangeable | (1329.70) | [ICRA]A- (Stable); assigned |
| Total | 1329.70 | |

**Instrument details are provided in Annexure-I*

## Rationale

The rating assigned for Avaada Inclean Private Limited (AIPL) factors in the strong parentage of Avaada Energy Private Limited (AEPL), which has an established track record in the renewable energy sector with an operating renewable power portfolio of 4.6 GWp and under-development capacity of another ~16.2 GWp. AEPL is promoted by Avaada Ventures Private Limited (AVPL). At present, AVPL holds a 57% stake in AEPL and Global Renewable Synergy Company (a part of PTT Group, Thailand) 43%. While the committed equity and available cash within the Group will enable AEPL to scale up its portfolio in the near to medium term, the Group is exploring options to raise further capital to finance its underdevelopment portfolio. The long-term power purchase agreements (PPAs) at competitive tariffs, the satisfactory generation performance of the assets under AEPL and the availability of long-term project finance at competitive interest rates are expected to result in adequate debt coverage metrics for the Group, going forward.

The rating also factors in the limited demand and tariff risks for AIPL due to the presence of a 25-year long-term power purchase agreement (PPA) with Damodar Valley Corporation for its entire solar power capacity of 300 MWac at a fixed tariff. The project was awarded through a tariff-based competitive bidding process held by REC Power Development and Consultancy Limited. The superior tariff competitiveness offered by the project is a credit positive for the company. The company has secured the required debt funding for the project and the equity funding is expected to be infused by AEPL in a timely manner. The long debt repayment tenure of 19 years at a competitive cost of debt is expected to lead to adequate debt coverage metrics for the company, post commissioning.

However, the rating is constrained by the execution risks given the under-construction status of the project. Nonetheless, comfort is drawn from the availability of ~90% of the required land, the ongoing progress in the construction of the transmission line and pooling substation and the track record of the Group in developing solar power projects. While the company proposes to commission the full project by June 30, 2025, the commissioning of the concerned grid substation is scheduled by August 14, 2025 (by end of June 2025 on a best effort basis, as per the connectivity approval). Therefore, the project commissioning remains linked to the operationalisation of the bay at grid substation. The scheduled commercial operations date (SCoD), as per the PPA, is September 14, 2025 and June 30, 2025 under the loan agreement.

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. This constraint would be amplified by the geographic concentration of the asset. Any adverse variation in weather conditions and equipment performance can impact the generation levels and consequently the cash flows. Therefore, a demonstration of generation performance in line or above the appraised P-90 PLF levels remains a key credit monitorable. The availability of an adequate moratorium period between the SCoD and the repayment start date (September 30, 2026) is expected to enable the company to build a cash flow buffer to meet the debt servicing obligations.

The company remains exposed to a single counterparty, DVC. However, comfort is drawn from the adequate credit profile of DVC with expectation of timely payments. The company is also exposed to interest rate risks, given the leveraged capital structure and floating interest rates, subject to regular resets. Further, the company's operations remain exposed to the regulatory risks associated with forecasting & scheduling regulations.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that AIPL would benefit from the presence of a long-term PPA for its solar power project and the track record of the group in developing and operating solar power projects.

## Key rating drivers and their description

### Credit strengths

**Experienced promoter group with a demonstrated track record in the renewable energy sector -** AIPL is a wholly-owned subsidiary of the renewable energy holding company of the Avaada Group i.e., AEPL, which has an established track record in the solar power sector. AEPL is backed by AVPL, which holds about a 57% stake and the remaining 43% stake is held by Global Renewable Synergy Company, which is a part of PTT Thailand. AEPL has an overall portfolio of ~20.8 GWp comprising an operating capacity of 4.6 GW and the balance being under development/under construction.

**Revenue visibility from long-term PPA at a fixed rate; superior tariff competitiveness -** AIPL has signed a 25-year PPA for the entire capacity at a fixed tariff with DVC, providing revenue visibility and limiting the demand and pricing risks. Further, comfort is drawn from the superior tariff competitiveness offered by the project.

**Debt coverage metrics expected to remain adequate, post commissioning –** AIPL's debt coverage metrics are expected to be adequate with the cumulative DSCR at over 1.2x over the debt tenure, supported by the long-term PPA , the long tenure of the debt and competitive interest rates. Also, the liquidity profile of the company, post commissioning, is expected to be supported by the presence of a one-quarter debt service reserve account (DSRA), which will be created on commissioning from the project cost.

### Credit challenges

**Execution risks -** The rating is constrained by execution risks, given the under-construction status of the project. Nonetheless, comfort is drawn from the availability of ~90% of the required land, the progress made in the construction of the transmission line and the pooling substation and the track record of the Group in developing solar power projects. Further, the grid substation bay is scheduled to be completed by August 14, 2025 (by end of June 2025 on a best effort basis, as per the connectivity approval). Any delay in the delivery of modules or commissioning of the grid substation would defer the project's commissioning and will remain a key credit monitorable for the company.

**Debt metrics of solar projects sensitive to PLF levels -** The company's debt coverage metrics remain exposed to the generation level, given the one-part structure under the PPA. Hence, any adverse variation in weather conditions and/or module performance may impact the PLF and consequently the cash flows. The geographic concentration of the asset at a single location amplifies the generation risk. The demonstration of performance, post CoD, remains to be seen.

**Exposure to counterparty credit profile -** The company remains exposed to the credit risk profile of DVC, which remains linked to the performance of its power generation assets and the payments from the state distribution companies. DVC was set up as a statutory corporation with shareholding by the Government of India, the Government of West Bengal and the Government of Jharkhand. Any significant delay in payments by the counterparty may stretch AIPL's receivable cycle and in turn adversely impact the overall liquidity profile; therefore, timely payments by the counterparty, post CoD, will be a key monitorable.

**Interest rate and regulatory risks -** The interest rate on the term loan availed by the company for its project is floating and subject to regular resets. The fixed tariff under the PPA and a leveraged capital structure expose AIPL's debt coverage metrics to the movement in interest rates. The company's operations are exposed to regulatory risks pertaining to the scheduling and forecasting requirements of solar power projects. However, the risk of variation is relatively low for solar power projects compared to wind power projects.

## Liquidity position: Adequate

The liquidity position of AIPL is supported by the tie-up of debt funding for its solar power project and the availability of adequate liquidity with the parent to infuse the equity requirement. AEPL had infused 31% of the promoter contribution as on September 30, 2024, and ~24% of the sanctioned term debt had been drawn as on October 31, 2024. Moreover, AEPL is expected to support the project in case of any cost overrun. The company does not have any debt repayment obligation in FY2025 and FY2026 and is expected to generate adequate cash flow from operations to meet the interest obligation, post CoD, in FY2026.

## Rating sensitivities

**Positive factors –** ICRA could upgrade AIPL's rating following the successful commissioning of the project without any major cost overruns along with the demonstration of a satisfactory generation performance in line or above the P-90 estimate and timely payments from the customer. Also, the rating would remain sensitive to the credit profile of its parent, AEPL.

**Negative factors –** AIPL's rating can be downgraded in case of significant delays in commissioning the project or large cost overruns, impacting the project's credit metrics. The rating may also be downgraded if the actual generation performance, after commissioning, is lower than the P-90 level on a sustained basis, pulling down the cumulative DSCR to less than 1.15x, or if there are delays in payments from the customer, impacting its liquidity profile. Further, the rating would remain sensitive to the credit profile of its parent, AEPL.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Power - Solar |
| **Parent/Group support** | The rating is based on the implicit support from the parent company, Avaada Energy Private Limited |
| **Consolidation/Standalone** | The rating is based on the standalone financials of the company |

## About the company

AIPL is an SPV set up by AEPL as its wholly-owned subsidiary. The company is developing a 421 MW (DC)/300 MW (AC) solar power capacity at Bhachau in the Kachchh district of Gujarat. The energy generated from the 421-MW solar plant will be evacuated at the 765/400/220kV Lakhadia grid substation. AIPL has signed a 25-year PPA at a fixed tariff with Damodar Valley Corporation (DVC). The scheduled CoD of the project under the PPA is September 14, 2025.

**Key financial indicators (audited): Not meaningful as the project is under construction**

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

### Any other information: None

## Rating history for past three years

| | Current (FY2025) | | | Chronology of rating history for the past 3 years | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | FY2024 | | FY2023 | | FY2022 | |
| Instrument | Type | Amount rated (Rs. crore) | Dec 26, 2024 | Date | Rating | Date | Rating | Date | Rating |
| **Term loan** | Long-term | 1,329.70 | [ICRA]A-(Stable) | - | - | - | - | - | - |
| **Non-fund based - Interchangeable** | Long-term | (1,329.70) | [ICRA]A-(Stable) | - | - | - | - | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term fund-based – Term loan** | Simple |
| **Long term – Non-fund based - Interchangeable** | 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 loan** | NA | NA | FY2046 | 1329.70 | [ICRA]A- (Stable) |
| **NA** | **Non-fund based - Interchangeable** | NA | NA | NA | (1329.70) | [ICRA]A- (Stable) |

*Source: Company*

*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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## 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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