

September 09, 2022

Green Infra Wind Power Projects Limited: [ICRA]A+(CE) (Stable) rating withdrawn; fresh rating of [ICRA]A+ (Stable) assigned

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------------------|--------------------------------------|-------------------------------------|--|
| Long term- fund based TL | 74.00 | 46.32 | [ICRA]A+(CE) (Stable) withdrawn; [ICRA]A+ (Stable) assigned simultaneously |
| Total | 74.00 | 46.32 | |

*Instrument details are provided in Annexure-I

Rationale

ICRA has withdrawn its rating of [ICRA]A+(CE) (Stable) for the bank loan facility of Green Infra Wind Power Projects Limited (GIWPPL) and has simultaneously assigned a fresh rating of [ICRA]A+ (Stable) for the rated facility. The rating action follows the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to the credit rating agencies (CRA) on April 22, 2022, and July 26, 2022, respectively, which does not permit the CRAs to consider the benefit of a co-obligor structure, irrespective of the presence of a common loan agreement, to assign credit enhanced (CE) ratings. Among other considerations, the [ICRA]A+(CE) rating assigned earlier to GIWPPL drew comfort from the presence of a co-obligor arrangement among the three special purpose vehicles (SPVs) of the Sembcorp Group – GIWPPL, Green Infra Wind Energy Project Limited (GIWEPL) and Green Infra Wind Generation Limited (GIWGL) – which had a joint obligation to service the total debt, so that any shortfall in meeting the debt obligation by any of the SPVs was to be met through surplus cash flows from the other SPVs in the structure. Taking cognisance of the same, ICRA had earlier assigned a rating of [ICRA]A+(CE) for these three SPVs.

ICRA's revised approach for rating such structures is based on its updated methodology published in Aug 2022 and available at www.icra.in.

The rating for GIWPPL has been arrived at by following the analytical steps as given below:

1. An assessment of the standalone credit profile of GIWPPL.
2. An assessment of the Group's credit profile by undertaking a consolidated assessment of the three SPVs in view of the cross-default linkages among them, and then further notching up the Group's notional rating based on expectations of implicit support from the Group's holding company, Sembcorp Green Infra Limited (SGIL)¹.
3. The final rating for the bank facility of GIWPPL (i.e., [ICRA]A+) is arrived at by suitably notching up the standalone rating after duly considering the Group's rating and the linkages between the standalone entity and the Group

In effect, the credit quality of the rated bank facility of GIWPPL is assessed as being the same, with or without the co-obligor structure. The rating of [ICRA]A+ so assigned aligns with the rating without explicit credit enhancement that had been disclosed by ICRA in its previous rating rationale published on June 18, 2021.

The rating assigned to GIWPPL factors in the company's strong parentage from being a part of the Sembcorp Group. Further, the rating favourably considers the improvement in GIWPPL's generation performance in FY2022 and 4M FY2023, supported

¹ ICRA notes that SGIL is being reverse merged into Green Infra Wind Energy Limited (GIWEL) (rated [ICRA]AA (Stable)/[ICRA]A1+)

by the repairs undertaken and improved maintenance activity. This, along with sizeable income from the sale of renewable energy certificates (RECs) following the resumption of trading in November 2021, has enabled the company to improve its debt coverage metrics in FY2022.

GIWPPL's revenue visibility is supported by the power purchase agreements (PPAs) with commercial and industrial (C&I) customers under the group captive structure at competitive tariff rates, which are at a discount to the retail grid tariffs. The rating also derives comfort from the comfortable credit profile of majority of the group captive customers, with a track record of timely realisation of payments. Going forward, the debt metrics are expected to remain comfortable, supported by PPAs at remunerative rates, adequate generation performance and a competitive interest rate, which is fixed for the entire debt tenure.

The rating is, however, constrained by the sensitivity of the debt metrics to the generation performance, given the single part tariff under the PPA. Any adverse variation in weather conditions and equipment performance may impact the PLF levels and consequently the cash flows and debt metrics. The rating further remains constrained by the lack of lock-in period and termination payments under the existing PPAs and the risks associated with the renewal of PPAs with the C&I customers at adequate tariff rates. ICRA also takes note of GIWPPL's susceptibility to regulatory risks associated with group captive norms, revision in open access charges and forecasting and scheduling norms.

The Stable outlook assigned to the long-term rating of GIWPPL factors in the revenue stability from the availability of PPAs, adequate generation performance and a strong parentage.

Key rating drivers and their description

Credit strengths

Strong parentage as the company is a part of the Sembcorp Group; support from the entities in the pool - GIWPPL is a step-down subsidiary of Sembcorp Utilities Pte Limited (SUPL) through SGIL/GIWEL, which is in turn held by Sembcorp Industries Pte Limited [~49.5% held by Temasek Holdings (Private) Limited; rated AAA by Moody's]. The companies within the Sembcorp Group are managed by a team of experienced technocrats and investment/finance professionals who have a long and demonstrated track record of project execution and operations. Also, given the cross-default linkages among GIWPPL, GIWEPL and GIWGL, each SPV is expected to receive support from the other two in case of distress.

PPAs with C&I customers - The 24.0-MW capacity under GIWPPL has tied up PPAs, having tenure of 1-10 years, with C&I customers under the group captive structure, leading to revenue visibility. Also, majority of these customers have comfortable credit profile, leading to low counterparty credit risk and timely payments. However, the residual tenor of these PPAs is moderate at ~2 years. Notwithstanding this, given the competitive tariffs offered by GIWPPL in relation to the grid tariffs, and the long-standing relationship with the customers, the PPAs are expected to be renewed, going forward.

Improved generation performance in FY2022 and 4M FY2023 - The operational track record of the 24.0-MW wind asset under GIWPPL has been moderate with the actual PLF lower than the P-90 levels over the years due to grid availability issues in Tamil Nadu till FY2016 and O&M contractor related issues, owing to which the company had shifted to self O&M for the asset in FY2019. GIWPPL's PLF level improved to 19.3% in FY2022 from 18.8% in FY2021. Further, the generation improved by 11.4% in 4M FY2023 over 4M FY2022. Also, the company's financial performance was supported by higher revenues from the sale of RECs in FY2022.

Comfortable debt coverage metrics - GIWGL's debt-coverage indicators are expected to remain comfortable with annual DSCR estimated to remain over 1.25x over the medium term, supported by improved generation performance, adequate profitability and a competitive interest rate, which is fixed for the entire debt tenure.

Credit challenges

Risks associated with the renewal of PPAs at adequate tariffs - The PPAs signed by GIWPPL do not have a provision for lock-in period or termination payments in case of premature termination. Further, the residual tenure of the PPAs remains low at 2.0 years. Given the falling tariffs in the renewable energy sector, the ability of the asset to renew the PPAs with the C&I customers at adequate tariff rates remains important.

Sensitivity of debt metrics to energy generation - The debt metrics of the wind power asset remain sensitive to the PLF levels, given the one-part tariff structure under the PPA. Hence, any adverse variation in weather conditions and/or machine performance may impact the PLF and consequently the cash flows. The geographic concentration of the asset in Tamil Nadu amplifies the generation risk.

Regulatory challenges - The company's operations are exposed to regulatory risks pertaining to group captive norms, revision in open access charges and scheduling & forecasting requirements of wind power projects. Given that the open access charges are borne by GIWPPL under most of the PPAs, any increase in these charges and losses may impact its profitability. Also, any reduction in the banking period or increase in banking charges may impact the operations. Further, any revision of the shareholding norms for group captive projects could adversely impact the operations of GIWPPL.

Liquidity position: Adequate

GIWPPL's liquidity remains adequate, marked by sufficient cash flows from operations in relation to the debt servicing requirements, along with the presence of free cash balances. The company is expected to generate cash flows from operations of around Rs. 9.0 crore against annual debt repayments of ~Rs. 6.5 crore over FY2023-FY2024. While the lenders have exempted the company from maintaining a debt service reserve account (DSRA), it is expected to maintain cash balances for the ensuing two quarters' debt servicing obligations and O&M expenses, in line with the practice followed by the Group.

Rating sensitivities

Positive factors – Satisfactory operational performance of the asset on a sustained basis and renewal of PPAs at remunerative tariffs, leading to an improvement in the debt coverage indicators, could lead to a rating upgrade. Also, the rating would remain sensitive to the credit profile of the parent (SGIL/GIWEL) and GIWEPL & GIWGL.

Negative factors – Downward pressure on the rating could emerge if the generation performance deteriorates or the company is unable to renew the PPAs, thereby adversely impacting the debt coverage metrics. Deterioration in the payment cycle from counterparties on a sustained basis adversely impacting the liquidity profile is another negative factor. A specific credit metric for a downgrade is the cumulative DSCR falling below 1.20x. Also, the rating would remain sensitive to the credit profile of the parent (SGIL/GIWEL) and GIWEPL & GIWGL.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Methodology for Wind Power Producers Rating Approach – Explicit third-party Support Rating Approach - Implicit parent or group support Policy on Withdrawal of Credit Ratings |
| Parent/Group support | The rating assigned to GIWPPL factors in the cross-default linkages with GIWEPL and GIWGL. Also, the rating factors in the implicit support from Group holding company, SGIL/GIWEL, with support expected to be forthcoming in case of any cash flow mismatch. |
| Consolidation/Standalone | Standalone |

About the company

GIWPPL is a special purpose vehicle (SPV) promoted by SGIL. The company has set up a 24.0-MW wind power plant at Theni in Tamil Nadu which was commissioned in May 2012. The company has signed PPAs with group captive consumers, who hold 30.94% of the shareholding of the company as required under the group captive norms. The balance 69.06% shareholding is held by SGIL and its nominees as of May 2022.

Key financial indicators (audited)

| GIWGL | FY2021 | FY2022 |
|--|---------|--------|
| Operating income | 19.4 | 28.0 |
| PAT | (4.5) | 0.9 |
| OPBDIT/OI | 62.9% | 64.6% |
| PAT/OI | (23.3%) | 3.1% |
| Total outside liabilities/Tangible net worth (times) | 5.5 | 5.2 |
| Total debt/OPBDIT (times) | 7.0 | 4.5 |
| Interest coverage (times) | 2.2 | 3.9 |

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Type | Current rating (FY2023) | | Chronology of rating history for the past 3 years | | | |
|---------------------------|-----------|--------------------------|---|---|---------------------------------------|-------------------------|---------------------------------------|
| | | Amount rated (Rs. crore) | Amount outstanding as on Mar 31, 2022 (Rs. crore) | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 |
| 1 Long term-fund based TL | Long term | 46.32 | 46.2 | Sep 09, 2022* [ICRA]A+ (Stable) | Jun 18, 2021 [ICRA]A+(CE) (Stable) | - | Mar 27, 2020 [ICRA]A+(CE) (Stable) |

* [ICRA]A+(CE) (Stable) withdrawn; [ICRA]A+ (Stable) assigned simultaneously

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: www.icra.in

Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook* |
|------|-----------------|------------------|-------------|----------|--------------------------|-----------------------------|
| NA | Term Loan-I | March 2017 | 9.25% | FY2029 | 46.32 | [ICRA]A+ (Stable) |

Source: Company; * [ICRA]A+(CE) (Stable) withdrawn; [ICRA]A+ (Stable) assigned simultaneously

[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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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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