August 16, 2023

Vena Energy Power Resources Private Limited (erstwhile Energon Power Resources Private Limited): Rating upgraded

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term – Fund based - Term loan	677.74	695.69	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Stable)
Long term – Fund-based working capital facilities	127.00	0.00	-
Total	**804.74**	**695.69**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's rating upgrade for Vena Energy Power Resources Private Limited (VEPRPL) factors in the improvement in the receivable position for its 154-MW wind power project, which in turn improved its liquidity profile. The improvement in the receivable position was led by the recovery of overdues from Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL), the offtaker for 148 MW of the 154-MW wind power capacity under VEPRPL. APSPDCL cleared the outstanding dues as of June 2022 through an instalment scheme availed under the Electricity (Late Payment Surcharge and Related Matters) Rules, 2022 (LPS) notified by the Ministry of Power, Government of India, in June 2022. The company has received all the 12 instalments aggregating ~Rs. 278 crore from APSPDCL. Further, the payment of the ongoing bills post June 2022 remains largely regular, with bills cleared till April 2023 for the 100-MW PPA and till February 2023 for the 48-MW PPA, as of July 2023. However, there is a gap between the receivable claimed by the company and the dues cleared by APSPDCL for the bills till June 2022, which is yet to be reconciled.

The rating also factors in the recent debt refinancing by the company wherein the outstanding external long-term debt and working capital debt was refinanced through a fresh long-term loan. While the loan tenure is the same as that of the previous term loans, the interest rate on the new loan is lower. Under the terms of the new loan, the company is maintaining a two-quarter cash debt service reserve account (DSRA) and is required to maintain additional debt reserve of two quarters. The company has created the two-quarter DSRA and is expected to create the additional reserve by March 2024.

Further, the rating continues to factor in the long-term PPAs for the entire capacity, with 148 MW tied up with APSPDCL and 6 MW with a high credit quality industrial consumer (10-year PPA under captive mode). As the PPA signed with the captive customer is due for renewal in 2024, securing an extension of the PPA or tie-up of a new PPA at similar tariff rate remains important.

Further, ICRA notes that VEPRPL is part of the Vena Energy Group (promoted by Global Infrastructure Partners), with renewable power generation assets across the Asia Pacific, providing managerial expertise and financial flexibility. Going forward, the company is expected to achieve adequate debt coverage metrics on the project debt, supported by the easing of grid curtailment concerns thereby improving the generation performance, the long tenure of the project debt and the moderation in interest rate after the recent debt refinancing. A large portion of the promoter contribution for the project under VEPRPL is infused in the form of non-convertible debentures, which remain subordinated to the project debt.

However, the rating is constrained by the high exposure to APSPDCL as the counterparty, which has a modest financial profile. The timely receipt of the ongoing bills from APSPDCL remains a key monitorable for VEPRPL. The rating is also constrained by the vulnerability of the revenues and cash flows to seasonality and the variation in wind power density across the years owing to the single-part tariff under the PPA with APSPDCL. Moreover, the geographic concentration of the project at a single location amplifies this risk. The generation performance over the past four years has been constrained by instances of grid curtailments and relatively weak wind season. While the generation performance has improved in FY2023 over FY2022, it remains well below the P-90 estimate and the historical average PLF achieved since commissioning. Therefore, a sustainable improvement in generation performance remains important for the company. Also, the company remains exposed to the interest rate movement on project debt, considering the leveraged capital structure and the fixed tariff under the PPA. Further, ICRA notes that the company's operations are exposed to the regulatory challenges of the scheduling and forecasting framework in Andhra Pradesh.

The Stable outlook on the rating factors in the revenue visibility offered by the 25-year PPA with APSPDCL, the improved generation performance and expectation of regular realisation of bills from APSPDCL, following the implementation of LPS rules.

Key rating drivers and their description

Credit strengths

Revenue visibility from long-term PPAs – VEPRPL has signed long-term PPAs with APSPDCL for 148 MW (25 years) at the approved feed-in tariff rate and with an industrial customer for 6 MW (10 years) at a discount to the grid tariff, providing revenue visibility. Further, the project is availing GBI benefit of Rs. 0.5 per unit, available for a period of 10 years, post commissioning.

Recovery of past dues through 12-month instalment scheme under LPS rules and regular payment of ongoing bills – VEPRPL, along with other renewable IPPs, received a favourable verdict from the high court of Andhra Pradesh (APHC) in March 2022 on the tariff issue under the PPAs signed with the Andhra Pradesh discoms. The APHC set aside the order issued by the single bench on the payment of interim tariff and directed the discoms to pay the full tariff. The discoms started clearing the outstanding dues through 12 monthly installments since August 2022. The company has received all the 12 monthly instalments aggregating ~Rs. 278 crore. This led to significant reduction in the receivables to ~Rs. 81 crore as on July 26, 2023 from ~Rs. 294 crore as on November 10, 2022. However, there is a variation of ~Rs. 60-70 crore between the dues released by the discom through the 12-month instalments and the dues claimed by the company, which are under reconciliation with the discom. This apart, the payment of the ongoing bills has been regular by the discom post June 2022.

Debt coverage metrics expected to remain adequate; significant improvement in liquidity profile – The debt coverage metrics of the company are expected to remain adequate, going forward, with the expected improvement in generation following the easing of grid curtailments, long tenure of the project debt, predictable operating costs and moderation in interest rate following the recent debt refinancing. The company has refinanced the previous term loans and outstanding working capital debt with a new term loan facility at a lower interest rate. Further, there has been a significant improvement in the company's liquidity position following the receipt of the pending dues.

Credit challenges

Counterparty risk from high exposure to a single discom in Andhra Pradesh (APSPDCL) – The long-term PPA with APSPDCL for 96% of the capacity exposes VEPRPL to counterparty credit risk, given its moderate financial profile. The financial profile of the discom is constrained by the high subsidy dependence and inadequate tariffs in relation to the cost of supply. The reconciliation of the receivables pending for bills raised before June 2022 and the timely receipt of the ongoing bills on a sustained basis remain the key monitorable for the company.

Modest generation performance – The generation performance of VEPRPL's 154-MW wind power capacity has remained modest over the past four years owing to the grid curtailments amid the tariff issue and a relatively weak wind season. While the generation performance improved in FY2023 over FY2022, a sustainable improvement in the generation performance over the historical average remains a key monitorable for the company.

Single-asset nature of operations; sensitivity of debt metrics to energy generation and interest rates – VEPRPL is entirely dependent on power generation by the wind power project for its revenues and cash accruals, given the single-part nature of the tariff. As a result, any adverse variation in wind conditions may impact the PLF, and consequently the cash flows. The single location of the company's operations amplifies this risk. Also, the coverage metrics for the company remain exposed to the movements in interest rates, given the fixed nature of the tariff under the PPA and a leveraged capital structure.

Challenges of forecasting and scheduling regulations – The regulatory challenges of the scheduling and forecasting framework for wind power projects in Andhra Pradesh pose a risk. However, the deviation charges for the company have been minimal so far.

Liquidity position: Adequate

VEPRPL's liquidity position is expected to remain adequate with APSPDCL clearing majority of the past dues, improving the available liquidity. As of June 2023, the company has a DSRA balance of Rs. 68.72 crore and cash balances of Rs. 54 crore, adequate for covering over 14 months of debt servicing. The company is expected to create the stipulated additional reserve equal to two quarters of debt servicing obligation by March 2024, thereby taking the total reserve available for debt servicing to 12 months.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company is able to demonstrate an improvement in its generation performance along with the timely receipt of payments from the offtakers, leading to an improvement in its debt coverage metrics. A specific credit metric for upgrade is the cumulative DSCR on the project debt exceeding 1.25 times.

Negative factors – Pressure on the rating could arise in case of any significant under-performance in generation or build-up in receivables from offtakers, adversely impacting the company's liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Wind Power Producers
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

VEPRPL, incorporated in March 2013, is a special purpose vehicle (SPV) promoted by Vena Energy Wind (India) Renewables Pte Limited, Singapore, which is held by Vena Energy (India) Holdings Pte Limited (earlier known as Energon Energy II Pte Ltd) and ultimately by Global Infrastructure Partners. Vena Energy is one of the leading renewable power producers in the Asia-Pacific region, with assets in Australia, Japan, India, Indonesia, Philippines, Taiwan, South Korea and Thailand. VEPRPL operates a 154-MW wind power project at Tugguparthy village in the Anantapur district of Andhra Pradesh, which was commissioned in phases, with the first phase of 54 MW in August 2014 and the second phase of 100 MW in March 2015. The project has been developed by SGREPL on a turnkey basis. The company has long-term PPAs with APSPDCL for 148 MW at Rs. 4.70 per unit and with an industrial customer for 6 MW under the group captive mode.

Key financial indicators

NREPL Standalone	FY2022	FY2023^
Operating income (Rs. crore)	142.7	148.1
PAT (Rs. crore)	-19.3	-11.8
OPBDIT/OI	71.1%	62.5%
PAT/OI	-13.5%	-8.0%
Total outside liabilities/Tangible net worth (times)*	-7.8	-7.9
Total debt/OPBDIT (times)*	12.0	14.8
Interest coverage (times)	1.2	1.0

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

**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 Mar 31, 2023 (Rs. Crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Aug 16, 2023	Dec 05, 2022	Nov 23, 2021	Aug 13, 2021	Jul 17, 2020
1	Term loan	Long Term	695.69	695.69	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB (Negative)
2	Working capital loan	Long Term	-	-	-	[ICRA]BBB- (Stable)	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB (Negative)

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**	Mar 2023	-	Sep 2035	695.69	[ICRA]BBB (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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Vikram V
+91 40 4547 4829
vikram.v@icraindia.com

Mahesh Patil
+91 22 6169 3379
mahesh.patil@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches