September 08, 2023

Vena Energy JMD Power 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	130.00	128.04	[ICRA]A- (Stable); reaffirmed
Total	**130.00**	**128.04**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's rating reaffirmation factors in the limited demand risk for the 26-MW wind power project of Vena Energy JMD Power Private Limited (VEJPPL/the company), given the long-term (25-year) power purchase agreement (PPA) with the Madhya Pradesh Power Management Company Limited (MPPMCL) for its entire capacity at a fixed tariff. Also, the revenue from generation-based incentive (GBI) benefit of Rs. 0.5 per unit (with a cap of Rs. 1 crore per MW) enhances VEJPPL's cash flows and provides additional comfort. The rating also factors in the project's satisfactory operating track record since commissioning in March 2015; with the average plant load factor (PLF) from FY2016 to FY2023 remaining close to its P-90 generation estimate. However, the subdued generation performance over the past three years remains an area of concern. The generation in FY2023 was lower than that in FY2022 by 7.5%. Nonetheless, it remained adequate for the debt servicing requirements. The long tenure of the project debt at a competitive interest rate along with the availability of a long-term PPA is expected to lead to comfortable debt coverage metrics for the company, going forward. However, the improvement in generation performance from the low of FY2023 remains a key monitorable for the company.

The rating also factors in the improvement in the receivable position of the company, following the implementation of the late payment surcharge (LPS) rules notified by the Government of India in June 2022. The company is receiving the dues pending as of Feb 2022 from MPPMCL through 40 instalments and the recovery of the ongoing bills has remained timely over the past 12 months. This helped improve the company's liquidity position and reduced the working capital debt to nil as on March 31, 2023 from Rs. 16.22 crore as on March 31, 2022. The liquidity position of the company is supported by the availability of a two-quarter DSRA of Rs. 8.44 crore, free cash balances of Rs. 17.8 crore and O&M reserve of Rs. 2 crore as on June 30, 2023. Going forward, the sustainability of the timely payments from MPPMCL and receipt of the remaining instalments will remain the key monitorables for the company.

The rating, however, is constrained by the single location and single asset nature of the company's operations and the vulnerability of revenues and cash flows to wind power density and seasonality, given the single-part tariff under the PPA. The long-term O&M contract for the project is tied up with Siemens Gamesa Renewable Power Private Limited (SGRPPL), wherein the company had faced certain challenges in FY2023, leading to an adverse impact on machine availability. Nonetheless, these were subsequently resolved. The ability of the company and the O&M contractor to ensure adequate machine availability remains important to achieve optimal generation performance.

The rating is also constrained by the susceptibility of cash flows to counterparty credit risks arising from the exposure to MPPMCL, which has a weak financial profile. The financial profile of the discoms in Madhya Pradesh is constrained due to high distribution losses and inadequate tariff in relation to the cost of supply. The payment cycle for the project from MPPMCL had increased to over 12 months in the past. Further, wind power projects, including VEJPPL, which have higher tariff than the average power purchase cost of the state distribution utilities, are exposed to the risk of grid curtailment as seen in a few other states, though Madhya Pradesh has not witnessed any such cutback so far.

ICRA notes that the sponsor contribution towards VEJPPL is largely funded through non-convertible debentures (NCDs) subscribed by the project sponsors, which are subordinated to the project debt. The interest payment on the sponsor NCDs is subject to the restricted payment conditions stipulated under the loan agreement. Further, the fixed tariff of the project exposes the company to variations in interest rates on project debt. Nonetheless, the interest rate being fixed for a period of five years from March 2022 for the term debt would limit this risk in the near to medium term. ICRA also notes that the company's operations remain exposed to the regulatory challenges of implementing the scheduling and forecasting framework of the State Electricity Regulatory Commission (SERC) of Madhya Pradesh. This is mainly due to the highly variable nature of wind energy generation.

The Stable outlook assigned to the company factors in the revenue visibility offered by the long-term PPA with MPPMCL, the experience of the management in operating wind power plants and the company's adequate liquidity position.

Key rating drivers and their description

Credit strengths

Limited demand and tariff risks – VEJPPL has signed a long-term PPA with MPPPCL for the entire capacity at the approved feed-in tariff rate for 25 years, thereby mitigating the demand and pricing risks. Besides, the registration of the project for availing a GBI benefit of Rs. 0.5 per unit augurs well for the project, enhancing its cash flows.

Satisfactory PLF track record of wind power capacity under VEJPPL – The operating track record of the 26-MW capacity under VEJPPL remains satisfactory, with the average PLF over FY2016-FY2023 remaining close to the P-90 estimate. However, the generation remained lower than the P-90 estimate over the last three years due to a weak wind season. The generation in FY2023 was also lower compared to FY2022. Nonetheless, the generation was adequate for the debt servicing requirement.

Long tenure of project debt with interest rate fixed for five years; coverage metrics expected to remain comfortable – The company had refinanced the project debt in March 2022, leading to a longer repayment tenure and lower interest rate, which is fixed for five years. The demonstrated wind power generation, the remunerative tariff rate and a competitive interest rate are expected to result in comfortable debt coverage metrics for the project debt, with the cumulative DSCR estimated to remain at 1.3 times.

Credit challenges

Single asset operations; sensitivity of debt metrics to energy generation – VEJPPL is entirely dependent on power generation by the wind power project for its revenues and cash accruals, given the single-part 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. While the initial PLF track record of the project is a source of comfort, the recent dip in generation performance is an area of concern and a key rating monitorable for the company.

Counterparty credit risks from exposure to MPPMCL – The company's counterparty credit risks remain high owing to its exposure to MPPMCL, which has a weak financial profile. There have been significant delays in clearing the payments by MPPMCL in the past. However, following the implementation of the LPS rules, there has been a significant improvement in the payment cycle of the customer. Also, MPPMCL started clearing the pending dues for the period from May 2021 to February 2022, aggregating Rs. 26.9 crore, through 40 monthly instalments starting August 2022. The sustainability of this payment cycle, going forward, remains a monitorable for the company.

Exposure to interest rate movement –The company's debt metrics remain exposed to the movements in interest rates, given the fixed tariff under the PPA and the leveraged capital structure. However, this risk is mitigated over the medium term as the interest rate on the long-term debt is fixed for a period of five years from March 2022.

Grid curtailment risk due to relatively high tariff – Given the relatively high PPA tariff of the project and the absence of a deemed generation clause, the company's operations remain exposed to the risk of grid curtailment in the future as seen in a few other states. However, Madhya Pradesh has not seen any such cutback so far.

Challenges of implementing forecasting and scheduling regulations – The regulatory challenges of implementing the scheduling and forecasting framework for wind power projects in Madhya Pradesh pose a risk. This is mainly because of the variable nature of wind energy generation.

Liquidity position: Adequate

The liquidity profile of the company remains adequate, supported by a healthy buffer in cash flow from operations and debt servicing obligation, following the improvement in the payment timeline from MPPMCL. Also, the presence of a two-quarter DSRA and free cash balances strengthen the liquidity position. Apart from the DSRA of Rs. 8.44 crore, the company has free cash balances of Rs. 17.8 crore and O&M reserve of Rs. 2 crore as on June 30, 2023. The company also has an undrawn working capital limit of Rs. 17 crore available. The available liquidity buffer would cover for debt servicing of over two years for the company.

Rating sensitivities

Positive factors – ICRA could upgrade VEJPPL's rating if the company is able to improve its generation performance, with the PLF higher than the historical average on a sustained basis, along with timely payments from the offtakers.

Negative factors – Pressure on VEJPPL's rating could arise in case of any under-performance in generation by the wind power project, weakening the cumulative DSCR on the project debt to less than 1.25 times. Also, delays in payments from the Madhya Pradesh discoms, weakening VEJPPL's liquidity position, would be a negative trigger.

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

VEJPPL, incorporated in June 2014, 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 Equis Energy). Vena Energy (India) Holdings Pte Limited is further held by Global Infrastructure Partners. Global Infrastructure Partners is an independent infrastructure fund manager, which manages $40 billion for its investors. VEJPPL operates a 26-MW wind power project at Jamgodrani in the Dewas district of Madhya Pradesh, which was commissioned in March 2015. The project was developed by Siemens Gamesa Renewable Power Private Limited (SGRPPL) on a turnkey basis, which also manages the operations and maintenance of the plant. The company has a long-term PPA with MPPMCL at a tariff rate of Rs. 5.92 per unit.

Key financial indicators

VEJPPL Standalone	FY2022	FY2023^
Operating income (Rs. crore)	34.2	31.7
PAT (Rs. crore)	2.3	-4.7
OPBDIT/OI	74.0%	70.1%
PAT/OI	6.7%	-14.9%
Total outside liabilities/Tangible net worth (times)*	179.6	-69.7
Total debt/OPBDIT (times)*	12.0	7.6
Interest coverage (times)	1.4	1.2

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 Jun 30, 2023 (Rs. Crore)	Date & rating	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Sept 8, 2023	Jun 24, 2022	-	Mar 23, 2021
1	**Long term - Fund based - Term loan**	Long-Term	128.04	128.03	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	-	**[ICRA]A- (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – 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	**Long term - Fund based - Term loan**	Mar-2022	-	FY2037	128.04	[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:

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