

January 03, 2024

Avaada IndSolar Private Limited – [ICRA]A- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based – Term loan	285.93	[ICRA]A- (Stable); assigned
Long term – Non-fund based – Bank guarantee	32.51	[ICRA]A- (Stable); assigned
Total	318.44	

*Instrument details are provided in Annexure-I

Rationale

The rating for Avaada IndSolar Private Limited (AISPL) factors in its strong parentage - Avaada Energy Private Limited (AEPL), which has an established track record in the renewable energy (RE) sector with an operating solar power portfolio of 4 GWp and under-development RE capacity of over 4 GWp. AEPL is backed by Avaada Ventures Private Limited (AVPL) and PTT Thailand; together they have committed an overall investment of ~\$700 million to this platform in last one year, out of which \$400 million has been infused so far. The committed equity will enable AEPL to scale up its portfolio over the next few years. The long-term PPAs at competitive tariffs, a satisfactory generation performance of the assets under AEPL and the availability of long-term project finance at competitive interest rates ensure adequate debt coverage metrics for the Group.

The rating factors in the limited demand and tariff risks for AISPL because of the 15–25-year long-term power purchase agreements (PPAs) for its solar power project at fixed tariffs under the group captive mode with reputed commercial and industrial (C&I) customers at competitive rates. Of the total capacity of 91 MWp, the company has tied up PPAs for 68.11 MWp so far and is in the process of securing PPAs for the balance capacity. Herein, comfort is drawn from the Group’s track record in securing PPAs with C&I customers. The tariffs offered by the company are at a significant discount to the state grid tariff rates, resulting in savings for the customers. The tie-up of PPAs with customers having comfortable credit profile is expected to result in timely receipt of payments.

However, the rating is constrained by the execution risks, given the under-construction status of the project and the pending open access approval. Nonetheless, comfort is drawn from the availability of 79% of the required land with lease agreement expected to be signed for the balance land with Government of Uttar Pradesh shortly, advance progress in construction of the transmission line and pooling substation and the track record of the group in developing solar power projects. The company proposes to operationalise a part of the project capacity by the end of December 2023 and the project is expected to be fully commissioned by March 2024. The evacuation of partly commissioned capacity to the offtakers is expected to be through short-term open access. The company has applied for the long-term open access, which is under process.

The company has secured project debt at a competitive cost with a long tenure of 18.25 years, which is expected to lead to adequate debt coverage metrics over the tenure of the debt. 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 PPAs. 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. The demonstration of generation performance in line or above the appraised P-90 PLF levels remains a key credit monitorable.

The rating also factors in the risk of cash flow mismatch as the PPAs have a lock-in period of 10-15 years, while the debt repayment is spread across 18.25 years. The competitive tariffs offered by the company to its customers against the HT industrial grid tariff and the track record of the sponsor in securing PPAs with large C&I customers mitigate the risk to a certain extent. Also, the lender has a put option at the end of seven years of the loan tenure which can expose the company to

refinancing risks. Nonetheless, the long asset life, availability of PPAs and the Group's strengths are expected to be the mitigants here.

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, regulations for captive projects and open access charges. Any significant increase in the open access charges or imposition of new charges would impact the competitiveness of the tariff offered under the PPAs.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that AISPL would benefit from the long-term PPAs for its portfolio with reputed customers 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 – AISPL is a 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 Avaada Ventures Private Limited (AVPL), which holds about 57% stake and the remaining stake of about 43% is held by Global Renewable Synergy Company, which is part of PTT Thailand. AEPL has an overall RE portfolio of over 8 GWp, comprising a capacity of 4.0 GW and the balance is under development.

Revenue visibility with presence of long-term PPAs; competitive tariff rates – AISPL has signed 15-25 year long-term PPAs for 68.11 MWp at fixed tariffs with reputed C&I customers under the captive mode, providing revenue visibility and limiting the demand and pricing risks. The PPAs for the remaining 22.89 MWp are expected to be signed shortly. The customer will subscribe to the equity capital of AISPL, as required under the group captive regulations. The tariffs offered by the company are at a discount to the state grid tariff rates. Moreover, the power supplied by AISPL would enable the customers to meet their renewable purchase obligations and sustainability goals.

Comfortable credit profile of customers – The payments are expected to be timely, post commissioning, given the comfortable credit profile of the customers with whom the PPAs have been inked. However, the counterparty credit risk will also depend on the credit profile of the customers who will be onboarded for the remaining capacity.

Adequate debt coverage metrics and liquidity profile – AISPL's debt coverage metrics are expected to be adequate with the cumulative DSCR at 1.25x over the debt tenure, supported by PPAs at attractive rates, 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 COD from sponsor funds.

Credit challenges

Execution risks associated with under-construction status – The rating is constrained by execution risks, given the under-construction status of the project and the pending open access approval. Nonetheless, comfort is drawn from the availability of 79% of the required land, while the lease agreement for the balance land is expected to be signed with the Government of Uttar Pradesh shortly. 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 also provide comfort. The company proposes to operationalise a part of the project capacity by the end of December 2023. The project is expected to be fully commissioned by March 2024. The completion of the balance work, receipt of open access approval and commissioning within this timeline will remain the key credit monitorables 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 PPAs. 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 amplifies the generation risk. The demonstration of performance, post CoD, remains to be seen.

Risk of cash flow mismatch owing to lower lock-in period under the PPAs in relation to debt tenure – The PPAs have a lock-in period of 10-15 years, lower than the debt repayment tenure of 18.25 years, which could lead to the risk of cash flow mismatch. Also, the termination payment under the PPAs does not cover the entire debt outstanding. Nonetheless, comfort can be drawn from the discount offered by the company to its customers against the HT industrial grid tariff, the track record of the sponsor in securing PPAs with large C&I customers and the notice period available at the time of PPA termination to enable the company to replace a customer.

Exposed to interest rate risks – The interest rates on the term loans availed by the company for its project is floating and subject to regular resets. The fixed tariffs under the PPAs and a leveraged capital structure expose the debt coverage metrics to the movement in interest rates.

Regulatory risks – 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. Also, the company remains exposed to regulations related to captive power projects and the adverse variation in open access charges, which could impact the competitiveness of the tariff offered. Further, the timely receipt of open access approval remains important to ensure uninterrupted operations.

Liquidity position: Adequate

The liquidity of the company is expected to remain adequate, aided by positive cash flow from operations after commissioning. The steady cash flow will be supported by the long-term PPAs at fixed rates for its solar power project and expectation of timely receipt of payments from the customers, given their comfortable credit profile. The debt repayment is scheduled to begin in June 2025, giving the project adequate time for stabilisation before repayment starts. The company is expected to generate cash flow from operations of ~Rs. 19 crore in FY2026 against a debt repayment of Rs. 12 crore. Further, the company has a provision for a one-quarter DSRA, to be created on CoD from sponsor funds.

Rating sensitivities

Positive factors – ICRA could upgrade AISPL’s rating following successful commissioning of the project without any major cost overruns and demonstration of satisfactory generation performance. Also, the rating would remain sensitive to the credit profile of its parent, AEPL.

Negative factors – AISPL’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 post commissioning is lower than the P90 level on a sustained basis or 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 and weakening of linkages with AEPL would be another negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers
Parent/Group support	Parent Company: Avaada Energy Private Limited. The rating assigned to AISPL factors in the implicit support available from AEPL, if required
Consolidation/Standalone	Standalone

About the company

Avaada IndSolar Private Limited (AISPL) is a subsidiary of Avaada Energy Private Limited (AEPL). The company is developing 91 MWp/70 MW ac solar power capacity under the group captive mode in the Banda district in Uttar Pradesh. The project is expected to be commissioned by March 31, 2024. The company has signed PPAs for 68.11 MWp at fixed tariffs for a period of 15-25 years from the commissioning date (CoD). The company is in discussion with potential customers to tie up PPAs for the remaining 22.89 MWp capacity. As required under the group captive regulations, the customers will subscribe to the shareholding of the company.

Key financial indicators (audited)

Standalone	FY2023
Operating income	-
PAT	-0.2
OPBDIT/OI	-
PAT/OI	-
Total outside liabilities/Tangible net worth (times)	-58.2
Total debt/OPBDIT (times)	-56.2
Interest coverage (times)	-

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 (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Dec 21, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jan 03, 2024	-	-	-
1	Term loan	285.93	90.00	[ICRA]A- (Stable)	-	-	-
2	Non-fund based – Bank guarantee	32.51	--	[ICRA]A- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long term – Non-fund based – Bank guarantee	Very 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	August 2023	-	FY2044	285.93	[ICRA]A-(Stable)
NA	Bank guarantee	August 2023	-	NA	32.51	[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 - NA

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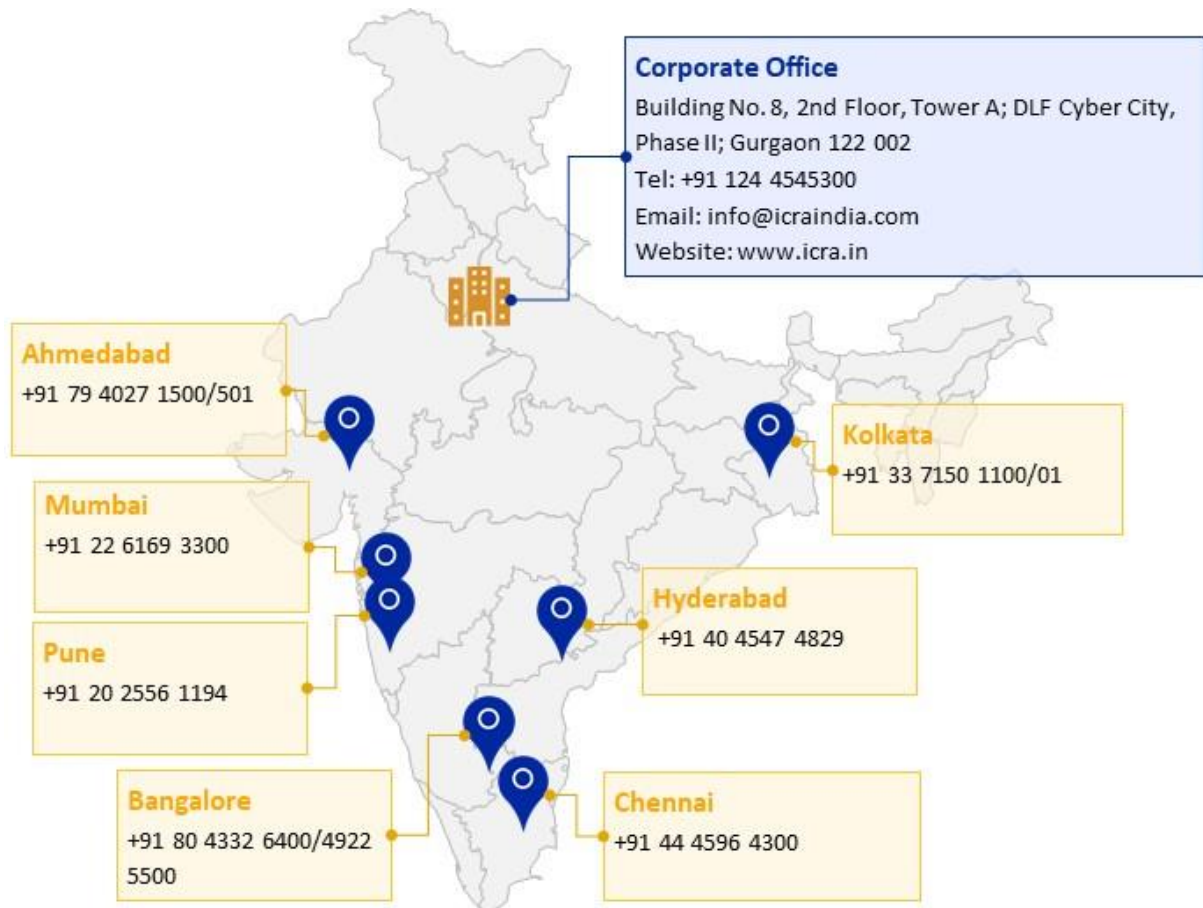
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