February 21, 2024

Tuppadahalli Energy India Pvt Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based – Term loan	28.12	9.36	[ICRA]A+ (Stable); reaffirmed
Total	**28.12**	**9.36**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the rating factors in Tuppadahalli Energy India Pvt Ltd's (TEIPL) stable revenue profile, underpinned by a long-term power purchase agreement (PPA) with Mangalore Electricity Supply Company Limited (MESCOM) at a fixed tariff rate (Rs. 3.7 per unit) for its 56.1-MW wind power project. A long generation track record, wherein the average PLF since commissioning in October 2011 remained above the P-75 estimate, has also helped the rating. While the generation performance moderated in the last three years ended FY2023 owing to the variation in wind power density, it continues to be above the P-90 estimate. The impact of lower generation was partially offset by income from the sale of carbon credits.

The ongoing scheduled repayment of term debt has lowered the external debt to OPBDITA to 0.57x in H1 FY2024. The liquidity profile, too, remains strong, aided by timely payments by MESCOM and the presence of a debt-service reserve account equivalent to two quarters of debt servicing obligations. The project debt is scheduled to be fully repaid by May 2024. Further, ICRA takes note of the managerial and technical strengths as the company is a part of the Acciona Group, a reputed and well-established player in the global renewable energy market, with a wind capacity of more than 8.5 GW.

The rating is, however, constrained by the single location and single-asset nature of the company's operations, and the vulnerability of the cash flow to the seasonality and possible variation in wind power density as seen in recent years. This is because the revenues are linked to the actual units generated and exported as the tariff under the PPA is single part in nature. The rating is also constrained by the susceptibility of the cash flow to counterparty credit risk due to the exposure to a single buyer. Nonetheless, ICRA notes that the payments from MESCOM (rated [ICRA]A- (Stable)/[ICRA]A2+) have been timely since the project's commissioning. Moreover, the offtaker maintains a revolving letter of credit (LC) in favour of TEIPL, minimising the counterparty credit risk. ICRA takes note of the fact that though a part of the promoter's funding is through foreign currency debt, it remains subordinated to the bank debt.

The rating also factors in the regulatory challenge of implementing the forecasting and scheduling mechanism for wind power projects in Karnataka. Nonetheless, the risk is mitigated to some extent by an experienced team and the demonstrated track record.

The Stable outlook assigned to the company factors in the predictability of the cash flow because of the long track record of generation, the long-term PPA for the full capacity and timely realisation of payments from the offtaker.

Key rating drivers and their description

Credit strengths

Strong operating track record of wind farm since commissioning – The 56.1-MW wind power capacity under TEIPL has a strong operating track record. The average PLF since commissioning in October 2011 has exceeded the P-75 generation estimate. While the generation moderated in the last three years ended FY2023 owing to the variation in wind power density, the PLF remained above the P-90 estimate.

Long-term PPA limits demand and tariff risks - The company has a long-term PPA (20 years) with MESCOM at a fixed tariff rate, mitigating the demand and pricing risks. The tariff rate of Rs. 3.7 per unit was extended in October 2021 for the balance 10-year period of the agreement. The tariff rate is competitive in relation to the average power procurement cost of the offtaker. Further, the Supreme Court order on pass-through of the actual income tax expense under the PPA with MESCOM would augment TEIPL's cash flow.

Comfortable capital structure; debt to be fully repaid by May 2024 - The ongoing debt repayment has improved the capital structure of the company. The external debt to OPBDITA is expected to remain less than 0.25x in FY2024. Further, the liquidity profile remains strong with timely payments from MESCOM and cash and cash equivalents worth Rs. 17.2 crore, including DSRA of Rs. 10.7 crore as on January 31, 2024 against the outstanding external debt of Rs. 9.36 crore. The project debt is scheduled to be fully repaid by May 2024.

Managerial and technical strengths as part of Acciona Group - The Group has significant experience in developing and operating wind power projects across the globe, with aggregate operational wind capacity of more than 8.5 GW. The Group's other operational wind power projects in India have also reported a strong operating performance.

Credit challenges

Single-asset nature of operations; sensitivity of debt metrics to energy generation - TEIPL 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 its PLF and consequently its cash flow as seen over the past two to three years. The single location and single-asset nature of the company's operations increases this risk. Nonetheless, the track record of generation so far is a source of comfort.

Counterparty credit risk due to exposure to single buyer - The company remains susceptible to counterparty credit risks due to the exposure to a single buyer, MESCOM. However, the payments have been timely and MESCOM maintains a revolving letter of credit in favour of the company.

Challenges in implementing forecasting and scheduling regulations – The company remains exposed to the regulatory challenges of implementing scheduling and forecasting framework for wind power projects in Karnataka. This is mainly because of the variable nature of wind energy generation. However, comfort can be drawn from an experienced team and its track record.

Liquidity position: Strong

The liquidity position of TEIPL is supported by the positive cash flow from operations with timely payments from its offtaker, MESCOM, and the presence of DSRA equivalent to two quarters of interest and principal obligations. The cash and bank balances, including DSRA, stood at Rs. 17.2 crore as on January 31, 2024, against the outstanding debt of Rs. 9.36 crore.

Rating sensitivities

Positive factors – The rating may be upgraded in case of a material and sustained improvement in generation performance of the wind power plant with the PLF significantly above the P75 level along with the continuation of timely realisation of payments from MESCOM.

Negative factors – Pressure on rating could arise if delays in payments from MESCOM adversely affects the liquidity position of the company. Also, any underperformance in generation by the wind power project leading to significant weakening of the debt coverage metrics would be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Wind Power Producers](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the rated entity.

About the company

TEIPL, incorporated in 2010, is a special purpose vehicle (SPV) promoted by Acciona Energia International S.A, which is a part of the Spain-based Acciona Group. TEIPL owns and operates a 56.1-MW wind power plant in the Shimoga district, Karnataka. The wind power plant was commissioned in three phases, with complete commissioning achieved in October 2011, at a total cost of Rs. 337 crore. The project was developed and executed by Vestas Wind Technology India Private Limited, which is also the O&M contractor of the WTGs. The O&M for the remaining part of the plant, including the substation, is handled by ESEPL Services.

Key financial indicators (audited)

TEIPL Standalone	FY2022	FY2023
Operating income	43.9	46.8
PAT	6.0	10.3
OPBDIT/OI	53.6%	48.7%
PAT/OI	13.7%	22.0%
Total outside liabilities/Tangible net worth (times)	0.7	0.5
Total debt/OPBDIT (times)	2.1	1.4
Interest coverage (times)	4.1	6.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs.crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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 Jan 31, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 21, 2024	Jan 27, 2023	Jan 03, 2022	Jan 04, 2021
1	**Fund based – Term loan**	Long term	9.36	9.36	**[ICRA]A+ (Stable)**	**[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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Term loan	Dec 2010	NA	May 2024	9.36	[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

ANALYST CONTACTS

Girish Kumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

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

Siddhartha Kaushik
+91 124 4545 323
siddhartha.kaushik@icraindia.com

Chinmay Sheth
+91 79 4027 1550
chinmay.sheth@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

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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