

February 29, 2024

Axis Wind Farms (Anantapur) 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	575.00	575.00	[ICRA]A- (Stable); reaffirmed
Total	575.00	575.00	

*Instrument details are provided in Annexure-I

Rationales

The rating action for Axis Wind Farms (Anantapur) Private Limited (AWFAPL) factors in the presence of a 25-year power purchase agreement (PPA) with Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL) at a feed-in tariff of Rs. 4.84 per unit for its 105-MW wind power project, thus limiting the demand and pricing risks. Further, the rating factors in the improvement in the generation performance of the wind project under AWFAPL in FY2023 and 10M FY2024 over the corresponding period of the previous year. Moreover, the correction in receivables from its sole offtaker, APSPDCL, the availability of a two-quarter debt service reserve (DSRA) in the form of a sponsor-issued standby letter of credit (SBLC) and a Rs. 50-crore working capital facility availed in January 2023 support the liquidity profile of the company.

The company recovered the past dues from APSPDCL through 12 monthly instalments till July 2023 under the Electricity (Late Payment Surcharge and Related Matters) Rules, 2022 (LPS) notified by the Ministry of Power, Government of India, in June 2022. Also, the company is receiving payments for the bills raised after June 2022 in a regular manner. However, the discom is withholding certain payments, citing that the offtake of the energy generated shall be restricted to the normative plant load factor (PLF) approved under the tariff regulations. This is being contested by the company as there is no such provision under the PPA. The resolution of this issue remains a key sensitivity for the rating, going forward. Earlier, the company, along with other wind and solar power projects in Andhra Pradesh, had received a favorable resolution of the tariff issue when in March 2022, the High Court of Andhra Pradesh (APHC) directed the distribution utilities (discoms) of Andhra Pradesh to adhere to the terms of the PPA and make payments at the full PPA tariff.

The rating also factors in the company's financial flexibility (in terms of timely access to capital) because of the presence of a strong sponsor – the Brookfield Group. The Brookfield Group has a strong track record in operating renewable energy assets across multiple geographies. Further, ICRA takes comfort from the executed sponsor undertaking from Brookfield for the new term loan facility for infusing funds in case of a shortfall in the debt service reserve to meet the operating and maintenance costs or future capex (if any) as well as debt resizing to restore the base case business plan, if the tariff is reduced from Rs. 4.84 per unit.

The rating is, however, constrained by the exposure to a single counterparty, APSPDCL, which has a modest financial profile. While the receivable position has reduced over the past 18 months, timely receipt of the ongoing bills from APSPDCL on a sustained basis along with the resolution of the issue over capping the offtake at the normative PLF remains a key monitorable. The rating is also constrained by the vulnerability of the revenues and cash flows to the seasonality and variation in wind power density across the years owing to the single-part nature of the tariff under the PPA with APSPDCL. The rating is further tempered by the geographic concentration of the project at a single location. Also, the leveraged capital structure and a fixed tariff of the project expose the company to the variation in interest rates on the project debt.

The Stable outlook on the rating for the bank loan facilities of AWFAPL factors in the revenue visibility from the long-term PPA, a satisfactory generation performance and the improving receivable position.

Key rating drivers and their description

Credit strengths

Long-term power purchase agreement with APSPDCL – AWFAPL has signed a long-term PPA of 25 years with APSPDCL at a fixed tariff rate, which provides revenue visibility for the company and limits the demand and tariff risks.

Liquidity profile supported by improved payment discipline of the discom along with availability of two-quarter DSRA and working capital facility – AWFAPL, along with other renewable IPPs, had received a favourable verdict from the High Court of Andhra Pradesh (APHC) in March 2022 on the tariff issue under the PPAs signed with 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. Under the LPS scheme, the discoms have cleared the outstanding dues as of June 2022 through 12 monthly instalments between August 2022 and July 2023. With the receipt of past dues under installments and regular payment of ongoing bills, the receivable position has improved significantly, thereby improving the liquidity position of the company. The availability of a two-quarter DSRA and a working capital facility of Rs. 50 crore further support the liquidity profile of the company.

Improved generation performance in FY2023 and 10M FY2024, leading to adequate debt coverage metrics - The generation performance of the 105-MW wind power project of AWFAPL improved in FY2023 with a PLF of 25.3% compared to 22.9% in FY2022, led by reduced instances of grid curtailment. The PLF further improved to 31.0% in 10M FY2024 from 27.6% in 10M FY2023 due to a better wind season. The PLF in FY2021 and FY2022 was constrained by instances of grid curtailments and a weaker wind season. While the improvement in the generation performance in FY2023 and 10M FY2024 remains a positive, the sustainability of the same remains key for the company. The improvement in the generation performance and refinancing of the project debt at a competitive interest rate in FY2023 is expected to lead to adequate debt coverage metrics for the company, going forward.

Strong financial flexibility with Brookfield Renewable Partners LP as the sponsor group – The presence of a strong sponsor - Brookfield Group - is expected to help the company access additional capital in case of a funding requirement. Further, a sponsor undertaking has been signed by Brookfield, which states that in case of inadequacy of cash flows to meet the shortfall under DSRA, the sponsor shall infuse additional funds, without any recourse to the assets of the project, to meet any O&M cost or any future capex. The company has received support from the sponsor in the past in the form of subordinated optionally convertible debentures (OCDs).

Credit challenges

Counterparty risk from exposure to a single discom in Andhra Pradesh with a modest financial profile - The long-term PPA with APSPDCL exposes AWFAPL to the counterparty credit risk of being exposed to a single discom, which has a moderate financial profile. The financial profile of the discom is constrained by high subsidy dependence and inadequate tariffs in relation to the cost of supply. While the receivable position witnessed a significant decline over the past 18 months, the discom is withholding certain payments, citing that the offtake of the energy generated shall be restricted to the normative PLF of 23.5% approved under the tariff regulations. This is being contested by the company as there is no such provision under the PPA. The timely clearance of the ongoing monthly bills and the recovery of withheld dues remain a monitorable for the company. Any further build-up in dues would adversely impact the company's liquidity profile.

Operating risks associated with exposure to wind conditions and geographic concentration of the project – The generation by wind farm and in turn the cash flows of the project are susceptible to seasonality and variation in wind power density, given the one-part tariff structure of the PPA with APSPDCL. This risk is amplified by the geographic concentration of the asset as the entire capacity is at a single location. Also, the competitiveness of the tariff offered by the project remains moderate, which may lead to the risk of grid curtailment.

Interest rate risk - The company's debt coverage metrics remain sensitive to the movements in interest rate on the project debt, given the single-part fixed tariff of the project and a leveraged capital structure.

Liquidity position: Adequate

AWFAPL's liquidity position is expected to remain adequate, supported by the improved generation performance and regular realisation of dues from APSPDCL. Moreover, a DSRA equivalent to two quarters in the form of a sponsor-issued irrevocable standby letter of credit and the availability of Rs. 50-crore working capital facility are expected to support the liquidity profile.

Rating sensitivities

Positive factors - ICRA could upgrade the rating in case of a sustainable improvement in the payment cycle of the offtaker and if the generation level improves on a sustained basis, leading to healthy credit metrics.

Negative factors - Pressure on AWFAPL's rating could arise if any significant under-performance in generation adversely impacts its debt coverage metrics. Any large build-up in receivables from the offtaker adversely impacting the company's liquidity position would be another negative trigger. Moreover, any change in financial flexibility/liquidity support from Brookfield (sponsor) to meet the funding requirements would be a negative trigger.

Analytical approach

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

About the company

AWFAPL operates a 105-MW wind power project at Kuderu and Pampanoor Thanda in the Anantapur district of Andhra Pradesh. The wind power plant was fully commissioned in June 2017. AWFAPL has signed a long-term PPA with APSPDCL for a period of 25 years at a fixed tariff of Rs. 4.84 per unit. The project was developed by Axis Energy Ventures India Private Limited (AEVIPL), with WTGs supplied and installed by Suzlon Energy Limited. In July 2019, AWFAPL was acquired by the Brookfield Group, which operates one of the world's largest renewable power platforms with over 31-GW generation capacity across hydro, wind and solar power, distributed generation and storage. AWFAPL is held by BIF III FVCI Holdings India I Pte Ltd.

Key financial indicators

AWFAPL Standalone	FY2022	FY2023
Operating income (Rs. crore)	101.8	112.9
PAT (Rs. crore)	-28.5	-91.5
OPBDIT/OI (%)	66.3%	79.9%
PAT/OI (%)	-28.0%	-81.1%
Total outside liabilities/Tangible net worth (times)	3.9	7.1
Total debt/OPBDIT (times)	11.2	8.0
Interest coverage (times)	1.0	0.6

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

Source: Company data, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: AWFAPL's audit report for FY2023 highlights delays in servicing of interest on optionally convertible debentures (OCDs) subscribed by the promoter, stating that the company had sufficient cash to service this interest. ICRA notes that this does not impact the rating on the term loan facility of AWFAPL, as the promoter debt is subordinated to the term loan debt, the cash flows for servicing the term loan debt are ring fenced through a trust & retention account with a defined cash flow waterfall mechanism and given the satisfactory performance of the company, thereby generating adequate cash flows to service the term loan facility. Also, the servicing of promoter debt is subject to approval from the lender under the restricted payment conditions. This is in line with ICRA's policy on default recognition.

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 Jan 31, 2024 (Rs. Crore)	Date & rating	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				Feb 29, 2024	Feb 03, 2023	Nov 01, 2022	-	-
1 Term loan	Long-Term	575.0	555.6	[ICRA]A-(Stable)	[ICRA]A-(Stable)	Provisional [ICRA]BBB+(Stable)	-	-

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	Sept 2022	-	June 2038	575.00	[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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