August 14, 2024

KMF NANDINI AVAADA KN PRIVATE LIMITED: [ICRA]A- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based -Term loan	314.61	[ICRA]A- (Stable); assigned
Long-term – Letter of comfort^	(220.00)	[ICRA]A- (Stable); assigned
Total	**314.61**	

**Instrument details are provided in Annexure-I; ^ Sublimit of Term Loan*

Rationale

The assigned rating for KMF Nandini Avaada KN Private Limited (KNA) factors in its strong parentage of Avaada Energy Private Limited (AEPL), which has an established track record in the renewable energy sector with an operating solar power portfolio of 4.4 GWp and under-development capacity of another 12.6 GWp. AEPL was promoted by Avaada Ventures Private Limited (AVPL) and at present its shareholding is held by AVPL and GPSC Thailand (a part of PTT Group, Thailand) in a 57:43 ratio, respectively. While the committed equity and available cash within the Group enable AEPL to scale up its portfolio in the near to medium term, the Group is exploring options to raise further capital to finance its under development portfolio. The long-term power purchase agreements (PPAs) at competitive tariffs and satisfactory generation performance of the assets under AEPL, along with the availability of long-term project finance at competitive interest rates have led to adequate debt coverage metrics for the Group.

The assigned rating for KMF Nandini Avaada KN Private Limited (KNA) factors in its strong parentage of Avaada Energy Private Limited (AEPL), which has an established track record in the renewable energy sector with an operating solar power portfolio of 4.4 GWp and under-development capacity of another 12.6 GWp. AEPL was promoted by Avaada Ventures Private Limited (AVPL) and at present its shareholding is held by AVPL and GPSC Thailand (A part of PTT Group, Thailand) respectively in a 57:43 ratio. While the committed equity and available cash within the group enable AEPL to scale up its portfolio in the near to medium term, the group is exploring options to raise further capital to finance its under-development portfolio. The availability of long-term power purchase agreements (PPAs) at competitive tariffs and satisfactory generation performance of the assets under AEPL, along with the availability of long-term project finance at competitive interest rates have led to adequate debt coverage metrics for the Group.

The rating also factors in the limited demand and tariff risks for KNA due to the 25-year power purchase agreement (PPA) with a reputed commercial and industrial (C&I) customer for its solar power project of 97 MWdc at a fixed tariff under the captive mode. The tariff rate offered by the company is at a significant discount to the state grid tariff rates, thus enabling savings for the customer. Moreover, adequate credit profile of the customer provides comfort against counterparty credit risk.

However, the rating is constrained by the execution risks given the under-construction status of the project and pending receipt of open access approval. Nonetheless, comfort is drawn from the availability of the required land, advance progress in construction of transmission line and pooling substation and the track record of the Group in developing solar power projects. The project is anticipated to be completed and operational within the scheduled commercial operational date (COD) of November 2024.

The company has secured project debt at a competitive cost with a long tenure of ~21 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 PPA. 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 P90 PLF levels remains a key credit monitorable for KNA.

The company is also exposed to interest rate risks given the leveraged capital structure and floating interest rate, subject to regular resets. Further, the company's operations remain exposed to the regulatory risks associated with forecasting & scheduling, 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 PPA.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that KNA would benefit from the long-term PPA for its entire capacity with a reputed customer 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 – KNA is a 74% 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 portfolio of ~17 GWp comprising operating capacity of 4.4 GW and balance being under development.

Revenue visibility with presence of long-term PPAs; competitive tariff rates – KNA has signed a 25-year PPA for the entire capacity at a fixed tariff with a reputed C&I customer under the captive mode, providing revenue visibility and limiting the demand and pricing risks. The customer subscribed to the equity capital of KNA, as required under the group captive regulations. The tariffs offered by the company are at a significant discount to the state grid tariff rates. Moreover, the power supplied by KNA would enable the customer to meet its renewable purchase obligations as well as their sustainability goals.

Adequate debt coverage metrics and liquidity profile – The debt coverage metrics for KNA are expected to be adequate with cumulative DSCR above 1.2x over the debt tenure, supported by the PPA at an attractive rate, long tenure of the debt and competitive interest rate. Also, the liquidity profile of the company is supported by the presence of a peak two-quarter DSRA to be created within 12 months from the COD.

Credit challenges

Risks from pending construction work and open access approvals – The project is exposed to execution risks given its under-construction status and pending receipt of open access approval. Nonetheless, comfort is drawn from the availability of the required land, advance progress in construction of transmission line and pooling substation and the track record of the group in developing solar power projects. The company expects to commission the full project capacity by November 2024. The completion of the balance work, receipt of open access approval and commissioning within this timeline remain the key credit monitorables for the company.

Debt metrics of solar projects sensitive to PLF levels – Given the one-part structure under the PPA, the debt coverage metrics of the company remain exposed to the generation level. 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. Post commissioning, the performance by the project remains a key monitorable.

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. Given the fixed nature of the tariff under the PPA and leveraged capital structure, the debt coverage metrics for the company are exposed to movements 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 lower 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 receipt of open access approval remains important to ensure uninterrupted operations.

Liquidity position: Adequate

The liquidity of the company is expected to remain adequate with the required equity and debt tied up for completing the project. Further, post commissioning, the cash flow from operations is expected to be adequate, supported by the presence of a long-term PPA at a fixed rate for the solar power project and the expectation of timely receipt of payments from the customer, given its adequate credit profile. The debt repayment is scheduled to commence in Q4 FY2026, giving the project adequate time for stabilisation of operations. The company is expected to generate cash flow from operations of ~Rs.18 crore in FY2026 against debt repayment of Rs. 5.7 crore. Further, the company has a provision for a peak two-quarter DSRA to be built within 12 months from the CoD.

Rating sensitivities

Positive factors – ICRA could upgrade KNA's rating following successful commissioning of the project without any major cost overruns and demonstration of satisfactory generation performance in line with the P90 estimate. Also, the rating would remain sensitive to the credit profile of its parent, AEPL.

Negative factors – KNA'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 resulting in decline in cumulative DSCR to less than 1.15x or if 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.

Analytical approach

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

About the company

KNA is a 74% subsidiary of Avaada Energy Private Limited (AEPL) with the balance 26% held by the C&I customer. The company is developing a 97-MW (DC)/70 MW (AC) solar power capacity at Shahabad in Kalaburgi district in Karnataka. The energy generated from the solar plant will be evacuated at the 400/220kV Firozabad substation. The project is being set up on captive mode under Rule 3 of Electricity Act 2005. The scheduled COD for the project is November 05, 2024.

Key financial indicators (audited)

Not meaningful as the project is under-construction.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Aug 14, 2024	Date	Rating	Date	Rating	Date	Rating
Term Loan	Long Term	314.61	[ICRA]A- (Stable)	-	-	-	-	-	-
Letter of comfort	Long Term	(220.00)	[ICRA]A- (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based -Term Loan	Simple
Long Term – Letter of comfort	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**	NA	NA	FY2044	314.61	[ICRA]A- (Stable)
NA	**Letter of comfort**	NA	NA	NA	(220.00)	[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

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 6939 6410
vikram.v@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

Devanshu Gupta
+91 124 4545 321
devanshu.gupta@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