August 22, 2024

Netra Wind Private Limited: Ratings downgraded to [ICRA] BBB-/[ICRA]A3 and outlook revised to Negative.

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT - Fund-based term loan	1630.0	1630.0	[ICRA] BBB- (Negative); downgraded from [ICRA]BBB (Stable) and outlook revised to Negative
LT/ST - Non-fund based (interchangeable with term loan) #	(1141.0)	(1141.0)	[ICRA] BBB- (Negative)/[ICRA]A3; downgraded from [ICRA]BBB (Stable)/[ICRA]A3+ and outlook revised to Negative
Total	**1630.0**	**1630.0**	

**Instrument details are provided in Annexure-I, #Sublimit of term loan*

Rationale

The ratings downgrade and revision in the outlook of the long-term rating of Netra Wind Power Limited (NWPL) factors in the delays in commissioning its wind power project and the consequent cost overrun along with the under-performance of the project, post commissioning. The project was commissioned in stages between April 2023 and April 2024 against the scheduled CoD of November 2022, as per the power purchase agreement (PPA) signed with Solar Energy Corporation of India Limited (SECI) and lender's CoD of August 2023. This was due to delays in land acquisition and the land policy issues in Gujarat. This in turn gave the company limited time to build its liquidity buffer against a repayment that is scheduled to start from September 2024.

ICRA notes that NWPL commissioned 206.5-MW capacity against the total project size of 301.5 MW. The balance capacity is unlikely to be taken up, given the challenges in securing land. These delays led to cost overruns, increasing the overall cost of the commissioned capacity by ~13%, thereby affecting the project return metrics. Further, the company has to pay ~Rs. 170 crore due to the capex creditors in the current fiscal, which may necessitate additional debt drawdown or infusion of promoter funding, exposing NWPL to liquidity and funding risk.

The generation performance of the capacity commissioned since April 2023 has remained well below the appraised P-90 estimate, partly owing to stabilisation issues as well as the gradual commissioning of the project. This adversely impacted the company's debt coverage metrics, with the debt service coverage ratio (DSCR) on the external debt expected to remain modest at below 1.1x in FY2025. The ability of the company to improve its generation performance remains a key rating monitorable, going forward. Any significant addition of debt to pay the capital creditors would adversely impact the company's credit metrics.

The company's revenues and cash flows would remain sensitive to the variation in weather conditions and wind seasonality, given the single-part nature of the fixed tariff under the PPA. Additionally, the company remains exposed to asset concentration risk as the entire capacity is located at a single site in Gujarat. Also, the company remains exposed to the regulatory challenges of implementing the scheduling and forecasting framework for the wind power sector.

However, the ratings derive comfort from the high revenue visibility and low offtake risk for the commissioned capacity of NWPL's wind power project because of the long-term (25-year) PPA with SECI for at a fixed tariff of Rs. 2.77 per unit. SECI is an intermediary counterparty and has signed power supply agreements (PSAs) with the state-owned distribution utilities (discoms).

The ratings also draw comfort from the presence of a strong counterparty like SECI (rated [ICRA]AAA (Stable)/[ICRA]A1+) and the payment security mechanism under the PPA, with a provision for letter of credit equal to average one-month billing. Moreover, SECI is included in the tripartite agreement (TPA) with the Government of India, the Reserve Bank of India and the state governments, which guards against payment delays from the discoms. This, along with the superior tariff competitiveness of the project, mitigates the counterparty credit risk for the company. Further, the additional provisions in the PPA/PSAs related to compensation in case of grid curtailment or backdown and the termination liability in the event of default by the offtaker provide comfort.

The Negative outlook assigned to the company factors in the uncertainty over the funding for the project's capex liabilities and the risk of underperformance against the appraised generation estimates.

Key rating drivers and their description

Credit strengths

Revenue visibility due to long-term PPA and competitive tariff – NWPL has low offtake risks because of a long-term (25-year) PPA at a highly competitive tariff of Rs. 2.77 per unit for the entire project capacity. The long-term PPA provides revenue visibility for the company. SECI is an intermediary counterparty and has signed PSAs with the state-owned distribution utilities of Haryana, Bihar, and Puducherry and two private distribution utilities in Delhi, which are the ultimate offtakers under the ISTS Wind Tranche V scheme. Further, the applicable tariff of Rs. 2.84/unit (including SECI's trading margin) for the distribution utilities is highly competitive compared to their average power purchase cost. Additionally, the regulatory uncertainty for this project is low as the tariff under the PPA and the PSAs has been adopted by the regulatory bodies i.e., CERC/ SERC. Further, the company has filed petition before the Central Electricity Regulatory Commission (CERC) for additional tariff of 13 paise per unit owing to the impact of GST levy on supply of wind turbine generators (WTGs). The approval of the same shall improve the project's return metrics and debt coverage metrics.

Superior PPA with SECI and low counterparty credit risk – The PPA with SECI is relatively superior against the state policy PPAs due to the favourable payment security mechanism, with the inclusion of SECI in the TPA with the Government of India, the Reserve Bank of India and the state governments. This provides comfort against payment delays from the discoms to SECI. Other favourable provisions include generation compensation for grid unavailability or backdown and termination liability in the event of default by the offtakers. These factors, coupled with the high tariff competitiveness, mitigate the counterparty credit risk associated with the ultimate offtakers.

Established track record of Alfanar Group in power sector – Though the Alfanar Group has limited experience in the renewable energy sector in India, this risk is mitigated to a certain extent by the Group's established track record in the power sector through its EPC business in Saudi Arabia and its renewable projects in other countries. In the power sector, the Group has set up thermal power projects with a cumulative capacity of 850 MW. In the transmission sector, it has set up various sub-stations, transmission lines and underground cable projects in Saudi Arabia. Further, the Group has experience in renewable energy with the development of renewable projects in Egypt and Spain in the past.

Credit challenges

Delays in project commissioning and cost escalation; uncertainty over funding the capital creditors - The project was commissioned in stages between April 2023 and April 2024 against the scheduled CoD of November 2022 in the PPA signed with SECI (extended from July 2020) and the lender's CoD of August 2023. This was due to delays in land acquisition and the land policy issues in Gujarat. Also, the commissioned capacity stands at 206.5 MW against the total project size of 301.5 MW, with the balance capacity unlikely to be taken up because of the challenges in securing land. These delays have led to cost overruns, increasing the overall cost of the commissioned capacity by ~13%, thereby affecting the project's return metrics. Further, the company has to pay ~Rs. 170 crore due to the capex creditors in the current fiscal, which may necessitate additional debt drawdown or infusion of promoter funding, exposing NWPL to liquidity and funding risk. However, some comfort is drawn from cushion available with the group EPC companies (~Rs. 100 crore as on date) which may be used to finance the capital creditor payments.

Vulnerability of cash flows to variation in weather conditions; generation performance of commissioned capacity remains below par – As the tariff under the PPA is single part in nature, the company's revenues and cash flows remain sensitive to energy generation, which is exposed to the variation in weather conditions. This in turn would affect its debt servicing ability. This risk is amplified by the single location of the project. The actual generation of the project has remained well below the appraised P-90 estimate. While some comfort can be drawn from the sourcing of equipment from established suppliers and the presence of these suppliers as O&M contractors, the ability of the project to improve its generation performance in line with the appraised estimate remains a key monitorable.

Interest rate risk- The company's debt metrics remain exposed to the movement in interest rates due to the single-part tariff under the PPA and a leveraged capital structure, given the floating rates under the project debt.

Regulatory risk of implementing scheduling and forecasting framework for wind sector - The company's operations remain exposed to regulatory risks pertaining to the scheduling and forecasting requirements applicable for renewable energy projects, given the limited experience the of developers in operating under Indian conditions and the variable nature of wind generation.

Liquidity position- Stretched

The liquidity position of the company remains stretched, given the delays in project commissioning and the limited time to build the liquidity buffer before the commencement of debt repayment in September 2024. Moreover, the company has to pay ~Rs. 170 crore due to the capex creditors, exposing it to funding risk. While comfort is drawn from the available cash balances of Rs. 70 crore as on July 30, 2024 and a debt service reserve (DSRA) of Rs. 27 crore in the form of bank guarantee from the promoter against an expected debt servicing obligation of ~Rs. 140 crore over the next 12 months, the demonstration of an improved generation performance remains important to achieve a sustainable improvement in the liquidity position.

Rating sensitivities

Positive factors - Given the Negative outlook, a rating upgrade is unlikely for NWPL in the near term. The outlook can be revised to Stable if the actual generation performance of the wind power project improves closer to the appraised P-90 estimate, leading to healthy cash flows for the company and an improvement in its credit metrics, along with timely funding tie-up for the balance capital creditors.

Negative factors - The ratings would be downgraded if the actual generation performance continues to be weak, leading to the cumulative DSCR on the project debt remaining below 1.1x. Also, any significant increase in external debt, adversely impacting the coverage metrics of the company or weakening its liquidity profile could exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power-Wind
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

NWPL is promoted by Alfanar Company (KSA) and Alfanar Power Limited (UK), which are subsidiaries of Alfanar Principals. Alfanar is a family-owned Saudi Arabia-based group, with the main promoters being three brothers - Mr. Abdul Salam Al Multaq, Mr. Sabah Mohammad Al Multaq and Mr. Hisham Mohammad Al Multaq. NWPL commissioned a 206.5-MW wind power project in Bhuj, Gujarat in April 2024. The total project cost for 206.5 MW is ~Rs 1,694 crore, funded through equity of Rs. 556 crore, debt of Rs. 1,031 crore and the balance being capital creditors. The capacity was awarded via a reverse bidding process conducted by SECI under its tranche-V wind power auction for 1.2 GW of inter-state transmission system (ISTS)-connected projects.

Key financial indicators

Not meaningful as the project was under-construction till the end of April 2024

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				August 22, 2024	June 13, 2023	June 24, 2022	-
1	**Term loan**	Long Term	1,630.00	**[ICRA]BBB- (Negative)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	-
2	**Non-fund based (interchangeable with term loan) #**	Long term / Short term	(1,141.00)	**[ICRA]BBB- (Negative)/ [ICRA]A3**	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[ICRA]BBB (Stable)/ [ICRA]A3+**	-

**Instrument details are provided in Annexure-1, #Sublimit of term loan*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Non-fund based limits	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	March 2021	-	FY2044	1,630.00	[ICRA]BBB- (Negative)
NA	Non-fund based (interchangeable with term loan)#	-	-	-	(1,141.00)	[ICRA]BBB- (Negative)/ [ICRA]A3

Source: company, #Sublimit of term loan

[*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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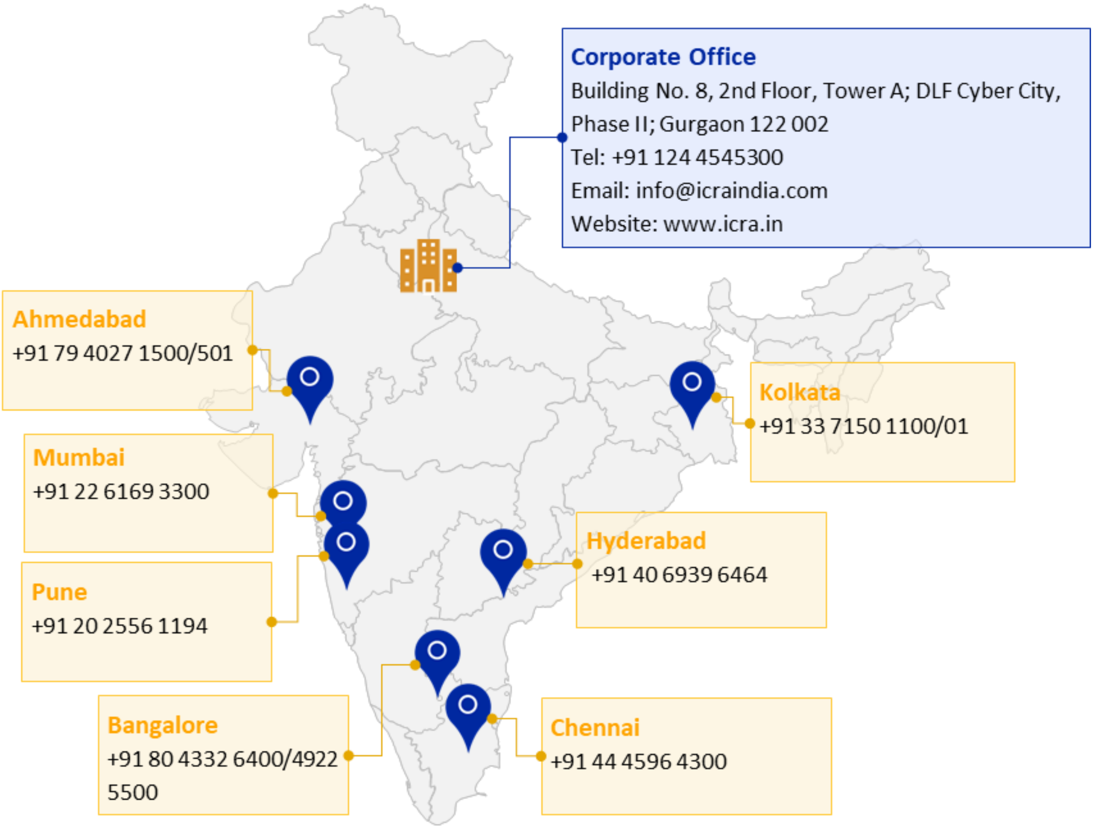

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