

September 12, 2024

Aditya Birla Renewables Limited: [ICRA]AA (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Proposed non-convertible debentures (NCD)	2,500.00	[ICRA]AA (Stable); assigned
Total	2,500.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating for Aditya Birla Renewables Limited (ABReL) factors in the company's strong parentage, being a part of the Aditya Birla Group (ABG). Aditya Birla Renewables Limited (ABReL) is 100% held by Grasim Industries Limited (GIL; rated [ICRA]AAA (Stable)/ [ICRA]A1+), ABG's flagship company. As on June 30, 2024, ABReL has an operational renewable (RE) power capacity of 0.95 GW and assets under construction of ~2.16 GW, which will take the overall group (ABReL and its subsidiaries) portfolio to over 3.1 GW by March 2026, with further plans to grow the RE platform, going forward. ABReL benefits on the financial, operational and managerial front because of its strong parentage.

ICRA positively factors in the presence of long-term power purchase agreements (PPA) with UltraTech Cement Limited, Hindalco Industries Limited, Grasim Industries Limited, Century Enka Limited and Gujarat Urja Vikas Nigam Limited (GUVNL) for about 94% of the overall portfolio capacity of ~3.1 GW, providing revenue visibility. The balance capacity is tied up under long-term PPAs with the state distribution utilities (discoms) of Maharashtra, Karnataka and Odisha. The presence of strong counterparties for a majority of the portfolio is expected to result in timely receipt of payments for the company. The tariff rates offered by the projects of ABReL remain highly competitive against the grid tariffs for the commercial & industrial (C&I) customers and would enable the counterparties to meet their renewable purchase obligation (RPO)/sustainability targets. Also, the tariff offered under the PPAs with the state utilities remains competitive for a majority of the portfolio in relation to the discoms' average power purchase cost. Further, ICRA factors in the competitive cost and the long tenure of the debt availed by ABReL, which is likely to result in adequate debt coverage metrics for the company at a consolidated level.

The rating, however, is constrained by the exposure to execution risks, given that ~2.16-GW capacity under ABReL is under development. The timely completion of land acquisition, transmission infrastructure and sourcing the required equipment within the budgeted costs would remain important to enable the completion of the projects within the scheduled timeline and capital cost.

The rating is also constrained by the vulnerability of the company's cash flows and debt protection metrics to its generation performance. Any adverse variation in weather conditions and module/WTG performance may impact the PLF levels and consequently affect its cash flows, given that the PPA tariff is single part in nature. ICRA takes note of the sub-par performance of the few recently commissioned projects due to irregular radiation, excessive soiling losses and impact of storm. While the company has taken corrective measures, a sustained improvement in the generation performance in line or above the appraised P-90 estimate, including for the upcoming capacity, remains a key monitorable for the company.

Given the debt equity mix of 80:20 for the projects, ABReL is expected to have a leveraged capital structure and the debt coverage metrics would remain exposed to adverse interest rate movements. Further, ICRA notes that ABReL plans to raise up to Rs. 2,500 crore through non-convertible debentures (NCDs) at the holding company level to fund the equity portion of the projects under construction, including the three Inter-State Transmission System (ISTS)-connected renewable energy projects (around 1.1 GW capacity) which are expected to commission in FY2026, to repay the loans extended by the promoters to the company and/or other loans and for general corporate purpose. While this would increase the consolidated leverage of ABReL, the growing asset base and satisfactory generation performance provide comfort. However, any further increase in the

leverage level to meet the project funding requirements will remain a key rating sensitivity. In case of any cash flow mismatch for servicing the interest payments on the proposed NCD, timely support is expected to be forthcoming from GIL. Further, repayment of NCD is expected through fund infusion from GIL and/or equity raise from sale of minority stake to other investors or any such similar arrangement. Overall, ICRA expects GIL to extend funding support to ABReL in case of any cash flow mismatch.

For one of the projects (156 MW) tied up with GUVNL, the PPA has been signed at a tariff of Rs. 1.99 per unit. However, the project cost has escalated due to the imposition of customs duty on imported modules. The company has filed for additional tariff under change-in-law, considering that the duty was imposed post the award of this project with a revision in tariff to minimum of Rs. 2.66 per unit. The timely approval of the increase in tariff by the state electricity regulator remains a credit monitorable for the company.

The Stable outlook on ABReL's rating reflects ICRA's opinion that the company will be able to scale up its operating portfolio by commissioning the underlying projects, supported by the execution track record demonstrated so far and the long-term PPAs with strong counterparties. Further, performance of the operational projects is expected to remain satisfactory, leading to stable cash flows.

Key rating drivers and their description

Credit strengths

Strong financial, operational and managerial support as part of Aditya Birla Group, with Grasim as parent - ABReL is the primary renewable energy holding company of the Aditya Birla Group and is a 100% subsidiary of GIL (rated [ICRA]AAA (Stable)/[ICRA]A1+), which is the flagship entity of the Aditya Birla Group. GIL has significant control over the operations of the renewable arm. The linkages of GIL and ABReL are very strong, given the significant portion of the operational capacity procured by group entities and the common centralised resources. The Group remains committed to providing need-based support to ABReL. The company also benefits from the strong financial flexibility of the Aditya Birla Group, reflected in the cost competitive rate of funding for its various projects.

High revenue visibility and low offtake risks, supported by long-term PPAs and superior tariff competitiveness for ultimate offtakers – The long-term PPAs with tenures of 20–25 years signed with UltraTech Cement Limited, Hindalco Industries Limited, GIL, Century Enka Limited and GUVNL for about 94% of the overall portfolio capacity of ~3.1 GW and the balance with the state utilities of Maharashtra, Karnataka and Odisha provide revenue visibility and mitigate the demand and tariff risks. The weighted average tariff of ~Rs. 3.4/unit offered by the projects of ABReL remains highly competitive against the grid tariffs for the ABG captive customers. Also, the tariff offered under PPAs with the state utilities remains competitive for a majority of the portfolio in relation to the average power purchase cost.

Low counterparty credit risk with majority of the exposure to group entities having strong credit profile and state discoms of Gujarat - The counterparty credit risk for the company is low as ~62% of the capacity is tied up customers like GIL, Hindalco Industries Limited, Ultratech Cement Limited and Century Enka Limited having strong credit profile. Further, 31% of the capacity is tied up with GUVNL ([ICRA]AA- (Stable)/[ICRA]A1+) whose credit profile is also strong. Hence, the presence of strong counterparties for a majority of the portfolio is expected to result in timely receipt of payments for the company.

Demonstrated track record of execution and satisfactory operational track record - ICRA takes comfort from the company's track record of timely execution and an experienced team for operations. The portfolio has demonstrated a satisfactory operating track record, despite issues with some of the projects in the portfolio, with more than 50% of the portfolio having a track record of more than three years. The average PLF for most of the assets remained largely satisfactory, and close to the appraised estimate in FY2024. ICRA notes that for some assets, the PLF in FY2024 remained below the P-90 estimate on account of project-specific factors, such as excessive soiling losses, irregular radiation levels, impact of storm and grid unavailability. However, the company has taken necessary corrective measures to ensure improved generation performance for these assets,

going forward. Hence, the company's ability to improve and sustain the generation performance of the assets remains a key monitorable.

Credit challenges

Execution and stabilisation risks arising from large under-construction portfolio – The projects under ABReL remain exposed to project execution and stabilisation risks as ~2.16-GW capacity is under-construction. Of the under-construction capacity, ~1 GW is expected to be operational by December 2024 and the remaining by March 2026. The company's ability to secure the required approvals/land and commission the projects as per the applicable timelines and budgeted cost remains critical. A timely achievement of financial closure for the under-construction capacity also remains important. Further, the company is exposed to the adverse movements in solar module prices and wind turbine generator (WTG) prices. Post the commissioning of the projects, ABReL's ability to achieve timely stabilisation of assets and ensure satisfactory operational performance in line with the expected PLF level remains important from a credit perspective.

Exposure to PLF variation and interest rate risk – The debt metrics for solar & wind power projects remain sensitive to the PLF level, given the one-part tariff structure under the PPA. Hence, any adverse variation in weather conditions and/or module/WTG performance may impact the PLF and consequently the cash flows. Moreover, given the single-part tariff for the entire project duration and the leveraged capital structure for the projects under the SPVs, the company's consolidated cash flows and debt metrics remain exposed to interest rate risk.

Elevated leverage owing to the debt availed for funding equity requirement; group support is a key mitigants – The pending capital expenditure (capex) as on June 30, 2024 for the under-construction portfolio under various SPVs is ~Rs. 7,500 crore which is expected to be funded through mix of debt under the respective SPVs and through equity infusion from the holding company. ICRA notes that ABReL plans to raise up to Rs. 2,500-crore NCD on its books to part fund the project SPVs' equity requirements, to repay the loans extended by the promoters to the company and/or other loans and for general corporate purpose. While this would increase the consolidated leverage of ABReL, the growing asset base and a satisfactory generation performance provide comfort. However, any further increase in the leverage to meet the project funding requirements will remain a key rating sensitivity.

In case of any cash flow mismatch for servicing the interest payments on the proposed NCD, timely support is expected to be forthcoming from GIL. Further, repayment of NCD is expected through fund infusion from GIL and/or equity raise from sale of minority stake to other investors or any such similar arrangement. Overall, ICRA expects GIL to extend funding support to ABReL in case of any cash flow mismatch.

Regulatory risks arising from exposure to open access regulations and forecasting & scheduling framework – The Group's operations remain exposed to regulatory risks pertaining to the scheduling and forecasting requirements applicable for renewable energy projects, given the intermittent nature of generation. Also, the Group remains exposed to any adverse revision in regulations for captive projects as well as revision in open access charges, which could impact the competitiveness of the tariff offered.

Liquidity position: Adequate

The company's liquidity position is expected to remain adequate, with the cash flows from the operating projects likely to be sufficient to meet its corresponding debt obligations. The funding for the new projects is expected to be met through project-specific debt and the NCD being availed at a standalone level mainly to fund the equity requirements for projects. ICRA draws comfort from the support available from the parent (GIL) in case of a cash flow mismatch. At a standalone level, the company had cash and bank balances of ~Rs. 70 crore as on June 30, 2024. Further, at the consolidated level, the company had a cash balance of ~Rs. 447 crore, including DSRA, as on March 31, 2024.

Rating sensitivities

Positive factors – The rating can be upgraded if the company is able to improve its debt coverage indicators on the back of a healthy generation performance of the renewable assets in line or above the appraised PLF level along with the progress in commissioning the under-construction projects without any major time and cost overruns.

Negative factors – The rating could be downgraded in case of significant delays or cost overrun for the projects under development, thereby increasing the leverage level and moderating the debt coverage metrics. Further, a material under-performance in the generation of the operating assets adversely affecting the debt service coverage metrics or delays in receiving payments from the offtakers impacting ABReL's liquidity profile could warrant a downgrade. Also, delay in the inflow of equity proceeds/parent funding, or a change in the support policy of the parent to ABReL, or a downgrade of the parent's credit profile could weigh on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar Power - Wind
Parent/Group support	Parent Company: Grasim Industries Limited ICRA expects ABReL's parent, Grasim Industries Limited (rated [ICRA]AAA(Stable)/[ICRA]A1+), to extend financial support to ABReL, should there be a need. Further the name – Aditya Birla - has been given to the renewable business, which in ICRA's opinion would persuade GIL to provide financial support to ABReL to protect its reputation from the consequences of distress
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ABReL and its subsidiaries [Details in Annexure II]

About the company

ABReL is the primary renewable energy holding company of the Aditya Birla Group and is a 100% subsidiary of Grasim Industries Ltd. (GIL; rated [ICRA]AAA (Stable)/ [ICRA]A1+), which is the flagship entity of the Aditya Birla Group. In the renewable energy domain, ABReL has an operating capacity of 0.95 GW, and an under-construction capacity of 2.16 GW as on June 30, 2024. Hence, the cumulative operational capacity will be ~3.1 GW by FY2026.

The under-construction capacity includes 500-MW AC capacity won through bidding from the Gujarat Urja Vikas Nigam Limited (GUVNL) at Rs. 2.3 per unit. These projects are in an advanced stage and are expected to be commissioned by December 2024. It also includes 1.1 GW of ISTS-connected renewable projects with Hindalco Industries Limited and UltraTech Cement Limited which are in early stages of development. The Group is focused on increasing its presence in the renewable energy segment and plans to reach an overall portfolio capacity of ~8 GW by FY2030.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	288.3	377.5
PAT	-14.0	-186.9
OPBDIT/OI	69.0%	59.8%
PAT/OI	-4.8%	-49.5%
Total outside liabilities/Tangible net worth (times)	3.3	8.9
Total debt/OPBDIT (times)	15.9	33.8
Interest coverage (times)	1.4	0.8

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: ICRA has taken note of a one-day delay in the interest payment on the bank loan highlighted in the FY2024 audit report of ABReL. Based on management clarification, ICRA understands that the delay was on account of a technical issue due to which the required funds couldn't be transferred into the designated account on the due date. The due payment was made on the next day. The delay was a one-off event on account of a technical issue and it does not reflect ABReL's lack of financial ability or willingness to pay its debt obligations. Hence, the incident does not have any impact on ABReL's inherent credit quality.

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs crore)	Sep 12, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Proposed non-convertible debentures (NCD)	Long term	2,500.00	[ICRA]AA (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Proposed non-convertible debentures (NCD)	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*	Proposed non-convertible debentures (NCD)	NA*	NA*	NA*	2,500.00	[ICRA]AA (Stable)

Source: Company; *Yet to be placed

Annexure II: List of entities considered for consolidated analysis –

Company Name	Ownership	Consolidation Approach
Aditya Birla Renewables Ltd	100.00% (Holding Company)	Full Consolidation
Aditya Birla Renewables SPV1 Ltd	74.00%	Full Consolidation
Aditya Birla Renewables Subsidiary Ltd	74.00%	Full Consolidation
Aditya Birla Renewables Utkal Ltd	74.00%	Full Consolidation
Aditya Birla Renewables Energy Ltd	74.00%	Full Consolidation
ABReL SPV2 Ltd	100.00%	Full Consolidation
Aditya Birla Renewables Solar Ltd	74.00%	Full Consolidation
Aditya Birla Renewables Green Power Private Ltd (formerly known as Waacox Energy Private Ltd)	100.00%	Full Consolidation
ABREL Solar Power Ltd	74.00%	Full Consolidation
ABReL Renewables EPC Ltd	100.00%	Full Consolidation
ABReL Century Energy Ltd	74.00%	Full Consolidation
ABREL EPPCO Ltd	100.00%	Full Consolidation
ABREL EPC Ltd	100.00%	Full Consolidation
ABREL (Odisha) SPV Ltd	74.00%	Full Consolidation
ABREL (MP) Renewables Ltd	74.00%	Full Consolidation
ABREL Green Energy Ltd	74.00%	Full Consolidation
ABREL (RJ) Project Limited	74.00%	Full Consolidation
ABReL Hybrid Projects Ltd	100.00%	Full Consolidation

Source: Company

ANALYST CONTACTS

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Rachit Mehta

+91 22 6169 3328

rachit.mehta2@icraindia.com

Arnav Gandhi

+91 22 6169 3352

arnav.gandhi@icraindia.com

Vikram V

+91 40 6939 6410

vikram.v@icraindia.com

Saurabh Omprakash Gupta

+91 22 6169 3359

saurabh.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:

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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.

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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