

January 31, 2025

Azure Power Thirty Eight 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	30.60	26.46	[ICRA]BBB (Stable); reaffirmed
Total	30.60	26.46	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of the rating factors in the financial flexibility, managerial strength and demonstrated financial support that Azure Power Thirty Eight Private Limited (APTEPL) derives from its parent, Radiance Renewables Private Limited (RRPL, rated [ICRA]A(Stable)/[ICRA]A2+), which is backed by the Green Growth Equity Fund (GGEF). The National Investment and Infrastructure Fund (NIIF) of the Government of India and the Department of International Development (DFID), Government of UK, are the anchor investors in GGEF. RRPL acquired a 67-MW rooftop portfolio from Azure Power India Limited (APIPL) in February 2022. While complete operational control wrests with RRPL, which holds a 49.6% stake in APTEPL, the balance stake will be acquired after the expiry of Azure Power India Private Limited's (APIPL) two-year lock-in period.

While necessary improvements in the installed equipment and infrastructure for module cleaning at various sites have been completed, APTEPL's performance remained flat in FY2024 with a PLF of 10.08% against 10% in FY2023 as the generation was impacted by adverse weather conditions. Consequently, the DSCR remained less than 1.0x in the previous fiscal as well. However, the company's collection efficiency has improved, evident from a significant increase in collections to Rs. 10.40 crore in FY2024 and Rs. 8.49 crore in 9M FY2025 (against Rs. 5.53 crore in FY2023 & FY2022), which has shored up the liquidity position (free cash/liquid funds of Rs. 4.99 crore as on December 31, 2024). Despite the sub-par generation performance, ICRA expects the company to have sufficient on-balance sheet liquidity to help it tide itself over temporary cash flow timing mismatches to meet the debt service obligations over the medium term.

The rating remains constrained by the sub-optimal performance of APTEPL's 15.2-MW distributed rooftop capacity with the generation remaining substantially lower than the P-90 estimates (14.59%), necessitating promoter support to meet the funding shortfall/debt servicing in the previous years. At present, the liquidity position is supported by the significant cash collections since FY2024. ICRA expects RRPL to bring in funding support in case of cash flow mismatches to ensure timely debt servicing by APTEPL.

The Stable outlook on the rating reflects ICRA's opinion that until APTEPL is able to significantly improve its generation from the prevailing levels, its healthy on-balance sheet liquidity is expected to be comfortable to meet any shortfalls in debt servicing. The Stable outlook also reflects ICRA's expectation that the operational efficiency measures being undertaken by APTEPL will help improve its generation performance FY2026 onwards (PLF in the range of 10.25-10.5%), which can plug the cash flow shortfalls, going forward.

Key rating drivers and their description

Credit strengths

Strong parent support from Radiance – APTEPL derives superior financial flexibility and managerial strengths from its strong parent RRPL, which is backed by Green Growth Equity Fund (GGEF). The National Investment and Infrastructure Fund (NIIF) and the Department of International Development (DFID), Government of UK, are the anchor investors in GGEF. As on date,

RRPL, on a consolidated basis, has an operational capacity of ~515 MWp, including ~75-MWp of rooftop solar projects and the remaining ~440-MWp of ground-mount solar projects. APTEPL is, thus, expected to benefit from the superior operations & maintenance capabilities and the strong financial flexibility of its parent, RRPL. ICRA also expects RRPL to provide need-based financial support to APTEPL.

Revenue visibility from long-term PPA with Delhi Jal Board – APTEPL has low offtake risk because of its 25-year PPA with the Delhi Jal Board (DJB) at a remunerative fixed tariff of sub-Rs. 5 per unit for the 15.2-MW rooftop plants. The PPA provides long-term revenue visibility for the company. The tariff continues to be competitive and at a discount of 20%+ to the grid tariff.

Liquidity supported by improved collections, fully-funded DSRA and timely support from parent – The company has a two-quarter DSRA of Rs. 4.33 crore and liquid funds of Rs. 4.99 crore as on December 31, 2024, aided by cash collections of Rs. 18.89 crore between FY2024 and 9M FY2025 from DJB. In addition, ICRA expects timely and adequate funds from RRPL for meeting any cash flow mismatches and ensuring timely debt servicing, which further supports the liquidity position.

Credit challenges

Generation lower than P-90 estimate – APTEPL's 15.92-MW distributed rooftop capacity reported a flat performance in FY2024 with PLF at 10.08% against a PLF of 10.0% in FY2023 (9.83% in FY2022) owing to various issues, including shadowing, inadequate cleaning and O&M infrastructure. Further, considering the vintage of the installed rooftop assets, ICRA expects the company's efforts to engage with the Offtaker to address these issues, along with the integration of the assets with RRPL's own centralised monitoring system, to gradually improve the generation performance from FY2026 with PLF in the range of 10.25%-10.50% in-line with last 2 years.

Counterparty credit risk – The counterparty credit risk for APTEPL is high as DJB offtakes all the power generated from the plant for the entire duration of 25 years of the project. Nevertheless, the company has been receiving payments after continuous deliberations with the senior management of DJB to improve the invoicing & payment mechanism by streamlining the process, which helped improve the receivable cycle to ~10 months in FY2024 from 16 months in FY2023. The receivable cycle is expected to further improve to an estimated 4 months in FY2025. However, the progress in the collection of arrears and a sustained improvement in the receivable pattern remain the key rating monitorable.

Cash flows vulnerable to variation in weather conditions – Key factors that may impact the operations of a solar plant are the solar radiation levels, losses in PV systems due to temperature and climatic conditions, design parameters of the plant, inverter efficiency and module degradation due to ageing. Given the fixed and single part nature of the tariff, APTEPL's revenues and in turn the cash flows remain exposed to the weather patterns, affecting the solar irradiation levels and, hence, the generation.

Liquidity position: Adequate

The liquidity profile of the company is adequate, reflected in the availability of free cash of Rs. 4.99 crore and a DSRA of Rs. 4.33 crore maintained in fixed deposits as on December 31, 2024. Going forward, the company's free cash flows are expected to be ~Rs. 6.5 crore in FY2025 and ~Rs. 2.5 crore in FY2026, against scheduled annual debt service obligations of ~Rs. 3.3 crore during both these years. The cash shortfall expected in the next fiscal (FY2026) can be comfortably met with the sizeable on-balance sheet liquidity. Moreover, ICRA expects the promoter group to infuse additional funds to meet any cash flow mismatch.

Rating sensitivities

Positive factors – An improvement in the generation performance, leading to a cumulative DSCR above 1.10x on a sustained basis will support an upgrade. Further, the ratings could also be upgraded if the credit profile of the parent, Radiance Renewables Private Limited, improves.

Negative factors – Pressure on APTEPL's rating could arise if the liquidity position deteriorates significantly, which, along with the inability to improve the generation levels, leading to persistent cash flow timing mismatches and dependence on external

support to meet the scheduled debt service requirements. Also, the rating could be revised downwards if APTEPL's linkage with the parent weakens, or if the credit profile of its parent. i.e., Radiance Renewables Private Limited, deteriorates.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar
Parent/Group support	Parent RRPL holds 49% stake in Azure Power Thirty Eight; though majority stake is with APIPL, RRPL has complete control of APTEPL The assigned rating derives comfort from the strong parent support of RRPL which is expected to meet the funding requirements or cash flow mismatches of APTEPL, as and when required
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

APTEPL was incorporated in 2008 as a subsidiary of Azure Power India Pvt. Ltd. (APIPL). Radiance Renewables Private Limited (RRPL) acquired a 48.6% stake in April/May 2022 from APIPL, which now holds a 51.4% stake in APTEPL. This stake was to be transferred to RRPL after the expiry of the PPA lock-in period of two years in November 2024. As per management guidance, the stake transfer is now expected to be completed by March 2025.

APTEPL has set up a solar power capacity of 15.2 MW (reduced from 16 MW; on various rooftops) across 67 project locations provided by the Delhi Jal Board (DJB). These projects are set up under the RESCO model wherein the consumer (DJB) pays only for the electricity generated, while the solar plant is owned by the RESCO developer (Azure Group). This capacity was won through a tender floated by DJB. APTEPL has signed a long-term PPA of 25 years with DJB at a tariff of Rs 4.94/unit.

Key financial indicators (audited)

Company name	FY2023	FY2024
Operating income	7.5	6.9
PAT	-5.4	-7.5
OPBDIT/OI	62.8%	14.3%
PAT/OI	-72.8%	-109.5%
Total outside liabilities/Tangible net worth (times)	5.8	22.2
Total debt/OPBDIT (times)	14.0	72.1
Interest coverage (times)	0.8	0.1

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	Type	Current (FY2025)		Chronology of rating history for the past 3 years							
		Amount rated (Rs. crore)	31-Jan-2025	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term Loans	Long term	26.46	[ICRA]BBB (Stable)	-	-	31-Oct-2023	[ICRA]BBB (Stable)	29-Jul-2022	[ICRA]BBB (Stable)	14-Apr-2021	[ICRA]BBB &

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	Term loan	June 2017	NA	December 2032	26.46	[ICRA]BBB (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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