

November 14, 2019

## Arkas Energy LLP: Rating downgraded to [ICRA]D and moved to Issuer Not Cooperating Category

### Summary of rated instruments

Instrument <sup>#</sup>	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Term Loan	23.00	23.00	[ICRA]D ISSUER NOT COOPERATING*; Rating downgraded from [ICRA]B (Stable) and moved to 'Issuer Not Cooperating' category
<b>Total</b>	<b>23.00</b>	<b>23.00</b>	

<sup>#</sup> Instrument details are provided in Annexure-1

\* Issuer Not Cooperating due to Non-submission of No Default Statement (NDS)

### Rationale

The rating downgrade primarily considers unfavourable debt-serving track record of Arkas Energy LLP (AEL) in the recent past, as confirmed by the lender. The rating is also constrained by weak generation profile of three wind power assets in Karnataka, Madhya Pradesh (MP) and Andhra Pradesh (AP). Delayed payments from the counterparties in MP and AP, extending over around six months, stressed the liquidity profile of the company. The rating also factors in the seasonality and possible variance in wind power density across years, which can impact year-on-year returns as revenues are linked to actual generation.

The rating, however, considers the long-term Power Purchase Agreements (PPAs) with state discoms, which lend comfort by mitigating demand risk to a large extent. The rating is further supported by the diversification benefit arising from the location of three plants at three different states.

The rating is based on limited information on the entity's performance since the time it was last rated in July 2018. The lenders, investors and other market participants are thus advised to exercise appropriate caution while using this rating as the rating may not adequately reflect the credit risk profile of the entity, despite the downgrade.

As part of its process and in accordance with its rating agreement with Arkas Energy LLP, ICRA has been trying to seek information from the entity to monitor its performance. Despite repeated requests by ICRA, the entity's management has remained non-cooperative. In the absence of requisite information and in line with SEBI's Circular No. SEBI/HO/MIRSD4/CIR/2016/119, dated November 1, 2016, ICRA's Rating Committee has taken a rating view based on the best available information.

### Key rating drivers and their description

#### Credit strengths

**Long-term PPAs with state discoms mitigate offtaker's risk to a large extent** – The three power assets have tied up 25-year PPAs with respective state discoms, mitigating demand risk to a large extent. The Karnataka plant has signed a PPA with Bangalore Electricity Supply Company Limited (BESCOM) at a tariff of Rs. 3.40/unit while the MP plant has tied up a PPA with Madhya Pradesh Power Management Company Limited (MPPMCL) at a tariff of Rs. 4.78/unit. The third PPA for the AP plant has been signed with Southern Power Distribution Company of AP Limited (SPDCAL) at a tariff of Rs. 4.84/unit.

**Benefits from geographical diversification as plants are located at three different sites** – The three plants are located at three different sites, which largely offsets asset concentration risk. Unavailability or low availability of wind resource at one site is not expected to result in volatility in cash flows as the same is often compensated by higher resource availability at the other.

### Credit challenges

**Delays in servicing of debt obligations** – The company has delayed in timely servicing of debt obligations in the recent past due to its stretched liquidity position, leading to overdue interest and principal on its term loans.

**Weaker generation profile in all three assets raises concern** – The generation has been below the estimated levels in all the three assets, which has significantly impacted revenues and profitability. Generation in MP plant has been affected by grid unavailability issues apart from low wind resource availability at the project site. Generation in the Karnataka plant was subdued because of low wind availability. The AP plant’s generation was low as the unit was yet to be stabilised.

**High receivable days because of delayed payments from counterparties affect liquidity** – Payments in MP are received with a delay of around six months, while no payments have been received since the commissioning in case of the AP plant. This stressed the liquidity as the company depends on timely payments from the counterparties to service its debt obligations.

**Vulnerability of cash flows to weather conditions as tariffs are linked to actual generation** – As revenues are linked to actual generation, any variance in wind levels would directly affect the revenues of the company. However, the same is mitigated to some extent as the company had conducted site specific wind resource assessment at the MP and AP plants.

### Liquidity position: Poor

AEL’s liquidity position would continue to remain poor in view of delayed payments from the counterparties.

### Rating sensitivities

**Positive triggers** – Regularisation of debt servicing on a sustained basis (more than three months), following improvement in liquidity profile of the entity may result in a rating upgrade.

**Negative triggers** – Not applicable

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Wind Power Producers</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the entity

### About the company:

Incorporated in June 2015, Arkas Energy LLP (AEL) is primarily involved in the business of power generation and distribution activities. The company owns and operates 1x1.25 MW wind turbine generator (WTG) at Kappadgudda, Karnataka, 2x2 MW WTG at Mandsaur, MP and 1x2.1 MW WTG at Vajrakarur, AP. AEL is a group concern of Bhilai Engineering Corporation Ltd., rated at CRISIL D (withdrawn).

The Karnataka asset was acquired from one of AEL's Group company, Vishva Vishal Engineering Limited, in December 2015 at a capital cost of Rs, 0.86 crore, entirely funded by the promoters. The company further installed two WTGs of 2 MW each at Mandasaur district in MP (downsized from five WTGs of 2 MW each), which commenced operations in June 2016. The AP asset has been commissioned in March 2017.

### Key financial indicators

Not applicable

### Status of non-cooperation with previous CRA

Not applicable

### Any other information

Not applicable

### Rating history for last three years

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore) March 31, 2018	Rating	FY2019	FY2018	FY2017
1 Term Loan	Long Term	23.00	21.20	14-Nov-2019 [ICRA]D ISSUER NOT COOPERATING*	10-Aug-2018	-	-
					[ICRA]B (Stable)	-	-

Source: Arkas Energy LLP

\* ISSUER NOT COOPERATING due to Non Submission of No Default Statement (NDS)

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Dec 2015	NA	Dec 2026	12.74	[ICRA]D; ISSUER NOT COOPERATING*
NA	Term Loan 2	Dec 2016	NA	Dec 2027	10.26	[ICRA]D; ISSUER NOT COOPERATING*

Source: Arkas Energy LLP

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### Annexure-2: List of entities considered for consolidated analysis

Not applicable

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