

July 16, 2020 Revised

Alfanar Energy Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term loan	1410.00	[ICRA]BBB+ (Stable); assigned
Non-fund Based Letter of Credit#	(1268.00)	[ICRA]BBB+ (Stable)/ [ICRA]A2; assigned
Long term Unallocated	90.00	[ICRA]BBB+ (Stable); assigned
Total	1500.00	

*Instrument details are provided in Annexure-1; #sublimit of term loan facility

Rationale

The assigned ratings factor in the high revenue visibility and the low offtake risk for the 300 MW wind power project of Alfanar Energy Private Limited (AEPL) because of the presence of long-term (25-year) power purchase agreement (PPA) with Solar Energy Corporation of India Limited (SECI), at a fixed tariff of Rs. 2.45 per unit. SECI is an intermediary counterparty and has signed a power supply agreement (PSA) with the state-owned distribution utilities (discoms) in Bihar and Delhi and with Tata Power Delhi Distribution Company, which are the ultimate off-takers. The ratings further positively consider the high tariff competitiveness, with the bid tariff remaining lower than the average power purchase cost of the off-taking discoms. Moreover, the payment security mechanism in the PPA/PSA arrangement is relatively superior (as against the state policy PPAs), given the provision for letter of credit equal to average three-month billing, which would be issued by SECI post commissioning. Further, the additional provisions in the PPA/PSAs related to compensation available in case of grid curtailment or backdown and the termination liability in the event of default by the discoms provide a source of comfort. Also, the ratings draw comfort from the advance construction progress achieved by the project, with expected commissioning of ~150 MW by July 2020 and the balance capacity by September 2020, ahead of the scheduled commercial operation date (SCoD) of December 29, 2020. While assigning the rating, ICRA also takes into consideration the low regulatory risk for the project, as tariff under the PPA and PSA has been adopted by the regulatory bodies i.e. Central Electricity Regulatory Commission (CERC) / State Electricity Regulatory Commission (SERC). Further, the rating takes into account the low funding risk as the entire promoter contribution (Rs. 576 crore) has been infused and the entire debt funding (Rs 1410 crore) has been tied up, with a long maturity profile.

However, the rating is constrained by the Group's limited track record in setting up renewable power projects in India—this project is the first such project of the Alfanar Group in India. The demonstration of timely commissioning of the full project capacity within the scheduled commissioning date and the stabilisation of operations post commissioning remains important. Moreover, the ability of the project to achieve the design P90 PLF of 37.90% in a sustained manner remains crucial from a credit perspective. Further, given the single-part nature of the fixed tariff in the PPA, the cash flows remain sensitive to variation in weather conditions and wind seasonality. Additionally, the company remains exposed to asset concentration risk, as the entire capacity is located at a single site in Gujarat. The project credit metrics also remains exposed to movement in interest rate, given the single-part nature of the PPA tariff. Also, the company remains exposed to regulatory challenges associated with the implementation of scheduling and forecasting framework for wind power sector.

Key rating drivers and their description

Credit strengths

Revenue visibility with presence of long-term PPA and high tariff competitiveness – AEPL has low offtake risks owing to the presence of a long-term (25-year) PPA at a highly competitive tariff of Rs. 2.45 per unit for the entire duration of the project, i.e. till December 2045. The long-term PPAs provide revenue visibility to the company. SECI is an intermediary counterparty and has signed PSAs with the state-owned distribution utilities in Bihar and Delhi and Tata Power Delhi Distribution Company, which are the ultimate off-takers. Further, the applicable tariff of Rs. 2.52/unit for the distribution utilities, i.e. the ultimate off-takers, is highly competitive in the long run, given that the average power purchase cost for the utilities is relatively high (>Rs.4.5/unit). Additionally, the regulatory uncertainty for this project is low as tariff under PPA and PSA has already been adopted by the regulatory bodies i.e. CERC/ SERC.

Relatively superior PPA with SECI and low counter-party credit risk –The PPA with SECI is relatively superior as against the state policy PPAs, due to favourable payment security mechanism with a provision for letter of credit equal to average three-month billing as well as provision for generation compensation for grid unavailability or backdown and termination liability in the event of default by the discoms. Further, SECI being included under Tripartite Agreement (TPA) provides a strong comfort. These factors coupled with high tariff competitiveness mitigate the counterparty credit risk associated with the ultimate off-takers.

Low funding risk and long tenure debt availability – The entire promoters' contribution of Rs 576 crore has already been infused. Also, debt funding for the entire project debt of Rs 1410 crore has been tied up with tenure of 19.25 years from SCOD or actual COD including 9 months moratorium.

Established track record of Alfanar group in power and transmission sector – Though Alfanar Group has limited experience in India in renewable projects, this risk is mitigated to a certain extent by the Group's established track record in the power and transmission sector through its EPC business in Saudi Arabia and in renewable projects in other countries. In the power sector, the Group has set up thermal power projects, having cumulative capacity of 850 MW and in the transmission sector, it has set up various substation, transmission line and underground cable projects in Saudi Arabi. Further, the Group also has experience in renewable energy segment; it has developed a 50 MW solar project in Egypt and another 430 MW wind projects are under construction/development in Spain.

Credit challenges

Exposure to residual execution risk given that the project is in final stages of completion – The project construction work has reached an advanced stage, with expected commissioning of ~150 MW by July 2020 and balance capacity by September 2020, ahead of the SCoD of December 29, 2020. However, timely commissioning of the full project capacity and stabilisation of operations post commission remain key monitorable.

Vulnerability of cash flows to variation in weather conditions – As tariffs are one part in nature, the company may book lesser revenues in the event of non-generation of power due to variation in weather conditions. This in turn would affect its cash flows and debt servicing ability. The ability of AEPL to ensure satisfactory machine availability (through comprehensive O&M contract) to have PLF level in line with base case estimate at p-90 level of 37.90% post commissioning of the project, also remains important from the credit perspective. The decline in PLF by 10% over the base case PLF is estimated to result in a decline in cumulative average DSCR by 15 bps.

Limited track record of Group in setting up wind/renewable energy projects in India - The Group is a new entrant in India, with this project under AEPL being a first renewable project in India. Hence, track record of PLF performance in line with the P-90 estimate remains to be demonstrated.

Geographical concentration and interest rate risk – The company remains exposed to geographical concentration risk with the entire capacity is in a single site in Gujarat. It also remains exposed to interest rate risk, given the single-part nature of the PPA tariff.

Regulatory risk associated with implementation of scheduling and forecasting framework for wind sector - The company’s operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for renewable energy projects, given the limited experience of developers in operating under Indian condition.

Liquidity position: Adequate

The liquidity profile of the company is adequate given that the entity has tied-up the required equity and debt for the 300 MW under-construction wind power project. Post commissioning, the liquidity is expected to be supported by timely receipt of payments expected from SECI. The project is expected to be commissioned by September 2020 and the debt repayment would commence post June 2021.

Rating sensitivities

Positive triggers – ICRA would upgrade AEPL’s rating in case of timely stabilisation of operations post commissioning and demonstration of actual generation level in line with the expected P-90 estimate in a sustained basis, leading to healthy cash accruals for the company. Specific credit metric for upgrade would be receivables remaining below 75 days and DSCR above 1.2 times on a sustained basis.

Negative triggers – The ratings would be downgraded in case of delay in commissioning of the full project capacity and/or actual asset performance remaining lower than the estimated P90 level on a sustained basis. Also, delays in receipt of payment from the off-taker, leading to an adverse impact on liquidity profile, would be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Wind Energy Projects
Parent/Group Support	NA
Consolidation/Standalone	Standalone financial profile

About the company

AEPL 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. AEPL is setting up a 300-MW wind power project in Bhuj, Gujarat. The capacity was awarded via reverse bidding process conducted by SECI under its tranche III wind power auction for 2 GW of Inter-State Transmission system (ISTS)-connected projects. The approved commissioning date for the project is December 29, 2020.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	NA	NA
PAT (Rs. crore)	NA	NA
OPBDIT/OI (%)	NA	NA
RoCE (%)	NA	NA
Total Debt/TNW (times)*	NA	NA
Total Debt/OPBDIT (times)*	NA	NA
Interest Coverage (times)	NA	NA

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years	
	Type	Amount Rated (Rs. crore)	Amount Outstanding [^] (Rs. crore)	Date & Rating July 16, 2020	Date & Rating in FY2020	Date & Rating in FY2019
1 Term loan	Long Term	1410	414.38	[ICRA]BBB+ (Stable)	-	-
2 Non-fund Based-Letter of Credit*	Short Term	(1268)	619.00	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-
3 Unallocated	Long term	90	Nil	[ICRA]BBB+ (Stable)		

*Sublimit of term loan facility

[^] Outstanding as on June 16, 2020

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

Annexure-1: Instrument Details:

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	16-Aug-18	11.2%	31-Dec-39	1410.00	[ICRA]BBB+ (Stable)
NA	Non-fund Based-Letter of Credit*	16-Aug-18	-	-	(1268.00)	[ICRA]BBB+ (Stable)/ [ICRA]A2
NA	Unallocated	-	-	-	90.00	[ICRA]BBB+ (Stable)

*Sublimit of term loan facility

Source: AEPL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Corrigendum

Rationale dated July 16, 2020 has been corrected with revision as detailed below

- The relationship contact on page number 7 is corrected to Jayanta Chatterjee from L Shiva Kumar

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