

February 24, 2021

## NVR Renew Private Limited: Rating assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term– Term Loan	10.00	[ICRA]A- (Stable); Assigned
<b>Total</b>	<b>10.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA's assigned rating for NVR Renew Private Limited (NRPL) favourably factors in the operational nature of its 20 MW solar project in Karnataka with the availability of long-term power purchase agreement (PPA) (25-year) with Bangalore Electricity Supply Company Limited (BESCOM) at a fixed tariff rate of Rs. 4.36 per unit. The rating also factors in the strength derived from the presence of an experienced sponsor - Atha Group, which has a demonstrated track record of developing and operating ~355 MW solar power projects across multiple states. Furthermore, ICRA positively takes note of the refinancing of the long-term debt by NRPL in January 2021, extending the repayment tenure to 17 years from residual tenure of 8 years earlier, along with a competitive interest rate. With refinancing of the project debt, ICRA expects NRPL's debt coverage metrics to be comfortable, with the cumulative debt service coverage ratio (DSCR) on the external debt to remain above 1.3x over the debt tenure. Also, ICRA notes that the servicing of the loans extended by the sponsor including investment in the form of compulsorily convertible debentures (CCDs) remains sub-ordinated to the external debt. This apart, the timely payments from BESCOM so far, presence of cash debt service reserve account (DSRA) equivalent to two quarters of interest and principal payments as well as lender stipulated inverter replacement reserve provide a comfort from the credit perspective.

The rating, however, is constrained by the single location and the single asset of the company's operations, and the vulnerability of cash flows to weather conditions and module performance like any other solar project. This is because the revenues are linked to actual units generated and exported, considering the single part tariff under the PPA. ICRA also take note that the generation performance has been lower than the P-90 estimate, owing to a mix of issues including lower than estimated solar radiation and grid curtailments amid the growing share of renewable energy in the overall electricity generation in Karnataka. Nonetheless, ICRA notes that the generation in 10M FY2021 has improved by nearly 8% when compared to 10M FY2020, supported by focus on O&M activity and lower instances of grid curtailment. Moreover, the state power utilities are undertaking measures to augment the transmission infrastructure in the state, to enable an efficient integration of renewable energy generation with the grid. This would remain a key rating monitorable for the company, going forward. This apart, the rating is also constrained by the susceptibility of cash flows to counterparty credit risk, arising from the exposure to a single buyer, BESCOM. Nonetheless, ICRA notes that the payments have been timely from BESCOM (rated [ICRA]A- (Negative)) since commissioning. Moreover, BESCOM maintains a revolving letter of credit (LC) equivalent to the average monthly billing in favour of NRPL, thus minimising the counterparty credit risk. Further, the debt coverage metrics of NRPL remain exposed to interest rate movement, given the fixed nature of the tariff under the PPA. Nonetheless, ICRA notes that the interest rate is fixed for five years under the sanction terms with the lender. The rating also factors in the regulatory challenge associated with the implementation of forecasting and scheduling mechanism for solar power projects in Karnataka. However, the risk is less prominent for solar power project compared to wind power projects.

The Stable outlook assigned to the company factors in the presence of the long-term PPA for the full project capacity, the timely realisation of payments from the off-taker and the experience of the management in operating solar power plants.

## Key rating drivers and their description

### Credit strengths

**Presence of long-term PPA** - The company has signed a long-term PPA (25-years) with BESCO at a fixed tariff rate of Rs. 4.36 per unit, mitigating the demand and pricing risks. The tariff rate is competitive in relation to the average power procurement cost of the off-taker.

**Refinancing of long-term debt to improve debt coverage metrics** - The refinancing of the long-term debt by NRPL, wherein the repayment tenure is extended to 17 years from the earlier residual tenure of 8 years, along with a competitive interest rate has improved the company's debt coverage metrics.

**Liquidity supported by timely receipt of payments from BESCO and presence of cash DSRA** - The company is receiving payments in a timely manner from BESCO. This along with the presence of cash DSRA equivalent to two quarters of interest and principal payments provides credit comfort to the company

**Demonstrated track record of Atha Group in solar power sector** - NRPL is part of the Kolkata based Atha Group, which has demonstrated a satisfactory track record in developing and operating solar power projects with operating capacity of ~355 MW.

### Credit challenges

**Single-asset nature of operations; sensitivity of debt metrics to energy generation** - NRPL is entirely dependent on power generation by the solar power project for its revenues and cash accruals, given the single-part nature of the tariff under the PPA with BESCO. As a result, any adverse variation in weather conditions or module performance may impact its PLF and consequently its cash flows. The single location and single asset nature of the company's operations increased this risk.

**Subdued generation performance** – The generation performance of the 20 MW solar power project has remained below the P90 estimates, owing to a mix of issues including lower than estimated radiation and grid curtailments. This along with relatively shorter debt repayment tenure in relation to the PPA tenure and the reduction in PPA tenure, had earlier adversely impacted the company's financial performance. Nonetheless, the generation performance is witnessing a gradual improvement, with the generation increasing by nearly 8% in 10M FY2021 vis-à-vis 10M FY2020. Further, while the company has sourced modules from reputed global suppliers like Renesola and Hanwha Solar, the timely enforcement of warranty claims in case of higher than expected degradation remains important.

**Counter party credit risk arising from exposure to a single buyer** - The company remains exposed to counterparty credit risks due to exposure to a single buyer, namely BESCO. The credit profile of BESCO is dependant on the timely pass-through of cost variations to the customers under its distribution licensee operations and timely realisation of subsidy dues from the state government. Nonetheless, comfort can be drawn from the timely realisation of payments since commissioning and presence of payment security mechanism in the form of revolving letter of credit in favour of NRPL.

**Exposure to interest rate movement** - The debt coverage metrics of NRPL remain exposed to interest rate movement, given the fixed tariff under the PPA and the high leverage level. Nonetheless, ICRA notes that the interest rate is fixed for five years under the sanction terms with the lender which mitigates the risk to a certain extent.

**Regulatory challenges arising from implementation of scheduling and forecasting framework** - The regulatory challenges arising from the implementation of a scheduling and forecasting framework for solar power projects in Karnataka pose a risk, given the variable nature of solar energy generation. However, the risk is less prominent for solar power project compared to wind power projects.

## Liquidity position: Adequate

The liquidity position of NRPL is expected to be supported by the adequate cash flows from operations supported by the presence of long-term PPA and the timely receipt of payments from BESCOM, along with presence of DSRA equivalent to two quarters of debt servicing.

### Rating sensitivities

**Positive factors** – ICRA could upgrade NRPL’s rating in case of demonstrated track record of satisfactory generation performance, along with timely receipt of payments from the off-taker, leading to an improvement in leverage and coverage metrics.

**Negative factors** – Negative pressure on NRPL’s rating could arise, if of any under-performance in generation by the solar power project weakens the cumulative DSCR on the project debt to less than 1.20 times on a sustained basis. Also, delays in realisation of payments from the off-taker that adversely affect the liquidity profile would be a negative trigger.

### Analytical approach

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

## About the company

NRPL is a part of the Kolkata based Atha Group and is a 100% subsidiary of AMPL Cleantech Private Limited. The company operates a 20 MWac solar power plant at Magrenahalli village, Holalkere Taluk, Chithradurga District of Karnataka. The company won this project at a bid tariff of Rs. 4.89 per unit (now revised to Rs. 4.36 per unit) under the competitive bidding process invited by the Government of Karnataka. The PPA was subsequently signed with BESCOM. While the project was commissioned in October 2017, the project was unable to export because of damage to the transmission line. The transmission line was restored, and the supply recommenced in June 2018. However, the tariff for the project was revised to Rs. 4.36 per unit from Rs. 4.89 per unit by BESCOM because of delay in commencement of supply. The project was developed with a capital cost of Rs.132.0 crore, funded by a project debt of Rs. 92.5 crore and the balance through promoter contribution in the form of equity and CCDs. The operation and maintenance of the project is handled by AMPL. The modules for the project are sourced from Renesola and Hanwha Solar and the inverters from TMEIC, China.

### Key financial indicators (audited)

NRPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	12.25	14.84
PAT (Rs. crore)	-5.30	-3.57
OPBDIT/OI (%)	75.9%	77.8%
RoCE (%)	3.96%	4.65%
Total Outside Liabilities/Tangible Net Worth (times)	-70.60	-24.74
Total Debt/OPBDIT (times)**	14.34	11.45
Interest Coverage (times)**	0.80	1.13

\*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year);

\*\*Including sponsor debt

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in	Date & Rating in
					Feb 24, 2021	FY2020	FY2019	FY2018
1	Fund based-Term Loan	Long-term	10.00	76.32	[ICRA]A-(Stable)	-	-	-

### 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	Fund based- Term Loan	Jan-2021	NA	March-2038	10.00	[ICRA]A- (Stable)

Source: NRPL

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

Not applicable

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