April 27, 2021

# Panama Wind Energy Private Limited: Rating reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Term Loan | 310.00 | 310.00 | [ICRA]BBB- (Stable); reaffirmed |
| **Total** | **310.00** | **310.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

ICRA's rating factors in the revenue visibility on account of the presence of a long-term power purchase agreement (PPA) at an average tariff of Rs. 5.78 per unit with Maharashtra State Electricity Distribution Company Limited (MSEDCL) for the 70.4 MW wind power project of Panama Wind Energy Private Limited (PWEPL). The rating continues to factor in the strengths arising from being a part of the Berkley Energy Group as it is managed by a team of well-experienced technocrats and investment professionals and has a renewable power portfolio of more than 300 MW of commissioned assets as on March 31, 2021. Further, the rating draws comfort from the long tenure of the project debt, with interest rate fixed for five years. Also, the debt terms include provision for two quarters' DSRA and a cash sweep mechanism to use surplus cash flows for debt prepayment (post two years from the initial drawdown), which supports the rating. The rating also factors in the presence of an experienced contractor, General Electric Industries India Ltd (GE), as O&M partner, with guarantees for machine availability.

However, the rating remains constrained by PWEPL's exposure to the credit risk profile of MSEDCL. Though, there have always been delays in receiving payments from MESDCL in the past, the receivables cycle of the company has increased to more than a year since January 2020 from 7-8 months earlier. The overdue receivable position stood at 10 months as on the first week of April 2021. Also, the relatively high PPA tariff, compared to the average power purchase cost (APPC) of MSEDCL, exposes the company's operations to the risk of grid curtailment in future, as seen in few other states. However, the company has not witnessed any such instances in the past. Further, the company's profitability and debt protection metrics remain sensitive to its operational performance. Any adverse variation in wind conditions may impact PLF levels and consequently affect cash flows, given the single part nature of the tariff under the PPA. The risk is further accentuated by the concentration risk arising from the single location of the asset. The generation performance of the asset remaining below the P90 estimate in FY2020 and FY2021. This in turn moderated the debt coverage metrics in FY2021. The improvement in generation level, along with the receivable position, remains a key rating monitorable for the company. Furthermore, given that the debt tenure of the company is longer than the PPA tenure, its ability to enter into a PPA at cost-reflective tariff post the expiry of the feed-in tariff PPA in FY2027 also remains crucial. This apart, 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 wind power developers of in forecasting in India.

The stable outlook assigned to the company factors in the benefit of the long-term PPA with MSEDCL and the experience of the promoters in operating wind power plants.

## Key rating drivers and their description

### Credit strengths

**Revenue visibility of project due to long-term PPA with MSEDCL** – PWEPL has a long-term PPA with a tenure of 13 years from commissioning date at a weighted average tariff of Rs. 5.78 per unit with MSEDCL for its full 70.4-MW capacity. Long-term PPAs for the project with state utility result in lower offtake risks and provide revenue visibility.

**Sponsor strength as PWEPL is promoted by Berkley Group –** Panama Wind Group is promoted by Berkeley Energy. Founded in 2007, Berkeley Energy is a private equity investor in the renewable energy infrastructure space and has presence in Asia and Africa. The Berkeley Group has raised three separate investment funds for the Asia and the Africa regions. The Group currently has an operating renewable energy portfolio of more than 300 MW, spread across various geographies.

**Long tenure of project debt with interest rate fixed for five years –** The company refinanced the project debt in December 2015, with a debt of 16.25 years and a five-year fixed interest rate. The debt terms include provision for two quarters' DSRA and a cash sweep mechanism to use surplus cash flows for debt prepayment (post two years from the initial drawdown).

### Credit challenges

**PWEPL remains exposed to credit risk profile of MSEDCL –** As MSEDCL offtakes the entire quantum of power generated by the assets of PWEPL, the company remains exposed to its credit risk profile. Any delay in payments by the counterparty will stretch the company's receivable cycle and in turn adversely impact the overall liquidity profile. Historically, there have been delays in receiving payments from MESDCL. The payments cycle increased to more than a year since January 2020 from 7-8 months earlier. As on April 3, 2021, the company had received payments for the bills raised till March 2020. Also, the relatively high PPA tariff, compared to the average power purchase cost (APPC) of MSEDCL, and absence of the deemed generation clause, expose the company's operations to the risk of grid curtailment, as seen in few other states. However, the company has not witnessed any such instances in the past.

**Vulnerability of cash flows to variations in weather conditions –** PWEPL is entirely dependent on power generation by the wind power project for its revenues and cash accruals, given the single-part tariff. As a result, any adverse variation in wind conditions may impact the PLF and consequently, the cash flows. The single location nature of the company's operations amplifies this risk. This is also reflected from the decline in generation in FY2020 and FY2021 over the previous period owing to variation in wind resource availability.

**PPA tenure lower than debt servicing tenure** – At the time of setting up the plant, PWEPL entered a 13-year PPA with MSEDCL, which is valid up to July 2027. The outstanding debt of the company would be repaid over a longer tenure with the last repayment due in April 2032. Future cash flows post the PPA tenure would depend on the ability of the company to enter into a firm offtake agreement with a credible counterparty and the same remains to be seen.

**Challenges associated with implementation of forecasting and scheduling regulations –** The company remains exposed to regulatory challenges pertaining to the implementation of scheduling and forecasting framework for wind power projects in Maharashtra. This is mainly because of the limited experience in scheduling and forecasting for the industry players in India and the variable nature of wind energy generation.

## Liquidity position: Stretched

The liquidity of the company remains stretched given the long delays in realising payments from its offtaker, MSEDCL, with overdue position of 10 months as of first week of April 2021. Owing to delayed payments, the company is relying on working capital limits to fund its operations and repayments. The company has fully utilised its Rs 45 crore CC limit as on March 31, 2021. However, the company maintains a DSRA, equivalent to six months of interest and principal, which supports the liquidity.

As on March 31, 2021, the company had a DSRA of Rs 28.89 crore. Also, the company is in process of enhancing its working capital limit, which would aid the company's liquidity.

## Rating sensitivities

**Positive factors** – The rating can be upgraded in case the average receivable cycle remains below 120 days on a sustained basis, leading to improved liquidity profile. Also, the sustenance of the operating performance, with PLFs remaining above P-90 estimate, would be a positive trigger.

**Negative factors –** The rating could be downgraded if further delay in receipt of payments from MSEDCL or failure/ delay in enhancing the working capital limit adversely impacts the company's liquidity position. Moreover, any underperformance in generation by the wind power project, on a sustained basis, would be a negative trigger.

### Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Wind Energy Projects |
| **Parent/Group Support** | Not applicable |
| **Consolidation/Standalone** | The rating is based on the standalone financial profile of the company. |

## Company Profile

PWEPL operates a 70.4 MW (reduced from 72 MW due to a damage to a 1.6 MW WTG in FY2015) wind power plant in Satara district, Maharashtra. The plant consists of 45 WTGs of 1.6 MW each and was commissioned in February 2013. The entire Engineering, Procurement and Construction (EPC) including Operations and Maintenance (O&M) services are provided by GE. The company is a subsidiary company of M/s Berkeley Energy Wind Mauritius Limited (BEWML), which holds 94.08% shareholding in the company's equity capital and the remaining 5.92% equity capital is held by M/s Indo Magnus Wind Energy Private Limited, which is a part of group of companies promoted by Ladkat family, and is involved in developing, building and operating clean energy infrastructure.

### Key financial indicators (audited)

| | FY2019 | FY2020 |
|---|---|---|
| Operating Income (Rs. crore) | 93.0 | 85.4 |
| PAT (Rs. crore) | -4.9 | -0.3 |
| OPBDIT/OI (%) | 61.3% | 75.1% |
| PAT/OI (%) | -5.2% | -0.3% |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.7 | 1.5 |
| Total Debt/OPBDIT (times) | 5.1 | 4.0 |
| Interest Coverage (times) | 1.5 | 2.0 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*
*Source: Company data, ICRA research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Mar 31, 2021 (Rs. crore) | Date & Rating | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 |
| | | | | | Apr 27, 2021 | - | Mar 27, 2020 | Dec 10, 2018 |
| 1 | Term loan | Long-term | 310.00 | 208.24 | [ICRA]BBB- (Stable) | - | [ICRA]BBB- (Stable) | [ICRA]BBB- (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

## Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| - | Term Loan | December 2015 | 11.60% | March 2032 | 310.00 | [ICRA]BBB- (Stable) |

***Source:*** *Company*

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

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## About ICRA Limited:

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