June 24, 2022

Netra Wind Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
LT- Fund-based Term loan	1630.0	[ICRA]BBB (Stable); assigned
LT/ST- Non-fund based (interchangeable with term loan)#	(1141.0)	[ICRA]BBB (Stable)/[ICRA]A3+; assigned
Total	**1630.0**	

**Instrument details are provided in Annexure-1, #Sublimit of term loan*

Rationale

The assigned ratings factor in the high revenue visibility and the low offtake risk for the 301.6-MW wind power project of Netra Wind Private Limited (NWPL) because of the long-term (25-year) power purchase agreement (PPA) with Solar Energy Corporation of India Limited (SECI) for 300 MW at a fixed tariff of Rs. 2.77 per unit. SECI is an intermediary counterparty and has signed power supply agreements (PSAs) with the state-owned distribution utilities (discoms) in Haryana, Bihar and Puducherry and two private distribution utilities in Delhi. These utilities are the ultimate offtakers for the capacity contracted under the SECI ISTS Wind Tranche V scheme (1,190 MW).

The ratings draw comfort from the presence of a strong counterparty like SECI (rated [ICRA]AAA (Stable) / [ICRA]A1+) and the payment security mechanism under the PPA, with a provision for letter of credit equal to average one-month billing. Moreover, SECI is included in the tripartite agreement (TPA) with the Government of India, Reserve Bank of India and the state governments, which guards against payment delays from the discoms. This, along with the superior tariff competitiveness of the project, mitigates the counterparty credit risk for the company.

Further, the additional provisions in the PPA/PSAs related to compensation in case of grid curtailment or backdown and the termination liability in the event of default by the offtaker provide a source of comfort. Also, the ratings take into account the low funding risk for the project as the entire promoter contribution (Rs. 556 crore) has been infused and the entire debt funding (Rs 1630 crore) has been tied up, with a long maturity profile. Post commissioning, the company's debt coverage metrics are expected to remain adequate, supported by the long tenure of the project debt and a competitive interest rate.

However, the ratings are constrained by the execution risks associated with project construction, given the pending land acquisition (57% progress as on May 20, 2022), right of way for internal transmission line (21% progress as on May 20, 2022) and the initial stage of erecting the wind turbine generator (WTG). The project is likely to be delayed from the scheduled commissioning date (CoD) of August 19, 2022 under the PPA (extended from the initial CoD of July 22, 2020 owing to the land policy issue in Gujarat and COVID-19). The company expects to commission 50 MW by the end of July 2022 and the full project capacity by December 2022. The ability of the company to secure an approval from SECI to extend the CoD, along with the commissioning the project without any major cost overrun, remains important. The lenders have approved the CoD extension till December 31, 2022. While the Group is a relatively new entrant in India, it had commissioned a 300-MW wind power project in Gujarat in March 2021, which was awarded by SECI under the ISTS Wind Tranche III scheme. Also, the Group has earlier set up renewable power projects in Egypt and Spain.

Given the single-part nature of the fixed tariff under the PPA, the revenues and cash flows of the company would remain sensitive to the 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. Therefore, the ability of the project to achieve the design P90 PLF of 36.50%, post commissioning, in a sustained manner remains crucial from a credit perspective.

Further, the project credit metrics would remain exposed to the movement in interest rates, given the fixed tariff under the PPA, a leveraged capital structure with the project cost being funded through debt to equity of 75:25 and floating interest rates. Also, the company remains exposed to the regulatory challenges of implementing the scheduling and forecasting framework for the wind power sector.

The Stable outlook assigned to the long-term rating of the company factors in the commissioning of the project within the proposed timelines, given the availability of required funding, the progress shown in land acquisition so far and the presence of established suppliers.

Key rating drivers and their description

Credit strengths

Revenue visibility due to long-term PPA and competitive tariff – NWPL has low offtake risks because of a long-term (25-year) PPA at a highly competitive tariff of Rs. 2.77 per unit for the entire project capacity. The long-term PPA provides revenue visibility for the company. SECI is an intermediary counterparty and has signed PSAs with the state-owned distribution utilities in Haryana, Bihar, and Puducherry and two private distribution utilities in Delhi, which are the ultimate offtakers under the ISTS Wind Tranche V scheme. Further, the applicable tariff of Rs. 2.84/unit (including SECI's trading margin) for the distribution utilities is highly competitive compared to their average power purchase cost. Additionally, the regulatory uncertainty for this project is low as the tariff under the PPA and the PSAs has been adopted by the regulatory bodies i.e., CERC/ SERC.

Superior PPA with SECI and low counterparty credit risk – The PPA with SECI is relatively superior against the state policy PPAs due to the favourable payment security mechanism which has a provision for letter of credit equal to average one-month billing. Other favourable provisions include generation compensation for grid unavailability or backdown and termination liability in the event of default by the offtakers. Further, the inclusion of SECI in the TPA with the Government of India, Reserve Bank of India and the state governments provides comfort against payment delays from the discoms. These factors, coupled with the high tariff competitiveness, mitigate the counterparty credit risk associated with the ultimate offtakers.

Established track record of Alfanar Group in power sector – The Group has an established track record in the power sector through its EPC business in Saudi Arabia and its renewable power projects in Spain, Egypt and India. The Group commissioned its first renewable project in India in March 2021 – a 300-MW wind asset in Gujarat, contracted with SECI.

Adequate debt coverage metrics expected post commissioning – Post commissioning, the project's debt coverage metrics are expected to be adequate, supported by the long tenure of the debt and the competitive interest rate. Also, the liquidity profile is expected to be supported by timely payments from SECI and the provision for two-quarter debt service reserve.

Credit challenges

High execution risks; delays in commissioning against scheduled timeline – The project under NWPL remains exposed to high execution risks, considering the pending land acquisition (57% progress as on May 20, 2022), right of way for internal transmission line (21% progress as on May 20, 2022) and initial stage of wind turbine generator (WTG) erection. However, comfort can be drawn from the requisite approvals received for transmission connectivity, the progress made in completing the external transmission line and the availability of required funding. Against the scheduled CoD of August 19, 2022 under the PPA, the company expects to commission the project by December 2022, mainly due to the delays in land acquisition and COVID-19. Any prolonged delays in execution could lead to cost overrun and adversely impact the company's credit and return metrics.

Vulnerability of cash flows to variation in weather conditions – As the tariff under the PPA is single part in nature, the company's revenues and cash flows remain sensitive to energy generation, which is exposed to the variation in weather conditions. This in turn would affect its debt servicing ability. This risk is amplified by the single location of the project. Post commissioning, the ability of the company to achieve the appraised P-90 estimate remains key from a credit perspective. The Group is a new entrant in India and the demonstration of a generation performance in line or above the appraised estimate by its wind power projects remains to be seen. However, comfort can be drawn from the sourcing of equipment from established suppliers and the presence of these suppliers as O&M contractors.

Interest rate risk – Given the single-part tariff under the PPA and the leveraged capital structure, the company's debt metrics remain exposed to movement in interest rate. The interest rates on the term loan availed for the project is floating.

Regulatory risk of implementing scheduling and forecasting framework for wind sector - The company's operations remain exposed to regulatory risks pertaining to the scheduling and forecasting requirements applicable for renewable energy projects, given the limited experience the of developers in operating under Indian conditions and the variable nature of wind generation.

Liquidity position: Adequate

The liquidity of the company is expected to remain adequate with the required funding for the project in place. The entire promoter contribution has been infused and the debt funding is in place. Further, the sponsor is expected to support the project in case of any cost overrun. Post commissioning, the liquidity profile is expected to be supported by timely payments from SECI and a provision for a debt service reserve of one quarter, which shall be built up to two quarters over a period.

Rating sensitivities

Positive factors – ICRA could upgrade NWPL's ratings once the company achieves advanced progress in project commissioning without any major cost overrun.

Negative factors – Negative pressure on the ratings could arise if there are significant delays in commissioning the project, leading to cost overrun and impacting the cash flow generation.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Wind Power Producers
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

NWPL 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. NWPL is setting up a 301.6-MW wind power project in Bhuj, Gujarat. The plant is expected to be commissioned by December 2022. The total project cost is ~Rs 2,186 crore, which is funded by debt to equity of 75:25. The capacity was awarded via a reverse bidding process conducted by SECI under its tranche-V wind power auction for 1.2 GW of inter-state transmission system (ISTS)-connected projects.

Key financial indicators (audited)

NWPL Standalone	FY2020	FY2021
Operating income (Rs. crore)	-	-
PAT (Rs. crore)	-0.7	-1.1
OPBDIT/OI (%)	NM	NM
PAT/OI (%)	NM	NM
Total outside liabilities/tangible net worth (times)	1.4	2.7
Total debt/OPBDIT (times)	NM	NM
Interest coverage (times)	NM	NM

**PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

^provisional and unaudited

#NM – Not Meaningful as the project is under construction

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on June 09, 2022 (Rs. crore)	Date & rating on June 24, 2022	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
1	Term loan	Long term	1,630.00	93.15	[ICRA]BBB (Stable)			
2	Non-fund based (interchangeable with term loan)#	Long term / Short term	(1,141.00)	261.43	[ICRA]BBB (Stable) / [ICRA]A3+			

**Instrument details are provided in Annexure-1, #Sublimit of term loan*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loan	Simple
Non-fund-based limits	Very 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: 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	March 2021	-	FY2043	1,630.00	[ICRA]BBB (Stable)
NA	Non-fund based (interchangeable with term loan)#	-	-	-	(1,141.00)	[ICRA]BBB (Stable) / [ICRA]A3+

Source: *Company; #Sublimit of term loan*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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