

March 31, 2023

LNJ Power Ventures Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	84.24	84.24	[ICRA]BBB-(Stable); reaffirmed
Total	84.24	84.24	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the rating on the bank loan facilities of LNJ Power Ventures Limited (LNJPV) factors in the comfort from its strong parentage as LNJPV is a subsidiary of Hero Wind Energy Private Limited (which in turn is a subsidiary of Hero Future Energies Private Limited) and a part of the Hero Group which has a strong track record in renewable power generation in India with a total operational capacity of above ~1.5GW. Hero Wind Energy Private Limited {HWEPL; holding company} has demonstrated its support to LNJPV by providing unsecured loans to help meet the funding shortfall caused by delayed collections from the counterparty.

The rating continues to factor in the revenue visibility of the project due to the long-term power purchase agreement (PPA) with RSWM Limited for a period of 20 years from commissioning. ICRA also favourably factors in the creation of a two-quarter debt service reserve account (DSRA) in the form of fixed deposits by the company and a free cash balance of Rs. 2.75-crore as on March 11, 2023. The interest on promoter debt is subordinate to its senior debt.

However, the rating remains constrained by the elevated receivable position and the increased collection period from RSWM in the current fiscal. This has adversely impacted the company's cash flow and it remains dependent on funding support from the sponsor to meet its obligations. The receivables increased to Rs. 20.02 crore as of March 2022 from Rs. 14.11 crore as of March 2021 and are expected to increase further in FY2023. Additionally, the company's profitability and debt protection metrics remain sensitive to its generation performance, given the single-part tariff under its PPA. Any adverse variation in wind conditions will impact its PLF levels and consequently affect the cash flow. Further, the company's operations remain exposed to regulatory risks pertaining to the scheduling and forecasting requirements for renewable energy projects, given the limited experience of the developers operating in India and the fluctuations in wind generation.

ICRA also takes a note of the favourable resolution of the notice from Ajmer Vidyut Vitran Nigam Limited (Ajmer discom), challenging the captive status of the company and consequently the cross-subsidy surcharge and additional surcharge is not applicable on this project. LNJPV has also filed a petition with the Jodhpur High Court against the offtaker for recovery of ~ Rs. 14-crore overdues and a petition for ~ Rs. 16.5 crore against its previous O&M contractor i.e. INOX for recovering damage claims which is pending in arbitration. The favourable resolution of these cases will improve the liquidity profile of the company.

Key rating drivers and their description

Credit strengths

Strong position of Hero Group in India's renewable energy space – LNJPV benefits from the sponsor strength as it is promoted by HWEPL, which is a subsidiary of Hero Future Energies Private Limited (HFEPL). HFEPL is promoted by Brij Mohan Lal Om Prakash, a partnership firm, which is the holding entity of Bahadur Chand Investments Private Limited [rated [ICRA]AA (Stable)/A1+]. The Hero Group, which is managed by a team of well-experienced promoters, has an operational portfolio of over 1.5GW. The SPVs in the Hero Future Energies Global Group (holding company of HFEPL) benefit from being part of a

diverse portfolio. The operational portfolio includes wind capacity of over 580 megawatt (MW) in Rajasthan, Maharashtra, Tamil Nadu, Karnataka, Madhya Pradesh, and Andhra Pradesh; and solar capacity of over 950 megawatt (MW) in Madhya Pradesh, Telangana, Andhra Pradesh, Karnataka, and Rajasthan as on December 31, 2022.

Revenue visibility due to long-term PPA with RSWM – LNJPV has a long-term PPA (20-year) with RSMW Limited under the group captive mechanism at a tariff of Rs. 5.75 per unit for its full 20-MW capacity. The long-term PPA limits the demand risk and provides revenue visibility for the company. The tariff remains competitive against the grid tariff offered by the Rajasthan discoms.

Credit challenges

Vulnerability of cash flows to variation in weather conditions – As the tariffs are one part in nature, the company may book lesser revenues in case of non-generation of power due to the variation in weather conditions. This would affect the company's cash flows and debt servicing ability. Though the overall generation improved to 33.68 million units (MUs) in FY2022 from 24.51 MUs in FY2021, it was impacted in 9M FY2023 (achieved 25.36 MUs compared to 27.88 MUs in 9MFY2022) on account of lower resource availability.

Elevated level of receivables – As on February 28, 2023, LNJPV had received payments for bills raised till May 2022 billing and partial payments for June 2022 billing, leading to a current receivable period of over six months. The company has outstanding receivables of ~Rs. 23.0 crore from RSWM as on December 31, 2022. The high receivable position can be attributed to the deduction of payments by RSWM in lieu of the coupon payments pending from LNJPV on the compulsory convertible debentures (CCDs) invested by the offtaker. The payments on these CCDs are subordinated to the senior debt and can be made only post approval from the project lenders. As the past performance has been significantly below the envisaged levels, the company has not been granted approval to make these payments. This has adversely impacted the company's cash flow and it has remained dependent on funding support from the sponsor.

Regulatory risks associated with increase in open access charges, changes in captive regulations and implementation of scheduling and forecasting framework – The company's operations remain exposed to regulatory risks pertaining to the revision in open access charges, changes in regulations for captive consumption as well as scheduling and forecasting requirements for renewable energy projects. However, the notice received from Ajmer Vidyut Vitran Nigam Limited (Ajmer discom), challenging the captive status, was resolved in favour of RSWM Ltd and thus, the cross-subsidy surcharge and additional surcharge is not applicable on the offtaker for the energy drawn from the project.

Liquidity position: Adequate

The liquidity profile of the company is adequate, given the liquidity buffer in the form of two quarters' DSRA of Rs. 7.3 crore and free cash balances of Rs. 2.75 crore as on March 11, 2023. However, its receivable position remains stretched and thus, the free cash flows remain inadequate to meet its annual debt servicing requirements. ICRA, however, takes comfort from the demonstrated track record of financial support from the promoter for funding the cash flow mismatches and expects the same to continue should the need arise.

Rating sensitivities

Positive factors – An improvement in the operational and collection performance on a sustained basis, improving the debt coverage metrics and liquidity profile, would support a rating upgrade. ICRA could also upgrade the rating if the credit profile of the parent, Hero Future Energy Private Limited, improves.

Negative factors – The rating could be downgraded in case of a deterioration in the generation performance or delays in receiving payments from RSWM, adversely impacting the liquidity profile of LNJPV. Any adverse regulatory outcome on the sale of power under the captive mechanism would also be a negative trigger. Further, a deterioration in the credit profile of the parent or weakening of linkages/support philosophy from the parent group could be another negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Methodology for Wind Power Producers Implicit of parent or group on Issuer's credit rating
Parent/Group support	Parent/Group Company: Hero Future Energies Private Limited (HWEPL is 100% subsidiary of HFEPL); ICRA expects the parent to be willing to extend financial support to LNJPV should there be a need in case of cash flow mismatches
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity

About the company

LNJPV is promoted by Hero Wind Energy Private Limited (HWEPL), which is the holding company for all wind energy projects of the Hero Group. HWEPL is further held by HFEPL, which is a jointly owned subsidiary of BC IPL and BMOP, the ultimate holding company of the Hero Group. LNJPV is a project SPV that operates a 20-MW wind-based group captive power plant at Dangri, near Jaisalmer, Rajasthan. HWEPL holds 74% equity in this project, while the remainder is held by RSWM Limited (the sole offtaker). The project has been operational since March 2013.

Key financial indicators (audited)

LNJPV standalone	FY2021	FY2022
Operating income	13.3	20.7
PAT	-11.3	-4.7
OPBDIT/OI	47.2%	69.8%
PAT/OI	-84.8%	-22.5%
Total outside liabilities/Tangible net worth (times)	-4.02	-3.77
Total debt/OPBDIT (times)	16.45	7.08
Interest coverage (times)	0.42	0.89

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Note: Amount in Rs. crore; All calculations are as per ICRA Research

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Mar 31, 2023	Jan 07, 2022	Dec 07, 2020	Nov 29, 2019	
1	Fund-based – Term loan	Long term	84.24	39.44	[ICRA]BBB– (Stable)	[ICRA]BBB– (Stable)	[ICRA]BBB– (Stable)	[ICRA]BBB– (Negative)

Complexity level of the rated instruments

Instrument	Complexity Indicator
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Long-term fund-based – Term loan

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan – I	May 2013	NA	FY2028	40.95	[ICRA]BBB-(Stable)
NA	Term Loan – II	March 2013	NA	FY2028	43.29	[ICRA]BBB-(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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