February 06, 2025

Avaada Electro Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term fund-based –Term loan	0.00	1965.00	[ICRA]A- (Stable); assigned
Long term fund-based – Cash credit	36.00	36.00	[ICRA]A- (Stable); reaffirmed
Short term - Non-fund based - Letter of credit	244.00	244.00	[ICRA]A2+; reaffirmed
Short term - Non-fund based - Forward cover	20.00	107.00	[ICRA]A2+; reaffirmed; assigned for enhanced amount
Total	**300.00**	**2352.00**	

**Instrument details are provided in Annexure I*

Rationale

To arrive at the ratings, ICRA has assessed the standalone credit profile of Avaada Electro Private Limited (AEPL) and factored in the support available from its parent, Avaada Ventures Private Limited (AVPL), given the strategic significance of AEPL for AVPL and the expected extension of financial support to AEPL by the parent during any exigency.

The assigned ratings consider the revenue visibility for AEPL from the commissioning of the 1.5-GW module manufacturing line at Dadri, Uttar Pradesh, in July 2024 and the healthy order book position of 1.8 GW from its Group entity, Avaada Energy Private Limited. Avaada Energy has lined up solar power projects of 12 GW, providing a future order pipeline for AEPL. Further, ICRA draws comfort from the established track record of the Group in the renewable energy sector and the presence of an experienced sponsor with demonstrated fund-raising capability. The company has funded the 1.5-GW line entirely through promoter contribution. Also, the strong policy support to domestic solar equipment manufacturers in the form of the Approved List of Models & Manufacturers (ALMM) to restrict the use of imported modules favours the credit profile of the company. Moreover, the Government is proposing to include solar PV cells under ALMM from April 1, 2026.

AEPL is in advanced stages of adding a 3,000-MW integrated solar PV cell and module manufacturing capacity at Butibori Industrial Area, Maharashtra, by March 2026, thereby increasing the module capacity to 4,500 MW under the company. This new facility is being set up at a cost of ~Rs. 2,427 crore in a debt equity ratio of 3:1. The sponsor has infused the required promoter contribution of ~Rs. 607 crore through a mix of equity & unsecured loans, while a fresh debt of Rs. 1,820 crore has been sanctioned. The company has also signed a lease agreement with Maharashtra Industrial Development Corporation (MIDC) for the land secured for this project. The company is in the process of getting the other approvals, such as environmental clearance, certification for pollution control, water supply agreement etc. The company remains exposed to project execution risks for this facility.

The ratings are constrained by AEPL's limited track record of operations. Moreover, the performance of the modules manufactured is yet to be demonstrated. Herein, comfort is drawn from the Group's track record in the renewable energy sector and the presence of experienced professionals. Further, the ratings factor in the expected increase in the company's leverage level owing to the ongoing debt-funded capex and the consequent impact on the debt coverage metrics. Therefore, AEPL's ability to consistently operate the 1.5-GW module line at optimal capacity utilisation levels along with the timely completion and commercialisation of the new manufacturing cell and module facility would remain important to achieve adequate debt coverage metrics, going forward.

ICRA also takes note of the exposure of AEPL's profitability to the volatility in raw material (RM) prices, mainly due to reliance on imports for solar PV cells, glass, back sheet and aluminium frame, among others, and the fixed prices of the contracts with Avaada Energy. Also, the company remains exposed to the variation in exchange rate on imported raw materials. Further, the ratings are tempered by a highly concentrated order book and the risk of delays in the execution of projects by key customer, Avaada Energy.

ICRA notes that the domestic module manufacturing sector is characterised by stiff competition and continues to attract new players, given the transition from fossil fuel to renewable sources with a higher share towards the solar sector. Moreover, there is continuous innovation on the product side in the global market, which necessitates regular upgrades and investments in product development by the company to mitigate the risk of technological obsolescence. ICRA also takes note of the risks pertaining to any devolvement of warranties given on the supply of solar modules.

The Stable outlook reflects ICRA's expectation that the company would be able to scale up its revenues and profitability on the back of a healthy order position and commercialisation of the new cell and module unit by the end of FY2026, which is likely to keep its credit indicators at comfortable levels.

Key rating drivers and their description

Credit strengths

Presence of experienced sponsor Group with established track record in renewable energy and strong fund-raising capabilities - The presence of an experienced sponsor, AVPL, with a demonstrated track record of developing and operating solar power projects under Avaada Energy provides comfort to the company. At AVPL's level, Brookfield Energy Transition Fund has made an equity investment of ~$1.0 billion through optionally convertible debentures (OCDs) with a tenure of 8 years and 6 months. AVPL has drawn $400 million so far and deployed the funds towards Avaada Energy, AEPL and the Green Ammonia venture. Avaada Energy is the flagship company of the Group, wherein AVPL holds a 57% stake with the balance 43% stake held by PTT's Global Power Synergy Public Company (GPSC). At present, the operating renewable power capacity of Avaada Energy stands at 4.6 GW and is expected to reach 5.5 GW-6 GW by the end of FY2025.

Favourable demand outlook for domestic module manufacturers - The demand outlook for domestic solar module manufacturers remains favourable, supported by energy transition targets announced by the Government of India (GoI) with focus on the solar power sector, along with the GoI's plan to promote the domestic solar PV manufacturing value chain. This is evident from policies such as the imposition of basic customs duty (BCD) on imported cells and modules, the requirement of procuring solar modules from only domestic suppliers included in the ALMM order and the notification of the production-linked incentive (PLI) scheme to improve the cost competitiveness of domestic manufacturers.

Revenue visibility from strong order book position and Group's project pipeline - AEPL is strategically important for the Group as it is the sole module manufacturing entity in the Group and is looking to backward integrate to cell manufacturing. The company had an outstanding order book position of Rs. 4,299 crore as on January 15, 2025, for the supply of PV modules, thereby providing revenue visibility over FY2025 and FY2026. At present, all the orders are from Avaada Energy, which has a large solar project pipeline of 12 GW to be developed over the next four years, providing long-term revenue visibility for AEPL.

Commissioning and stabilisation of 1.5-GW module line - The company commissioned the 1.5-GW module line on July 31, 2024, in Uttar Pradesh. There has been a gradual ramp-up in the unit's utilisation and it is expected to cross the utilisation level of 75% on the rated production capacity of 1.5 GW in Q4 FY2025.

Credit challenges

Lack of track record in cell and module manufacturing and risk of technology obsolescence – The Avaada Group, through AEPL, has recently forayed into solar PV module manufacturing, with the first unit commissioned on July 31, 2024. Hence, the company's track record of operations in module manufacturing is low. Further, AEPL remains exposed to the risk of technology obsolescence and has to make steady investments for continuous product and process innovation and rapid adoption of new technology to sustain its competitive advantage. This risk is partly mitigated by the ability of AEPL's facility to produce modules based on both the TOPCON and Mono PERC technologies.

Project execution risk for 3-GW module and cell line - The company is setting up a 3-GW cell and module manufacturing facility at a total project cost of ~Rs. 2,427 crore with promoter contribution of ~Rs. 607 crore (through a mix of equity and unsecured loans) and the balance proposed to be funded through debt. While the promoter contribution is in place, the debt funding is yet to be tied up. The company proposes to raise Rs. 1,820 crore for the 3-GW cell and module line and Rs. 145 crore for the 1.5-GW commissioned module line. The promoter contribution infused in the form of unsecured loans is expected to remain subordinated to the external debt. While the land required for the 3-GW line has been allotted by MIDC, the other approvals are pending. The company, thus, remains exposed to project execution risks for this facility.

Profitability exposed to movement in key raw material prices - AEPL remains exposed to the volatility in price movements of key raw materials (RM) like solar cells/wafers, glass, back sheet and aluminium, among others, given the fixed price of its contracts with Avaada Energy. The pricing of the contracts remains fixed, except for change-in-law events like the imposition of duties. Also, the company remains exposed to adverse movements in foreign exchange as most of the raw materials are imported. Herein, the company proposes to mitigate this risk through currency hedging.

High customer concentration – AEPL's current order book is entirely from Avaada Energy, and the future pipeline will be driven by the Group. Hence, any delay in the execution of the projects under Avaada Energy will have an adverse impact on AEPL's revenue.

Capital structure expected to remain leveraged with ongoing debt-funded capacity expansion - Given the debt-funded capacity expansion, the company's capital structure is expected to be leveraged with the debt/OPBDITA remaining high over the next two to three years. The debt coverage metrics would, therefore, remain sensitive to the ability to consistently operate the 1.5-GW module line at optimal capacity utilisation levels, and the timely commissioning and scale-up of the 3-GW cell and module line.

Liquidity position: Adequate

The company's liquidity position is expected to be adequate with the cash flow from operations likely to be sufficient to meet the debt obligations for the 1.5-GW module line. Also, the company has the required promoter funding in place for the proposed 3-GW capacity and a fresh debt of Rs. 1,820 crore has been sanctioned. The company had a cash & bank and cash equivalent balance of ~Rs. 556 crore as on November 30, 2024, which mitigates funding risks for the upcoming cell and module line and provides a buffer to absorb any cost overruns.

Rating sensitivities

Positive factors – The ratings may be upgraded after the 3-GW cell and module line begins operations within the budgeted cost and time and the company scales up its operations, leading to comfortable debt coverage metrics and liquidity position. The credit profile would also remain sensitive to an improvement in the credit profile of the parent, AVPL.

Negative factors – The ratings may be downgraded if the company is unable to consistently operate the 1.5-GW module line at optimal capacity utilisation levels, or if there are delays in starting the 3-GW cell and module line, thereby adversely impacting the earnings and debt coverage metrics. The credit profile would also remain sensitive to a deterioration in the credit profile of the parent, AVPL.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	ICRA has assessed the standalone credit profile of AEPL and factored in the support from its parent, AVPL, given the strategic significance of AEPL for AVPL. The parent is expected to extend financial support to AEPL during any exigency
Consolidation/Standalone	Standalone

About the company

AEPL was incorporated in April 2021 with the aim of backward integration for setting up solar module manufacturing capacities and is a wholly-owned subsidiary of AVPL. AEPL's first module manufacturing unit with a capacity of 1.5 GW has been set up at Dadri, Uttar Pradesh, at a cost of ~Rs.203 crore. The project has been completely financed by fund infusion (equity & unsecured loans) from AVPL, with the latter also being the EPC contractor. The plant is currently importing solar PV cells and assembling them into modules. The company is also setting up a 3-GW integrated solar PV cell and module manufacturing line at the Butibori Industrial Park in Nagpur and is in the process of securing the required approvals for this unit. It expects to commission the module line by June 2025 and the cell line by March 2026. The commissioned module line at Dadri, Uttar Pradesh, has been included in the ALMM order.

Key financial indicators (audited)

AEPL	8MFY2025*
Operating income	365.2
PAT	76.5
OPBDIT/OI	28.3%
PAT/OI	20.9%
Total outside liabilities/Tangible net worth (times)	-
Total debt/OPBDIT (times)	-
Interest coverage (times)	-

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb 06, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based – Term loan	Long term	1965.0	[ICRA]A-(Stable)	-	-	-	-	-	-	-	-
Fund-based – Cash credit	Long term	36.0	[ICRA]A-(Stable)	Nov-05-24	[ICRA]A-(Stable)	-	-	-	-	-	-
Non-fund based - Letter of credit	Short term	244.0	[ICRA]A2+	Nov-05-24	[ICRA]A2+	-	-	-	-	-	-
Non-fund based - Forward cover	Short term	107.0	[ICRA]A2+	Nov-05-24	[ICRA]A2+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term fund-based –Term loan	Simple
Long term fund-based – Cash credit	Simple
Short term - Non-fund based - Letter of credit	Very Simple
Short term - Non-fund based - Forward cover	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: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	**Fund-based –Term loan**	NA	NA	FY2024	1965.00	[ICRA]A- (Stable)
NA	**Fund-based – Cash credit**	NA	NA	FY2024	36.00	[ICRA]A- (Stable)
NA	**Non-fund based - Letter of credit**	NA	NA	FY2026	244.00	[ICRA]A2+
NA	**Non-fund based - Forward cover**	NA	NA	FY2025	107.00	[ICRA]A2+

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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ABOUT ICRA LIMITED

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