June 14, 2019

Vena Energy Power Resources Private Limited (erstwhile Energon Power Resources Private Limited): Rating assigned for enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	844.00	844.00	[ICRA]A-(Stable); Outstanding
Fund-based - Working Capital	-	64.00	[ICRA]A-(Stable); Assigned
Total	**844.00**	**908.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's rating factors in the satisfactory operating track record of Vena Energy Power Resources Private Limited's (VEPRPL's) 154-MW wind power capacity since commissioning fully in March 2015, leading to healthy cash accruals. While the generation declined by 15.0% in FY2018 over the previous year mainly due to a weak wind season, the cash accruals remained sufficient in relation to the debt servicing obligation. Moreover, the generation improved by 5.1% in FY2019 over FY2018, supported by an improved wind season. The rating continues to take comfort from the limited demand risks for VEPRPL, with presence of long-term power purchase agreements (PPAs) with Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL) for 148 MW (25-year PPA for 48 MW under phase-I and 100 MW under phase-II) and a high credit quality industrial consumer for 6 MW (10-year PPA under captive mode) at attractive tariff rates. Moreover, revenue from the generation-based incentive (GBI) benefit of Rs. 0.5 per unit (with a cap of Rs. 1 crore per MW) to the extent of 148 MW enhances the cash flows and provides additional comfort. ICRA also takes note of the satisfactory performance of the operations and maintenance (O&M) contractor, Siemens Gamesa Renewable Energy Private Limited (SGREPL), so far under the 10-year O&M contract with guarantee for wind turbine generator (WTG) machine availability and internal grid availability.

However, the rating is constrained by the significant increase in receivable position because of delays in receiving payments from its main customer, APSPDCL. The receivable position deteriorated to eight to nine months as of May 2019 from about five months as of March 2018. Nonetheless, ICRA draws comfort from the presence of a cash debt service reserve account (DSRA) equivalent to two quarters' interest and principal obligations and a working capital facility of Rs. 64 crore. In addition, ICRA expects the sponsor to support VEPRPL, in case of any funding exigencies. ICRA notes that wind power projects including VEPRPL, having relatively higher tariff than the average power purchase cost of the state distribution utilities, may remain exposed to grid curtailment risk in future as seen in few other states, though the same remained absent so far in Andhra Pradesh. The rating is also constrained by the single-location and single-asset nature of the company's operations, along with the vulnerability of its cash flows to high seasonality and possible variance in wind power density across the years. This is because the revenues are linked to the actual units generated and exported. Furthermore, ICRA notes that the project has been funded through a mix of equity, compulsorily convertible preference shares (CCPS) and non-convertible debentures (NCDs) subscribed by project sponsors and long-term debt. However, the NCDs remain subordinate to the project debt. ICRA also notes that the company's operations remain exposed to regulatory challenges arising from the implementation of scheduling and forecasting framework in Andhra Pradesh. This is mainly due to the limited experience in scheduling and forecasting for industry players in India and the highly variable nature of wind energy generation.

While the company has refinanced its project debt in September 2018 with a higher debt of ~Rs. 128 crore (of which, Rs. 84 crore have been drawn so far), the debt coverage metrics remain comfortable, aided by the presence of a cash sweep mechanism under the new loan agreement, wherein a portion of the surplus cash (post three years from initial drawdown) will be utilised towards debt prepayment.

Outlook: Stable

ICRA expects VEPRPL to continue to benefit from the presence of long-term PPAs and the management's experience in operating wind power plants. The outlook may be revised to Positive if generation significantly exceeds the estimates, strengthening the financial risk profile, along with timely realisation of payments from the offtakers. The outlook may be revised to Negative if generation is lower than expected, or if any major stretch in the receivable cycle weakens liquidity.

Key rating drivers

Credit strengths

Limited demand and tariff risks - VEPRPL has signed long-term PPAs with APSPDCL for 148 MW (25 years) and an industrial customer for 6 MW (10 years), mitigating demand and pricing risks. Besides, the registration for availing GBI benefit of Rs. 0.5 per unit augurs well for the project, enhancing its cash flows.

Satisfactory operating track record of wind power capacity - The operating track record of the 154 MW capacity under VEPRPL remains satisfactory since fully commissioning in March 2015. While the generation declined by 15.0% in FY2018 against FY2017 due to a weak wind season, it was higher than the generation required for meeting debt servicing obligations. Further, the generation improved by 5.1% in FY2019 on a year-on-year basis.

Long-term O&M contract in place with SGREPL - VEPRPL has signed an O&M contract with SGREPL for a period of 10 years for comprehensive O&M of the WTGs, with provisions for ensuring their adequate availability. In case of availability remaining lower than the agreed level, SGREPL is liable to pay liquidated damages, subject to a limit mentioned in the contracts. The performance of the O&M contractor remained satisfactory so far with machine availability remaining better than the guaranteed level.

Presence of two quarters' DSRA and working capital facility - The company's liquidity profile is supported by the presence of a cash DSRA equivalent to two quarters' interest and principal obligations and a working capital facility of Rs. 64 crore, which was enhanced from Rs. 30 crore in February 2019.

Long tenure of project debt with interest rate fixed for three years - The company refinanced the project debt in September 2018, with the new debt having a tenure of 16.75 years and a competitive interest rate, which is fixed for three years.

Credit challenges

Single-asset nature of operations; sensitivity of debt metrics to energy generation - VEPRPL is entirely dependent on power generation by the wind power project for its revenues and cash accruals, given the single-part nature of the 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.

Counterparty credit risks from exposure to APSPDCL - VEPRPL's counterparty credit risks remain high owing to its exposure to APSPDCL, the financial profile of which is constrained by inadequate tariffs in relation to cost of supply. The payment cycle from APSPDCL deteriorated to eight to nine months against 30 days as agreed in the PPA, thus leading to a high receivable position for the company. This would remain a key rating monitorable for the company.

Refinancing of project debt with top-up debt and cash sweep mechanism - The company refinanced the project debt in September 2018 with a higher debt of ~Rs. 128 crore (of which Rs. 84 crore have been drawn so far). Nonetheless, the presence of cash sweep mechanism would enable use of surplus cash for debt prepayment. Further, the debt coverage metrics on the project debt are likely to remain comfortable, with estimated cumulative debt service coverage ratio of 1.4 times under base case assumptions.

Relatively high tariff exposes project to grid curtailment risk - Given the relatively high PPA tariff for the project and the absence of a deemed generation clause, the company's operations may remain exposed to the risk of grid curtailment in future as seen in few other states. However, the same remained absent so far in Andhra Pradesh.

Challenges associated with implementation of forecasting and scheduling regulations - Regulatory challenges arising from the implementation of scheduling and forecasting framework for wind power projects in Andhra Pradesh pose a risk. 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

The company's liquidity profile remains comfortable because of the presence of DSRA equivalent to two quarters' principal and interest payments and working capital facility of Rs. 64 crore, with an undrawn limit of ~Rs. 20 crore as on May 31, 2019.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology 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.

About the company

VEPRPL, incorporated in March 2013, is a special purpose vehicle (SPV) promoted by Vena Energy Wind (India) Renewables Pte Limited, Singapore, which is held by Vena Energy (India) Holdings Pte Limited (earlier known as Energon Energy II Pte Ltd) and ultimately by Global Infrastructure Partners. The company operates a 154-MW wind power project at Tugguparthy village in Anantapur district of Andhra Pradesh, which was commissioned in phases, with the first phase of 54 MW in August 2014 and second phase of 100 MW in March 2015. The project has been developed by SGREPL on a turnkey basis, who also manages the plant's operations and maintenance. The company has long-term PPAs with APSPDCL for 148 MW and an industrial customer for 6 MW under the Group-captive mode.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	208.67	176.03
PAT (Rs. crore)	-16.89	-17.37
OPBDIT/OI (%)	92.84%	88.84%
RoCE (%)	14.24%	11.72%
Total Debt/TNW (times)*	2.13	2.24
Total Debt/OPBDIT (times)*	3.75	4.63
Interest Coverage (times)^	2.29	2.15

**Adjusted ratio, wherein sponsor contribution in the form of NCDs is considered part of net worth and excluded from debt*
^Interest expense in this ratio excludes interest booked on sponsor NCDs

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the past 3 years				
						Date & Rating in FY2019	Date & Rating in FY2018			Date & Rating in FY2017
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	June 2019	March 2019	February 2018	September 2017	May 2017	April 2016
1	Term Loan	Long Term	728.45	Nil	[ICRA]A- (Stable) (Withdrawn)	[ICRA]A- (Stable) (Withdrawn)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	Fund-based	Long Term	30.00	Nil	[ICRA]A- (Stable) (Withdrawn)	[ICRA]A- (Stable) (Withdrawn)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-
3	Unallocated	Long Term	42.33	Nil	[ICRA]A- (Stable) (Withdrawn)	[ICRA]A- (Stable) (Withdrawn)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-
4	Term Loan	Long Term	844.00	844.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-	-
5	Fund-based	Long Term	64.00	-	[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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	September-2018	NA	March-2035	844.00	[ICRA]A-(Stable)
NA	Fund-based	-	-	-	64.00	[ICRA]A-(Stable)

Source: VEPRPL

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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