July 10, 2019

Tadas Wind Energy Private Limited: Rating downgraded to [ICRA]BB+(Negative)

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	30	30	[ICRA]BB+ (Negative); downgraded from [ICRA]BBB (Negative)
Term Loans	925	925	[ICRA]BB+ (Negative); downgraded from [ICRA]BBB (Negative)
Total	**955**	**955**	

*instrument details are provided in Annexure-1

Material Event

The Government of Andhra Pradesh issued a notification forming a high-level negotiation committee (HLNC) to review, negotiate and bring down the cost of wind and solar power purchase agreements (PPAs) tied-up by the state distribution utilities (discoms). The functions of the committee include a) to review the high cost wind and solar agreements, b) to negotiate and bring down the prices of wind and solar power PPAs and c) to make suitable recommendations. The committee is to be guided by the lowest wind and solar power rates in the corresponding years, prevailing rates and opportunity cost of power purchase for the discoms.

Impact of Material Event

Out of the 255.6 MW capacity wind power portfolio of the company, the exposure to Andhra Pradesh discoms stands at 50 MW, constituting ~20% of the portfolio. The 50 MW capacity has been tied-up through long-term PPAs with APCPDCL[1] at average power purchase rate under the REC mechanism. The move by the state government to negotiate signed PPAs, if implemented, would have an adverse impact on the credit profile of the company. However, in ICRA's opinion, unilateral modification of the PPAs is likely to be subjected to legal challenges. On the other hand, reluctance shown by the State Government of Andhra Pradesh to honour the PPAs may aggravate the payment delays for wind and solar IPPs in the state including for the company's capacity in Andhra Pradesh.

Rationale

The rating downgrade takes into account the weakening of the liquidity position of the company due to the continuing delays in payments from the off-takers i.e. state-owned distribution utilities in Gujarat (GUVNL[2]) and APCPDCL with the Andhra Pradesh government setting up HLNC. The rating is further constrained by payment delays from Karnataka discom (HESCOM[3]), although recently the company has received payments on a monthly basis amounting to ~Rs. 35 crore, the delays of close to four months from the due date of invoice persist. Further, the company has not been able to liquidate its entire renewable energy certificate (REC) inventory due to the pending procedural issue for re-registration requirement as highlighted by the National Load Dispatch Centre (NLDC) in FY2018-19 for change in the name of the entity done in the past.

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[1] APCPDCL - Central Power Distribution Company of Andhra Pradesh Limited
[2] GUVNL - Gujarat Urja Vikas Nigam Limited
[3] HESCOM - Hubli Electricity Supply Company Limited

The rating continues to remain constrained by the risk of variability in wind speed, and grid availability issues, which can adversely affect the plant load factor (PLF) levels of the company's entire capacity. In FY2019, the PLF levels of the company's entire capacity improved from that of FY2018 and exceeded the P90 levels, except in the company's 100 MW capacity in Karnataka. The rating is further constrained by the high counterparty credit risk arising out of its exposure to the state-owned distribution utilities with weak financial position (Karnataka and Andhra Pradesh discoms). The receivable position of the company with HESCOM has remained weakened because of payment delays of close to four months from the due date of invoice, w.r.t. wind asset capacity of 100-MW in Karnataka (i.e. about 40% of company's wind asset capacity). Recently, the company is also facing payment delays from GUVNL, with receivables overdue of more than five months as on date. Any further increase in the receivable position may put pressure on cash flows and thus remains a key monitorable. ICRA also takes a note of the reference of operations and maintenance (O&M) service provider i.e. Wind World India Limited (WWIL) for the entire capacity of the company under insolvency & bankruptcy code (IBC). The ability of the company to manage the O&M activities and maintain the desired plant availability thus remains crucial from a credit perspective.

Further, the company's operations remain exposed to regulatory challenges associated with the implementation of scheduling and forecasting framework as applicable to inter-state wind projects, given the limited experience of the industry players in India in scheduling and forecasting and the highly variable nature of wind energy generation.

The rating continues to favourably factor in the geographical diversification of the company's wind assets with operational track record of more than five years at three out of the four locations; and also, the fact that the company's wind portfolio is tied-up through long-term PPAs with the state-owned distribution utilities, both under the renewable energy certificate route (150 MW) and the feed-in tariff route (105 MW). The rating also factors in the benefits, by virtue of its eligibility under the generation-based incentive (GBI) for the entire capacity.

ICRA also notes that ORIX Japan has exercised its right of refusal on GAIL's bid and expressed its intent to acquire remaining 51% stake in the wind assets of IL&FS Group after GAIL Ltd had emerged as the highest bidder for these assets as part of the resolution process for IL&FS Group undertaken by its New Board. Nonetheless, the conclusion of this sale process for wind energy assets will be subject to various regulatory and other approvals. ICRA will continue to monitor the development regarding the sale process for wind energy assets of IL&FS Group and take rating action as and when the transaction is concluded.

Outlook: Negative

ICRA believes that the timely collection of payments from the company's off-takers and the ability of the company to timely trade its pending REC inventory will remain crucial for TWEPL's overall credit profile in the near term. The outlook will be revised to Stable in case of commencement of timely collections from GUVNL, APCPDCL, restoration of the DSRA position and complete resumption of REC trading by the company.

Key rating drivers:

Credit strengths

Demand risk mitigated by execution of power purchase agreements (PPAs) at all locations with respective state distribution entities (discoms) - TWEPL has PPAs in place for the entire 256-MW capacity with the respective state discoms. While the PPA with GUVNL for the projects in Gujarat is based on long-term feed-in tariff, the company has signed PPAs at the average power purchase rate under the REC mechanism for the projects in Karnataka and Andhra Pradesh with HESCOM and APCPDCL, respectively. The average PPA tariff for capacity in Gujarat is Rs. 3.86/ unit for a tenure of 25 years from the commencement of commercial operation. In case of the REC-based capacity, the average power purchase cost (APPC) in FY2019 in Andhra Pradesh and Karnataka has been recorded at Rs. 3.74 / unit and Rs. 3.64/unit, respectively.

Diverse portfolio – TWEPL has a well-diversified portfolio of four assets, having an aggregate operating capacity of 256 MW. The company's assets are spread across the states of Gujarat (105.6 MW), Andhra Pradesh (50 MW) and Karnataka (100 MW).

Credit challenges

Counterparty credit risk associated with exposure to stretched financial profile of state distribution utilities - In the past eight months, overdue receivable from GUVNL has increased to more than five months due to the suspension of payments by the discom. In addition, the weak financial strength of other state distribution entities remains a key credit weakness, particularly in the case of HESCOM, with which 40% of the total capacity has been tied-up. In case of sales to HESCOM, although recently the company has received payments on a monthly basis amounting to ~Rs. 35 crore, the delays of close to four months from the due date of invoice persist. Further, the liquidity position of the company is also stretched due to an increased delay of eight months in payment from the due date of invoice from APCPDCL.

Pending REC inventory – Although, in June 2019, the company was able to trade its partial REC inventory, its ability to trade the pending inventory post timely solution of registration related issues with the exchange will impact its liquidity profile. The company is also exposed to regulatory risk associated with the pending clarification from regulatory bodies on applicable floor price for non-solar RECs issued till March 2017, due to removal of vintage multiplier by CERC.

Vulnerability of cash flows to variation in weather conditions– As tariffs are one part in nature, the company may book less revenue in the event of non-generation of power due to variation in weather conditions. This in turn would affect the cash flows and debt-servicing ability of the company.

Unsatisfactory PLF levels for Karnataka-based assets - While the PLF levels for wind assets located in Gujarat and Andhra Pradesh remain satisfactory, the same has not been the case for the 100-MW capacity installed in Karnataka, which reported significantly lower PLFs, as against the P-90 levels. This shortfall continues to adversely impact the company's revenue level and cash flows

Weak financial position of WWIL – WWIL is the O&M services provider for the company's entire 256 MW capacity. At present, WWIL is referred under IBC and the company is ensuring payments related to O&M (especially the salaries of staff and necessary spares) through a joint signatory account so that O&M services remain unaffected. Going forward, the company's ability to manage the risk and have the desired plant availability remains crucial from the credit perspective.

Limited experience in forecasting and scheduling regulations- The regulatory challenges regarding the proposed implementation of scheduling and forecasting framework for wind projects pose a risk, given the limited experience of the Indian industry players in scheduling and forecasting and the variable nature of wind energy generation.

Exposure to interest rate risk: The project remains exposed to interest rate risk, given the single-part fixed tariff.

Liquidity position

As on July 04, 2019, the company has cash balance position of Rs. 8.35 crore and cash DSRA of Rs 16 crore. The company also has access to fund-based limits of Rs. 30 crore, which remains ~86% utilised as on end of June 2019.

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 ratings are based on standalone financial profile of the company

About the company:

Incorporated in July 2011, TWEPL commissioned wind farms in Andhra Pradesh, Karnataka and Gujarat with capacities of 50.4 MW, 100 MW and 50.4 MW, respectively, in September 2012. Further, in July 2015, the company commissioned an additional capacity of 55.2 MW in Gujarat. With effect from March 17, 2016, Orix Corporation, Japan, picked up 49% stake in TWEPL, while the rest continues to be held by the IL&FS Group. The EPC (Engineering, Procurement and Construction) and O&M for all the four sites were awarded to Enercon India Limited (WWIL; now known as "Wind World India Limited").

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	206.9	229.6
PAT (Rs. crore)	3.8	42.5
OPBDIT/ OI (%)	88.2%	87.5%
RoCE (%)	10.5%	12.4%
Total Debt/ TNW (times)	4.7	3.7
Total Debt/ OPBDIT (times)	5.5	4.7
Interest Coverage (times)	1.4	1.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2020) Date & Rating July 2019	May 2019	Chronology of Rating History for the past 3 years Date & Rating in FY2019 February 2019	January 2019	October 2018	Date & Rating in FY2018 September 2017	Date & Rating in FY2017 October 2016
1	Term Loan	Long Term	925	827.57	[ICRA]BB+ (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (stable)	[ICRA]A- @	[ICRA]A- (stable)	[ICRA]A- (stable)	[ICRA]BBB+ (stable)
2	Fund-based limits	Long Term	30	26	[ICRA]BB+ (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (stable)	[ICRA]A- @	[ICRA]A- (stable)	[ICRA]A- (stable)	-

@ - under rating watch with negative implications

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
-	Fund-based limits	-	-	-	30	[ICRA]BB+ (Negative)
-	Term Loans	FY2017	10.45%	FY2032	925	[ICRA]BB+ (Negative)

Source: TWEPL

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

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