

July 10, 2019

## Khandke 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
Term Loans	656.09	656.09	[ICRA]BB+ (Negative); downgraded from [ICRA]BBB (Negative)
<b>Total</b>	<b>656.09</b>	<b>656.09</b>	

\*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 125.6 MW capacity wind power portfolio of the company, the exposure to Andhra Pradesh discoms stands at 31.2 MW, constituting ~25% of the portfolio. The 31.2 MW capacity has been tied-up through long-term PPAs with APCPDCL<sup>1</sup> at the approved feed-in tariff rates. 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<sup>2</sup>), Rajasthan (JUVNL<sup>3</sup>) and APCPDCL with the Andhra Pradesh government setting up HLNC. The rating is further constrained by delays in creation of Debt Service Reserve Account (DSRA) equivalent to three months of principal and interest obligations which was earlier expected to be funded as per the terms of debt refinancing.

The rating, however, 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 for the company's entire capacity. In FY2019, the PLF levels of the company's entire capacity improved from that of FY2018 and remained higher than the P-90 levels, except in the capacity located in Rajasthan. The rating is further constrained by the high counterparty credit risk associated with exposure to state-owned distribution utilities, which have weak financial position, as evident from delays in cash

<sup>1</sup> APCPDCL - Central Power Distribution Company of Andhra Pradesh Limited

<sup>2</sup> GUVNL - Gujarat Urja Vikas Nigam Limited

<sup>3</sup> JUVNL – Jaipur Urja Vidyut Nigam Limited

collections by Maharashtra State Electricity Distribution Company Limited (MSEDCL). While the payment pattern from MSEDCL had improved in the recent past with the company receiving lumpsum payments over the last six months, receivables overdue of almost three months persist. Payment pattern from Andhra Pradesh discom has deteriorated with receivable overdue of nine months as on date. In case of Rajasthan, the company is facing incremental payment delays of close to two to three months from the state distribution utility. 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, however, continues to favourably factor in the geographical diversification of wind assets; the operational track record of more than four years at three out of the four locations; and also, the fact that the company's wind portfolio is tied-up through long-term power purchase agreements (PPAs) with the state-owned distribution utilities under the feed-in tariff route (120 MW or 95.5% of the total capacity). The rating also factors in the benefits, by virtue of its eligibility under the generation-based incentive (GBI) for the entire capacity. The rating also factors the refinancing of the project debt, which has resulted in marginally lower interest rate and extended repayment schedule, although the benefit of refinancing is moderated to some extent by the top-up in the debt level.

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 creation of DSRA will remain crucial for KWEPL's overall credit profile in the near term. The outlook will be revised to Stable in case of commencement of timely collections from APCPDCL, GUVNL and JUVNL, and creation of DSRA as per the terms of refinancing.

## Key rating drivers:

### Credit strengths

**Demand risk mitigated by execution of PPAs for most capacity with respective state distribution entities (discoms) -** KWEPL has PPAs for 120 MW, out of the total planned capacity of 125.6 MW, with the respective state discoms and is based on long-term feed-in tariff mechanism. The average PPA tariff for capacity tied up with distribution utilities in states of Andhra Pradesh, Rajasthan, Maharashtra and Gujarat is Rs. 4.70/ unit, Rs. 5.61/ unit, Rs. 5.80/ unit and Rs. 3.46/ unit respectively. While the PPA with the Maharashtra utility has a tenure of 13 years, all the other PPAs are tied-up for a tenure of 25 years.

**Geographical diversity in asset portfolio; proven track record:** KWEPL has a well-diversified portfolio of four assets, having an aggregate operating capacity of 125.6 MW. The company's assets are spread across the states of Gujarat, Andhra Pradesh, Rajasthan and Maharashtra. The entire capacity was commissioned in stages, with the majority capacity having a track record of five years or more, except the Gujarat-based capacity, which has a track record of two years.

## Credit challenges

**Counterparty credit risks associated with exposure to stretched financial profile of state distribution utilities** - The weak financial strength of the state distribution entities, particularly that of Maharashtra and Andhra Pradesh, remains a key credit negative for KWEPL. While the payment pattern from MSEDCL had improved in the recent past with the company receiving lumpsum payments over the last six months, receivables overdue of almost three months persist. Payment pattern from Andhra Pradesh discom has deteriorated with receivable overdue of nine months as on date. In case of Rajasthan, the company is facing incremental payment delays of close to two to three months from the state distribution utility. For the capacity located in Gujarat, GUVNL is continuing delay in payments and has stopped paying after the billed month of October 2018, increasing the receivables overdue to more than five months.

**Liquidity constraints amplified by absence of DSRA as per terms of refinancing** – KWEPL was expected to create the DSRA equivalent to three months of principal and interest obligation from the debt funding availed for refinancing, but it is still pending. The delay in creation of DSRA remains a credit negative and its creation without further delay remains crucial from the credit perspective.

**Moderate PLF levels for wind assets in Rajasthan and Andhra Pradesh** - In FY2019, the PLF levels for the company’s entire capacity improved from that of FY2018, and have remained higher than its P-90 levels, except for the 44 MW capacity located in Rajasthan. The same continues to impact the revenue levels and the cash flow generation for the company.

**Weak financial position of WWIL** – WWIL is the O&M services provider for the entire 125.6 MW capacity of the company. 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 had a cash balance position of Rs. 30.94 crore and cash DSRA of Rs 2.3 crore. As per the terms of refinancing, DSRA equivalent to three months of principal and interest obligations is to be created out of debt funding availed in refinancing.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Wind Power Producers</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

### About the company:

Khandke Wind Energy Private Limited (“KWEPL”) is a special purpose vehicle (SPV) formed for setting up wind farms of aggregate capacity of 125.6 MW in three locations viz. Maharashtra, Rajasthan, Andhra Pradesh and Gujarat with capacities of 36.8 MW, 44 MW, 31.2 MW and 13.6 MW, respectively. With effect from March 17, 2016, Orix Corporation, Japan, picked up 49% stake in KWEPL, 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

	FY2017	FY2018
Operating Income (Rs. crore)	123.36	116.20
PAT (Rs. crore)	21.67	16.29
OPBDIT/ OI (%)	88.3%	86.3%
RoCE (%)	11.9%	9.4%
Total Debt/ TNW (times)	2.3	2.0
Total Debt/ OPBDIT (times)	5.2	5.2
Interest Coverage (times)	1.8	1.8

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the past 3 years							
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2019				Date & Rating in FY2018	Date & Rating in FY2017	
				July 2019	May 2019	February 2019	January 2019	October 2018	July 2018	October 2017	July 2016	
1	Term Loan	Long Term	656.09	506.93	[ICRA]BB+ (Negative)	[ICRA]BBB (Negative)	[ICRA]A (stable)	[ICRA]A @	[ICRA]A (stable)	[ICRA]A (stable)	[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](http://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
-	Term Loans	March 2018	-	Jan 2035	656.09	[ICRA]BB+ (Negative)

Source: KWEPL

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

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