July 10, 2019

Bindu Vayu Urja Private Limited: Rating downgraded and placed on watch with developing implications

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	2339.75	2339.75	[ICRA]A(SO)& downgraded from [ICRA]A+(SO) (Stable); placed on watch with developing implications
Fund-based - Working Capital	106.54	106.54	[ICRA]A(SO)& downgraded from [ICRA]A+(SO) (Stable); placed on watch with developing implications
Total	**2446.29**	**2446.29**	

Material Event

The Government of Andhra Pradesh (GoAP) 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

ICRA's rating is for the bank loans jointly raised by Bindu Vayu Urja Private Limited (BVUPL), Mytrah Vayu Urja Private Limited (MVUPL), Mytrah Vayu (Pennar) Private Limited (MVPPL), Mytrah Vayu (Krishna) Private Limited (MVKPL) and Mytrah Vayu (Manjira) Private Limited (MVMPL) (SPV group). Out of the 553.8 MW capacity wind power portfolio of the SPV group, the exposure to Andhra Pradesh discoms stands at 111.2 MW, constituting 20% of the portfolio. The 111.2 MW capacity has tied-up long-term PPAs with Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL) 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 SPV group. 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 portfolio of the SPV group in Andhra Pradesh.

Rationale

ICRA's rating revision factors in the weakening of the liquidity position of the SPV group, due to significant delays in receiving payments from the discoms in Andhra Pradesh along with deterioration in payment cycle from one of the Rajasthan discoms (Jodhpur). While the payment cycle has improved from Maharashtra discom, the receivable position remains relatively high at four to five months as of June 2019. This is partly mitigated by the timely payments from the discoms in Gujarat, Karnataka and majority of the industrial customers for the group captive project in Tamil Nadu. However, the overall receivable position remains higher as of March 2019 against March 2018 and higher than ICRA's estimates. During this period, the liquidity support for the company was derived by drawing the available debt service reserve account (DSRA) and working capital facility. Further, the company is in the process of securing additional working capital funding to manage the liquidity.

The rating is further constrained by risks that are typical to all wind energy projects, including vulnerability to seasonality and possible variance in wind-power density across years, as revenues are linked to actual units generated and exported. Also, the portfolio remains exposed to the movement in interest rates given the capital-intensive nature of operations which is largely debt funded and has fixed tariffs. ICRA notes that the operations of the portfolio remain exposed to the regulatory risk arising from implementation of forecasting and scheduling framework for wind power projects across the key wind states, given the variable nature of wind power generation and limited experience of Indian wind power players in forecasting with such accuracy. In addition, any adverse revision in rules related to group captive mechanism as proposed by the Ministry of Power remains a concern for the project in Tamil Nadu.

However, ICRA takes note of the satisfactory generation track record of the portfolio over the last five-year period, with the average PLF level during this period remaining close to the P-90 estimate. However, there was moderation in PLF level during FY2018 and FY2016, due to a mix of factors such as unfavourable wind climatic conditions, grid curtailment and machine availability issues. The rating further factors in the benefits from the diversification of the wind asset portfolio of the SPV Group with projects spread across ten locations in six states, providing comfort against variability in generation and counter-party credit risks. The power generation by the portfolio improved by 12.3% on a year-on-year (YoY) basis in FY2019 due to an improved wind season and commissioning of a 10.8 MW capacity in Andhra Pradesh. In addition, the rating factors in the limited demand risks, with the presence of long-term power purchase agreements (PPAs) for 82% of the portfolio, with respective state discoms at the approved feed-in tariff rates. The remaining capacity has tied-up PPAs with industrial and commercial consumers under the group captive mode. The presence of fixed cost long-term operating and maintenance (O&M) contracts with the respective wind turbine generator (WTG) suppliers, with clear guarantee for machine availability and provision for liquidated damages in case of shortfall in performance is another rating positive. ICRA also takes note of the long debt repayment tenure and competitive interest rate on the debt.

ICRA's rating continues to factor in the structure of the loan facility with the five-wind power SPVs jointly responsible for servicing the debt, wherein any shortfall in meeting the debt obligation by any of the SPVs would be met through surplus cash flows from the other SPVs in the structure. While there are five distinct trust and retention accounts (TRA) for each of the SPVs, they are governed by a single TRA agreement and rupee loan agreement to which all the five SPVs are joint signatories.

ICRA would continue to monitor the developments related to the PPA negotiation and payments from APSPDCL, and take appropriate rating action, post analysing the impact on SPV group's financial risk profile.

The previous detailed rating rationale is available on the following link: Click here

Outlook: Not applicable

Key rating drivers

Credit strengths

Portfolio has completed at least three four seasons - The entire wind power portfolio (except 10.8 MW) under the SPV Group has completed at least four years of operations, with weighted average portfolio operating period is 5.8 years. The average PLF of the portfolio for the past six years has remained close to the P90 generation estimate.

Limited demand risks for the wind power portfolio - The SPV Group has tied-up long-term PPAs at reasonable feed-in tariffs with respective state utilities for 82% of the capacity; the remaining capacity has been tied-up with industrial and commercial customers through 10-year PPAs under group captive mode with tariffs being at a discount to grid tariffs.

Long debt repayment tenure, competitive interest rate and co-obligor structure provide comfort for debt servicing - The co-obligor structure of the loan provides comfort by partly insulating against PLF variations and counter-party credit risks, which arise because of the geographical diversification of the assets under the five SPVs with projects spread over ten locations in six states. Also, the long repayment tenure of 18 years through structured quarterly instalments and competitive interest rate benefit the SPV Group.

Long-term O&M arrangements in place - The SPVs have tied-up fixed cost long-term O&M agreements with the respective equipment suppliers (Suzlon, Gamesa, Regen and GE) with clear guarantee for machine availability and provision for liquidated damages in case of shortfall in performance.

Successful track record of the Mytrah group in renewable energy sector - The Group has demonstrated a strong track record in developing and operating renewable energy assets, with operational capacity of 1.7 GW.

Credit challenges

Deterioration in receivable position - The receivable position for the portfolio has reported a deterioration in FY2019 with significant delays in receiving payments from the discoms in Andhra Pradesh amid move by the state government to negotiate high cost wind and solar power PPAs, and deterioration in payment cycle from one of the Rajasthan discoms (Jodhpur). While the payment cycle has improved from Maharashtra discom, the receivable position remains relatively high at four to five months as of June 2019. The overall receivable position remains higher as of March 2019 against March 2018 and higher than ICRA's estimates.

Counter-party credit risk from exposure to discoms with weak to moderate financial profile – The counter-party credit risks for the portfolio arises from exposure to discoms with weak to moderate financial profiles. This risk is partly mitigated to an extent by the diversity in the off-taker profile along with the timely realisation of payments from discoms in Gujarat, Karnataka and Tamil Nadu group captive consumers.

Exposure to weather conditions and wind resource availability – The debt metrics for wind power projects remain sensitive to PLF levels given the one-part tariff structure. As a result, any adverse variation in wind conditions would impact PLF and consequently affects the cash flows. The performance of some of the projects in the portfolio continues to remain below the P90 estimate due to grid curtailment, machine availability issues and wind resource availability.

Project in Tamil Nadu remains exposed to risk of adverse revision in group captive mechanism rules - The group captive-based project in Tamil Nadu remains exposed to risk of revision in rules related to group captive mechanism as proposed by the Ministry of Power. The proposed change is to ensure that the group captive consumers have 26% shareholding in the project, computed based on normative debt and equity of 70:30.

Challenges from implementation of forecasting and scheduling regulations - The portfolio remains exposed to regulatory challenges from the implementation of scheduling & forecasting framework for wind power projects in Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Rajasthan and Tamil Nadu given the variable nature of wind power generation and limited track of Indian wind power players in forecasting with such accuracy.

Liquidity position

The company's liquidity profile has been affected by the delays in realisation of payments from discoms in Andhra Pradesh, Rajasthan and Maharashtra. Nonetheless, the liquidity profile is supported by timely payments from discoms in Karnataka, Gujarat and most of the group captive customers in Tamil Nadu. The company has a DSRA balance of Rs. 32.47 crore and undrawn working capital facility of Rs.39.06 crore as of June 2019.

Key financial indicators (Consolidated for the five SPVs)

	FY2017	FY2018
Operating Income (Rs. crore)	509.83	510.05
PAT (Rs. crore)	-55.27	31.02
OPBDIT/OI (%)	86.00%	84.92%
RoCE (%)	4.98%	5.08%
Total Debt/TNW (times)	1.87	1.80
Total Debt/OPBDIT (times)	6.12	6.10
Interest coverage (times)	1.51	1.55

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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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