

July 10, 2019

Mytrah Vayu (Indravati) Private Limited: rating downgraded and put on watch with negative implications

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	953.69	953.69	[ICRA]BBB-@ downgraded from [ICRA]BBB (Stable); placed on watch with negative implications
Fund-based – Overdraft	100.00	100.00	[ICRA]BBB-@ downgraded from [ICRA]BBB (Stable); placed on watch with negative implications
Unallocated	96.31	96.31	[ICRA]BBB-@ downgraded from [ICRA]BBB (Stable); placed on watch with negative implications
Total	1150.00	1150.00	

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

Out of 155.4 MW wind power portfolio of Mytrah Vayu (Indravati) Private Limited (MVIPL), the exposure to Andhra Pradesh discoms stands at 105 MW, which has a long-term PPA with Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL) at the approved feed-in tariff rate. The recent move by the state government to negotiate signed PPAs, if implemented, would have an adverse impact on the credit profile of MVIPL. However, in ICRA's opinion, unilateral modification of the PPAs is likely to be subjected to legal challenges. ICRA will continue to monitor the development on the matter pertaining to the negotiation of PPA and payment pattern from the utilities in Andhra Pradesh.

Rationale

ICRA's rating revision factors in the weakening of the liquidity position of MVIPL due to significant delays in receiving payments for its 105 MW wind power capacity in Andhra Pradesh. The receivable position deteriorated to nine months as of June 2019 from about three months as of June 2018. This could further aggravate in near term given the reluctance shown by the State Government of Andhra Pradesh to honour the PPAs signed with wind and solar power developers. Apart from the delays in payments, the high receivable position was also because of the withholding of payments to the extent of generation-based incentive (GBI) benefit (50 paise per unit) by APSPDCL in the monthly bills from April 2017 to August 2018. The discom filed a petition and secured a favourable order in July 2018 from the Andhra Pradesh Electricity Regulatory Commission (APERC) to reduce the PPA tariff to the extent of the GBI benefit for the wind power projects commissioned in the state during FY2016 and FY2017. Subsequently in August 2018, the Andhra Pradesh high court imposed a stay on implementation of this order. However, the realisation of payments withheld remains to be seen. The

company has undrawn term loan limit of Rs. 50 crore, which is subject to resolution of GBI issue. During this period, the liquidity support for the company was derived by drawing the available debt service reserve account (DSRA), working capital facility and a relatively better payment cycle for the 50.4 MW wind power capacity, which has a long-term PPA with the discoms in Rajasthan.

The rating continues to factor in the risks arising from the vulnerability of cash flows to seasonality and variance in wind power density across the years, given that the revenues are linked to the actual units generated and exported. The geographic diversity of the wind power assets across two states provides cushion against the variation in wind availability and counter-party credit risk to some extent. Further, the rating factors in the presence of 20-year contract (including the first two-year free period) with Suzlon Global Services Limited, for the operation & maintenance (O&M) of the wind turbine generators (WTGs). The rating also factors in the regulatory challenges from the implementation of scheduling & forecasting framework for wind power projects in Andhra Pradesh and Rajasthan, given the limited experience in scheduling and forecasting for the industry players in India and the variable nature of wind energy generation

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 MVIPL'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

Limited demand risk with presence of long-term PPA with APSPDCL and Jodhpur Vidyut Vitaran Nigam Limited (JVVNL) for a period of 25 years – The company has signed a long-term PPA with APSPDCL and JVVNL for a period of 25 years at an approved feed-in tariff of Rs. 4.83 per unit and Rs. 5.74 per unit respectively, thus mitigating the demand and pricing risks for the company.

Geographic diversity of the portfolio provides cushion against variations in wind availability and counterparty credit risk – The geographic diversity in the wind farms of the company with 105 MW at Vajrakarur in Andhra Pradesh and 50.4 MW at Bhesada in Rajasthan is a credit positive, as it provides comfort against the risk of variation in wind availability and the counterparty credit risk to a certain extent.

Long-term operations and maintenance (O&M) contract with guarantee for machine availability – The company has signed a 20-year O&M contract with Suzlon Global Services Limited with pricing fixed for a period of 10 years. The agreement provides machine availability guarantee for the wind turbine generators (WTGs), with clauses for liquidated damages in case of shortfall in machine availability, subject to caps agreed in the contract.

Long tenure of the project debt and structured repayments – The debt coverage metrics for the company are supported by the long-tenure (18.75 years) of the project debt and the structured repayments.

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 improvement in receivable position - The receivable position for the portfolio has reported a deterioration, with significant delays in receiving payments from the discoms in Andhra Pradesh. This is amid the formation of a committee by the Andhra Pradesh state government to negotiate high cost wind and solar power PPAs.

Counter-party credit risk arising from exposure to the discoms in Andhra Pradesh and Rajasthan – The counterparty risk for the company arises owing to the exposure to discoms in Andhra Pradesh and Rajasthan, given their weak to moderate financial profile.

Debt metrics for the project remain sensitive to PLF levels given the one-part tariff structure – The debt metrics of the project remain sensitive to the generation from the wind farms given the one-part tariff structure; as a result, any adverse variation in wind conditions may impact PLF and consequently, the cash flows.

Regulatory challenges arising from implementation of scheduling & forecasting framework as notified by SERC in Andhra Pradesh and Rajasthan – The regulatory challenges from the implementation of scheduling & forecasting framework for wind power projects in Andhra Pradesh and Rajasthan pose a risk, given 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 has been affected by the delays in realisation of payments from APSPDCL. The company has a DSRA balance of Rs. 18.5 crore and undrawn working capital facility with drawing power of Rs. 20.00 as of June 2019, which would support about three months of operating expenses and debt servicing obligations.

Key Financial Indicators

	FY2017	FY2018
Operating Income (Rs. crore)	168.53	151.18
PAT (Rs. crore)	-9.24	-76.66
OPBDIT/OI (%)	97.66%	96.66%
RoCE (%)	9.50%	6.97%
Total Debt/TNW (times)	6.12	10.97
Total Debt/OPBDIT (times)	5.27	6.56
Interest coverage (times)	1.43	1.37

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