October 07, 2019

Mytrah Vayu (Sabarmati) Private Limited: Rating downgraded; outlook remains negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	1452.00	1452.00	Downgraded to [ICRA]BBB- from [ICRA]BBB; outlook remains negative
Total	**1452.00**	**1452.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's rating action on Mytrah Vayu (Sabarmati) Private Limited (MVSPL) factors in the regulator risk arising from the pending approval for tariff adoption from the concerned regulatory authorities. While the tariffs under the wind power scheme of Ministry of New and Renewable Energy (MNRE) are discovered through a competitive bidding process, the tariff adoption and the power purchase agreements (PPA) and power sale agreements (PSA) are to be approved by the concerned electricity regulatory commission(s). MVSPL has tied-up long-term PPAs with PTC India Limited (PTC) at the quoted bid tariff rate. PTC has in turn tied up back-to-back PSAs with discoms in the states of Uttar Pradesh, Bihar, Jharkhand and Assam. The delay in regulatory approvals increases the risks associated with power off-take and payments by the ultimate procuring state distribution utilities.

On the other hand, ICRA favourably factors in the commissioning of the entire capacity of MVSPL by May 11, 2019 (128.70 MW in January 2019, 58.32 MW in April 2019 and balance capacity in May 2019). The project commissioning was delayed against the scheduled commissioning date (CoD) of October 4, 2018 (which was revised to November 13, 2018), because of the delay in acquiring right of way, GST implementation and unseasonal rains in the region. This is estimated to result in a cost overrun of Rs. 35-40 crore owing to higher pre-operative expenses and interest during construction, which is to be funded by the sponsor. Further, ICRA takes note of the approval received from the lead lender for extension in the CoD timeline from October 4, 2018 to October 4, 2019 and the repayment start date from September 30, 2019 to September 30, 2020, given the delays in implementation and as the wind turbine generator (WTG) machines are under stabilisation. With the nodal agency (Solar Energy Corporation of India Limited (SECI) issuing the final commissioning certificate, ICRA notes that risk of reduction in the tariff tied-up under the long-term PPA, for the capacity delayed beyond six months from the scheduled CoD is mitigated.

This apart, the rating remains constrained by the single asset and the single location of the company's operations along with the vulnerability of cash flows to seasonality and possible variance in wind-power density across years. This is because the revenues are linked to actual units generated and exported. Further, the rating factors in the susceptibility of cash flows to timely realisation of payments from PTC, which in turn is selling power to distribution utilities (discoms) in Assam (50 MW), Bihar (50 MW), Jharkhand (50 MW) and Uttar Pradesh (100 MW), which have a weak to moderate financial profile. Nonetheless, ICRA notes that the payments have been realised in a timely manner so far. Further, PTC has opened a revolving letter of credit (LC) equivalent to one-month billing in favour of the company. Given the capital-intensive nature of operations of the wind power project with a capital cost of Rs. 7.7 crore per MW and relatively fine tariff of Rs. 3.46 per unit, the company's ability to demonstrate generation level in line with the appraised PLF estimate remains critical from the credit perspective. Further, the company's operations remain exposed to regulatory challenges arising from implementation of scheduling and forecasting framework as applicable for inter-state wind projects, given the limited experience for the industry players in India in scheduling & forecasting and the highly variable nature of wind energy generation. ICRA also notes that the financial profile of the Mytrah group has been affected by the delays in realising payments for its portfolio in Andhra Pradesh and Telangana.

However, ICRA takes note of the cost competitive tariff offered by MVSPL in relation to the average power purchase cost of the ultimate off-taking state utilities. Further, the tie-up of debt funding for the project with a long repayment tenure of 17.25 years and at a competitive interest rate, is a credit positive. In addition, the presence of funded cash debt service reserve account (DSRA), which shall be built-up to meet two quarter interest and principal obligations post commissioning would provide additional comfort for debt servicing. The rating also factors in the demonstrated track record of the Mytrah Group in developing and operating renewable power assets, aggregating to 1.7 GW across eight states. ICRA also takes note of the 15-year contract in place with GE India Industrial Private Limited (GEIPL), for the operation and maintenance (O&M) of the wind turbine generators (WTGs) and the 20-year contract in place with Mytrah Energy (India) Private Limited (MEIPL) for O&M of the common facilities.

The negative outlook on the rating assigned for MVSPL is in view of the regulatory risk with respect to the pending approval for tariff adoption by the regulatory commission, which could impact the off-take of the power generated by the project.

Key rating drivers and their description

Credit strengths

Limited demand risks for the wind power project - The presence of long term PPAs with PTC India Limited for the entire capacity at the quoted bid tariff, with back to back PSAs with discoms in Assam, Bihar, Jharkhand and Uttar Pradesh mitigates demand risks for the project. Moreover, comfort can be drawn from the cost competitive tariff rate offered by MVSPL in relation to the average power purchase cost of these utilities.

Commissioning of the full project capacity - ICRA takes note of the commissioning of the entire capacity by MVSPL, with the final commissioning certificate issued by SECI in May 2019. This in turn mitigates the construction risk and the risk associated with tariff reduction for capacity delayed beyond six months from scheduled CoD.

Appraised debt funding and equity funding secured - The company has secured the required debt funding for the project with favourable terms, which include long repayment tenure of 17.25 years at cost competitive interest rate. Further, the project cost includes funded DSRA, equivalent to one quarter principal and interest payment, which will be built to two quarters from project cash flows during the moratorium period. Also, the sponsor has infused the appraised promoter contribution. Approval has been secured from lead lender extension in CoD timeline and repayment date extension.

Demonstrated track record of the Mytrah Group - The Group has demonstrated significant track record in developing and operating renewable power projects, with operational capacity of 1.7 GW spread across eight states.

Required O&M contracts in place with experienced players - The company has signed long-term O&M contract with GEIPL for the wind turbine generators, with pricing fixed for the first 15 years. The long-term O&M agreement has been tied-up for common facilities with MEIPL.

Credit challenges

Regulatory risk - The regulator risk for the project is arising from the pending approval for tariff adoption and PPAs/PSAs from the concerned regulatory authorities. The delays in regulatory approval increase the risks associated with power off-take and payments by the ultimate procuring state distribution utilities. Completion of the tariff adoption process is critical for off-take of power generated by the company.

Cost overrun because of delays in project implementation - The project implementation is delayed owing to a mix of reasons, including delays in acquiring the right of way, GST implementation and unseasonal rains. This in turn is estimated to have led to a cost overrun of Rs. 35-40 crore, which is to be funded by the sponsor.

Single asset nature of operations; sensitivity of debt metrics to energy generation - MVSPL 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 PLF and consequently its cash flows. The single location nature of the company's operations amplifies this risk. Post commissioning, the ability of the wind power project to achieve the projected generation level remain critical from the credit perspective, given the capital-intensive nature of operations and the fine tariff in the PPA.

Counterparty credit risk - The cash flows for MVSPL remain susceptible to timely realisation of payments from PTC, which in turn sells power to discoms in Assam, Bihar, Jharkhand and Uttar Pradesh, which have a weak to moderate financial profile. Nonetheless, the realisation of payments has remained timely so far. Also, PTC has opened a revolving LC in favour of the company.

Group's financial profile - The financial profile of the Mytrah group has been affected because of the delays in realising payments for its portfolio in Andhra Pradesh and Telangana.

Challenges associated with implementation of forecasting and scheduling regulations – The regulatory challenges arising from the implementation of scheduling and forecasting framework for wind power projects connected to the inter-state transmission network poses a risk. This is mainly because of the limited experience for the industry players in India in scheduling and forecasting and the variable nature of wind energy generation.

Liquidity position: Adequate

The liquidity position of the company is supported by timely realisation of payments from PTC India Limited and funded DSRA of one quarter. The company has outstanding cash balance of Rs. 43.40 crore as on September 10, 2019.

Rating sensitivities

Positive triggers - ICRA could revise the outlook to Stable, post receipt of the required regulatory approval for tariff adoption and PPAs/PSAs. Going forward, ICRA could upgrade MVSPL's rating if the wind power portfolio of the company demonstrates healthy generation level, which is in line or higher than the P90 estimates, along with timely realisation of payments from the off-taker, as agreed in the PPA.

Negative triggers - The negative triggers for the rating include delays in securing the required regulatory approval for tariff adoption leading to adverse impact on power off-take from the project and in turn, on the company's cash accruals. Further, negative pressure on MVSPL's rating could arise if the generation by the wind power project is lower than the P90 generation estimates, leading to pressure on cash flows in relation to the debt servicing requirements, with annual DSCR on project debt falling below 1.10 times. Also, delays in realisation payments by more than 90 days from the off-taker adversely affecting the liquidity profile would be a negative trigger.

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

MVSPL, incorporated in March 2017 is a special purpose vehicle (SPV) promoted by Mytrah Energy (India) Private Limited (MEIPL). MVSPL is developing a 252 MW wind power capacity at Maniyachi in Tamil Nadu. The company won this project through tariff-based competitive bidding conducted by Solar Energy Corporation of India (SECI) in February 2017, under the 1000 MW inter-state transmission system (ISTS) connected wind scheme of Ministry of New and Renewable Energy (MNRE). The project is developed by MEIPL with WTGs supplied and installed by GEIPL, while the balance of plant works (including land acquisition) by other promoter group entities. The company has signed a PPA with PTC India Limited at the bid tariff rate of Rs. 3.46 per unit for the entire capacity. The appraised project cost for MVSPL is Rs. 1936 crore. MEIPL, incorporated in November 2009, is a leading wind power IPP in India with operational wind and solar power capacity of 1.7 GW spread across eight states under various SPVs.

Key financial indicators (audited)

Not applicable as the project is yet to be fully operational

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					07-October 2019	12-April 2019	-	13-February 2018	-
1	Term Loan	Long Term	1452.00	1452.00	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	-	[ICRA]BBB (Stable)	-

Amount in Rs. Crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	October-2017	NA	September-2037	1452.00	[ICRA]BBB-(Negative)

Source: MVSPL

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.

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