January 24, 2020

Pipartoda Renewable Energy Private Limited: Rating upgraded

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	177.0	177.0	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Total	**177.0**	**177.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating revision factors in the satisfactory track record of almost three years for Pipartoda Renewable Energy Private Limited's (PREPL) operations and ramping up of generation from the wind assets with actual generation in FY2019 and YTD FY2020 being broadly in line with the P90 generation estimate. The collection performance of the company remains satisfactory as reflected from payments cleared within 10 days by the offtaker, namely Gujarat Urja Vitran Nigam Limited (GUVNL). The rating upgrade also factors in the strong liquidity profile as reflected by the availability of 1.5-quarter DSRA and surplus cash balance of ~Rs. 16 crore as on December 17, 2020.

The rating continues to favourably take into account the revenue visibility of the project due to the presence of long-term power purchase agreement (PPA) at a tariff of Rs. 4.15 per unit with GUVNL for a period of 25 years. The rating also factors in the extensive experience of the operation and maintenance (O&M) contractor – Gamesa Renewable Private Limited (Gamesa) – for the plant. The rating also takes into account of the managerial and operational strengths by virtue of the parentage of Pipartoda Renewable Energy Private Limited (PREPL) as it is a 50-50 joint venture (JV) between the EDF Group and the Sitac Group.

Nevertheless, the company's profitability and debt protection metrics are sensitive to its operational performance. Any adverse variation in wind conditions may impact PLF levels and consequently affect cash flows. PREPL's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for renewable energy projects, given the limited experience of developers of operating in India. Further, ICRA takes note of the leveraged capital structure of the plant as a high proportion of the promoter's capital has been infused in the form of compulsory convertible debentures (CCD), which have high coupon payments and consequently lead to high interest expenses. However, a cash flow waterfall mechanism is in place as per the terms of loan document, and interest on CCD instrument is subordinate to senior debt and would be made from the surplus balance available in distribution account of TRA and only upon approval from project lenders. The ratings further factor in the asset-concentration risk by virtue of a single facility in Gujarat and interest rate risk, given the single and fixed part nature of the PPA tariff.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the company's revenue visibility will remain stable, supported by operational performance remaining in line with P90 estimates and the availability of long-term PPA with the offtaker.

Key rating drivers

Credit strengths

Revenue visibility of projects due to long-term PPA with GUVNL – PREPL has entered into a PPA for 25 years at a tariff of Rs. 4.15 per unit with GUVNL for its full 26-MW capacity. Long-term PPAs for the project with state utility lowers offtake risks and provide revenue visibility.

Satisfactory generation track record of almost three years – The project has a satisfactory generation track record of almost three years. The generation performance of the company was better in FY2019 as reflected by PLF of 38% as against PLF of 31.4% in FY2018. The P90 generation estimate for the project from the second year onwards is 38.8% and the actual generation has been broadly in line with the P90 figure. The generation in 8M FY2020 was 61 million units as against 62 million units in 8M FY2019.

Low counterparty credit risk with GUVNL as sole offtaker – As GUVNL offtakes the entire quantum of power generated, PREPL remains exposed to the discom's credit risk profile. However, GUVNL has been making payments against invoices in a timely manner with the average receivable days of the plant since commissioning remaining less than 10. Moreover, the overall financial profile of Gujarat-based discoms is good and hence the counterparty credit risk for PREPL is low.

Presence of experienced O&M contractor for plant – PREPL has an O&M contract with Gamesa for 10 years from the date of commencement of operations. Gamesa is one of the most established EPC players in this segment, having made considerable capacity installations in India. There are clear guarantees for machine availability, reactive power and the power curve from the contractor. However, the extent of these guarantees may not compensate PREPL to the full extent.

Strength as JV between the EDF Group and the Sitac Group – PREPL is a 50-50 JV between the EDF Group and the Sitac Group. EDF is a French electric utility company in which the French Government owns the majority stake (84.5%). EDF operates ~136-GW capacity (as on September 2019-end) globally comprising nuclear, gas/fossil based, hydro and other renewable capacity of 76 GW, 25 GW, 22GW and 13 GW, respectively. The Sitac Group is promoted by Mr. Malvinder Singh and is involved in the construction business in India and abroad (the Middle East) apart from being present in the renewable energy business. EDF and Sitac have an operational renewable energy portfolio of 264 MW and assets under development of 300 MW in India.

Credit challenges

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

Asset concentration and interest rate risk - The company remains exposed to asset-concentration risk with the entire capacity located in a single site in Gujarat. It also remains exposed to interest rate risk, given the single-part nature of the PPA tariff.

High proportion of promoters' contribution infused at CCDs results in adverse capital structure – The project debt-equity mix for PREPL is 75:25, resulting in high leverage on the books as on date. Moreover, a high proportion of the promoter's contribution is funded through CCDs. These CCDs have high coupon payments and would result in high interest expenses on PREPL's income statement. However, a proper waterfall mechanism is in place and interest on these instruments is subordinate to senior debt and would be made only upon approval from project lenders.

Regulatory risks associated with implementation of scheduling and forecasting framework for renewable sector – The company's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for renewable energy projects, given the limited experience of developers of operating in Indian conditions.

Liquidity Position: Strong

The liquidity profile of the company is **strong** as reflected by the surplus cash balances of ~Rs. 17.7 crore at the end of FY2019, which included a 1.5-quarter DSRA of Rs. 9.64 crore. Further, with generation remaining in line with the P90 estimate in the current year and collections remaining timely, the cash balance as on December 17, 2019 has increased and stood at Rs. 26.4 crore, including DSRA of Rs. 9.84 crore. Going forward, the free cash flows from operations are expected to be adequate to meet the debt obligations. The company has modest annual debt repayment obligations between Rs. 8-10 crore over the next three years and there are no major capex plans. ICRA continues to factor in that the company is a part of the EDF Group and the Sitac Group, and the promoter groups would continue to support the operations in case of a cash flow mismatch or in case a funding requirement arises.

Rating sensitivities

Positive triggers: The rating of PREPL may be revised upwards in case of sustained improvement in PLF level beyond P90 level and if the liquidity remains strong on a sustained basis.

Negative triggers: The rating of PREPL may be revised downwards in case of generation decline by more than 10% of the P90 estimate, or stretching of payments by the counterparty for more than six months, affecting the company's liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Wind Power Producers
Parent/Group Support	We expect PREPL's sponsor groups, i.e. EDF Group and Sitac Group to be willing to extend financial support to PREPL, should there be a need, given the high strategic importance that PREPL has for both the Groups
Consolidation / Standalone	The rating is based on the standalone financial profile of the company

About the company

PREPL is a 50-50 JV between the EDF Group and the Sitac Group. EDF is a French electric utility company in which the French Government owns the majority stake (84.5%). EDF operates ~136-GW capacity (as on the end of September 2018) globally comprising nuclear, gas/fossil based, hydro and other renewable capacity of 76 GW, 25 GW, 22GW and 13 GW, respectively. The Sitac Group is promoted by Mr. Malvinder Singh and is involved in construction business in India and abroad (the Middle East) apart from being present in the renewable energy business. EDF and Sitac have an operational renewable energy portfolio of 264 MW and assets under development of 300 MW in India.

PREPL operates a 26-MW wind power project at Jamnagar, Gujarat. The project comprises thirteen 2-MW turbines from Gamesa (G-114 model). The EPC and O&M contractor for the project is Gamesa. The project has a 25-year PPA with GUVNL for the entire capacity and the plant commenced generation from March 2017. The applicable tariff (feed-in tariff) for the project is Rs. 4.15 per unit.

Key financial indicators (Standalone)

	FY2018	FY2019
Operating Income (Rs. crore)	33.2	40.2
PAT (Rs. crore)	-2.5	-2.5
OPBDIT/OI (%)	85.9%	88.2%
RoCE (%)	14.4%	12.4%
Total Debt/TNW (times)	8.97	9.74
Total Debt/OPBDIT (times)	7.00	5.43
Interest coverage (times)	1.30	1.20

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S. No.	Name of Instrument	Current Rating				Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Amount Outstanding (Rs. crore) (March 2019 end)	Month - year & rating in FY2020 24-January 2020	Month - year & rating in FY2019 17-January 2019	Month - year & rating In FY2018	Month - year & Rating in FY2017
1	Term Loan	Long term	177	172	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	-

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
NA	Term Loan	Jun 1, 2018 July 6, 2018	-	FY2035	177	[ICRA]A(Stable)

Source: Company

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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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