January 24, 2020

Vena Energy JMD Power Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	145.92	137.66	[ICRA]A- (Stable); reaffirmed
Total	**145.92**	**137.66**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's rating factors in the satisfactory operating track record of Vena Energy JMD Power Private Limited's (VEJPPL) wind power capacity since commissioning in March 2015; the average plant load factor (PLF) from FY2016 to FY2019 remained higher than the P90 generation estimate. The generation increased by 20.7% in FY2019 vis-à-vis FY2018 and the reported PLF in FY2019 was higher than the P75 generation estimate. However, the generation for the first six months of FY2020 was lower by 13.0% against the generation in the corresponding period of the previous year. Nonetheless, the generation for the full year is likely to be closer to the P90 estimate. The rating draws comfort from the limited demand risks as the company has inked a long-term power purchase agreement (PPA) with the Madhya Pradesh Power Management Company Limited (MPPMCL) for the entire capacity (25-year PPA). Also, the revenue from generation-based incentive (GBI) benefit of Rs. 0.5 per unit (with a cap of Rs. 1 crore per MW) enhances cash flows and provides additional comfort. Further, the operating and maintenance (O&M) risk is low, given the satisfactory performance of the O&M contractor, Siemens Gamesa Renewable Energy Private Limited (SGREPL) so far. The rating draws comfort from the healthy liquidity profile of the company, with the presence of a cash debt service reserve account (DSRA) equivalent to two quarters' interest and principal obligations and a working capital facility, which remains largely undrawn. ICRA also takes note of the favourable debt terms—long repayment tenure and competitive interest rate fixed for a period of five years, which along with the satisfactory generation track record are expected to result in comfortable debt coverage projects for the company.

However, the rating is constrained by the single location and single asset nature of the company's operations, along with the vulnerability of cash flows to high seasonality and possible variance in wind power density across the years. This is because the revenues are linked to the actual units generated and exported. The rating is also constrained by the susceptibility of cash flows to counterparty credit risks arising from the exposure to MPPMCL, which has a weak financial profile. While ICRA notes the improvement in the payment cycle from the off-taker to about two months in FY2019, the payment cycle has increased to four to six months in 9MFY2020. Moreover, the financial profile of the discoms in Madhya Pradesh is constrained by the high operating inefficiencies, including high distribution loss levels and weak collection efficiency. A sustainable improvement in the payment cycle remains linked to the financial turnaround of the state distribution utilities. Further, wind power projects including VEJPPL, which have relatively higher tariff than the average power purchase cost of the state distribution utilities, may remain exposed to the risk of grid curtailment in future as seen in few other states, though the same has remained absent so far in state of Madhya Pradesh. ICRA considers that the sponsor contribution for VEJPPL is largely funded through non-convertible debentures (NCDs) subscribed by project sponsors, which are subordinated to the project debt. ICRA also notes that the company's operations remain exposed to regulatory challenges arising from the implementation of scheduling and forecasting framework by the State Electricity Regulatory Commission (SERC) of Madhya Pradesh. This is mainly due to the limited experience in scheduling and forecasting for industry players in India and the highly variable nature of wind energy generation. Nonetheless, the financial implication under these regulations is yet to commence in Madhya Pradesh and the company has engaged a qualified coordinating agency (QCA) to manage the scheduling and forecasting activity.

The stable outlook assigned to the company factors in the benefit of the long-term PPA with MPPMCL and the experience of the management in operating wind power plants.

Key rating drivers and their description

Credit strengths

Satisfactory operating track record of wind power capacity under VEJPPL - The operating track record of the 26-MW capacity under VEJPPL remains satisfactory with average PLF over FY2016-FY2019 remaining higher than the P90 PLF estimate. While the generation declined on a year-on-year basis in H1 FY2020, the full year performance is expected to be closer to the P90 estimate.

Limited demand and tariff risks - VEJPPL has signed a long-term PPA with MPPPCL for the entire capacity at the approved feed-in tariff rate for 25 years, thereby mitigating demand and pricing risks. Besides, the registration of the project for availing GBI benefit of Rs. 0.5 per unit augurs well for the project, enhancing its cash flows.

Long-term O&M contract with SGREPL - VEJPPL has signed an O&M contract with SGREPL for 10 years for comprehensive O&M of the wind turbine generators (WTGs), with provisions for ensuring adequate availability of the WTGs. In case the availability is lower than the agreed level, SGREPL is liable to pay liquidated damages, subject to a limit mentioned in the contracts. The performance of the O&M contractor has remained satisfactory so far with the machine availability remaining better than the guaranteed level.

Long tenure of project debt with interest rate fixed for five years - The company has refinanced the project debt in FY2018, leading to a longer repayment tenure and lower interest rate, which is fixed for five years. The demonstrated wind power generation and the remunerative tariff rate are estimated to result in comfortable debt coverage metrics on project debt.

Credit challenges

Single asset nature of operations; sensitivity of debt metrics to energy generation - VEJPPL 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 the PLF and consequently, the cash flows. The single location nature of the company's operations amplifies this risk. Nonetheless, the track record of generation demonstrated so far is a source of comfort.

Counterparty credit risks from exposure to MPPMCL - The company's counterparty credit risks remain high owing to its exposure to MPPMCL, which has a weak financial profile. Although the payment cycle witnessed an improvement in FY2019, the payment cycle has increased in 9MFY2020.

Grid curtailment risk due to relatively high tariff - Given the relatively high PPA tariff of the project and the absence of the deemed generation clause, the company's operations may remain exposed to the risk of grid curtailment in future as seen in few other states. However, the same has remained absent so far in Madhya Pradesh.

Challenges associated with implementation of forecasting and scheduling regulations - Regulatory challenges arising from the implementation of scheduling and forecasting framework for wind power projects in Madhya Pradesh pose a risk. This is mainly because of the limited experience in scheduling and forecasting for the industry players in India and the variable nature of wind energy generation. The company has engaged a QCA to manage the scheduling and forecasting activity.

Liquidity position: Strong

The liquidity profile of the company is supported by the healthy cash accruals from the sale of power generated by its 26-MW wind farm along with the availability of DSRA of Rs. 12.60 equivalent to two quarter debt servicing payments and working capital facility of Rs. 16.7 crore, which is largely undrawn.

Rating sensitivities

Positive triggers - ICRA could upgrade VEJPPL's rating if the company continues the healthy operating performance with PLF higher than the P90 estimate and receipt of payments from the off-taker within two months from the invoice date. Specific credit metrics that could lead to an upgrade of VEJPPL's rating include, annual DSCR on project debt greater than 1.40 times.

Negative triggers – Negative pressure on VEJPPL's rating could arise in case of delays in payments from the Madhya Pradesh discoms, leading to accumulation of receivables and weakening of the liquidity position. Also, any under-performance in generation by the wind power project, leading to weakening of annual DSCR on project debt to less than 1.20 times 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

VEJPPL, incorporated in June 2014, is a special purpose vehicle (SPV) promoted by Vena Energy Wind (India) Renewables Pte Limited, Singapore which is held by Vena Energy (India) Holdings Pte Limited (earlier known as Equis Energy). Vena Energy (India) Holdings Pte Limited is further held by Global Infrastructure Partners. Global Infrastructure Partners is an independent infrastructure fund manager which manages US$ 40 billion for its investors. VEJPPL operates a 26-MW wind power project at Jamgodrani in Dewas district of Madhya Pradesh, which was commissioned in March 2015. The project was developed by SGREPL on a turnkey basis, who also manages the operations and maintenance of the plant. The company has a long-term PPA with MPPMCL at a tariff rate of Rs. 5.92 per unit. The Group has an operational wind power capacity of 414 MW and operational solar power capacity of 200 MW across Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra and Telangana.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	33.24	40.96
PAT (Rs. crore)	-3.39	5.59
OPBDIT/OI (%)	86.67%	85.23%
RoCE (%)	11.27%	15.21%
Total Outside Liabilities/Tangible Net Worth (times)*	-21.17	-51.00
Total Debt/OPBDIT (times)**	6.67	5.25
Interest Coverage (times)^	1.17	1.65
DSCR^	0.95	1.17

*This ratio is affected by the funding structure as majority of the sponsor contribution for the project is in the form of NCDs with limited equity base and losses reported in initial years of operations

**The ratio includes sponsor debt in the numerator

^The ratios include interest booked on the sponsor NCDs

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

			Current Rating (FY2020)			Chronology of Rating History for the past 3 years		
						Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	24-January-2020	6-December-2018	13-November-2017	18-January-2017
1	Term loan	Long Term	137.66	137.66	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (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	August-2017	NA	March-2033	137.66	[ICRA]A- (Stable)

Source: VEJPPL

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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