May 17, 2022

Ayana Renewable Power Private Limited: Rating reaffirmed for existing limits and assigned for enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based - Term loan	90.00	-	-
Long Term – Non-Fund Based	460.00	90.00	[ICRA]AA- (Stable); reaffirmed
Short Term – Non-Fund Based	50.00	180.00	[ICRA]A1+; reaffirmed and assigned for enhanced limits
Short Term – Fund Based – Working Capital	-	10.00	[ICRA]A1+; assigned
Short Term Facilities – FB/NFB*	-	210.00	[ICRA]A1+; assigned
Short Term Loan**	-	215.00	[ICRA]A1+; assigned
Long Term/Short Term - Non-fund based	-	450.00	[ICRA]AA- (Stable)/[ICRA]A1+; assigned
Long Term/Short Term Facilities - FB/NFB	-	200.00	[ICRA]AA- (Stable)/[ICRA]A1+; assigned
Long Term/Short Term - Unallocated	-	645.00	[ICRA]AA- (Stable)/[ICRA]A1+; assigned
Total	**600.00**	**2000.00**	

**Instrument details are provided in Annexure-1*

*limits are interchangeable between fund-based and non-fund-based facilities to the extent of Rs. 50 crore and Rs. 195 crore respectively

**limits are interchangeable with non-fund-based facilities to the extent of Rs. 125 crore

Rationale

The rating reaffirmation for Ayana Renewable Power Private Limited (ARPPL) factors in the superior financial flexibility offered by its strong sponsors. The sponsors - National Investment and Infrastructure Fund Limited (NIIF), CDC Group Plc and EverSource Capital through its fund Green Growth Equity Fund (GGEF) - have made a capital commitment of USD 721 million in the company. ICRA notes that ARPPL is expected to remain strategically important to NIIF, reflected in the largest equity commitment from its master fund. The committed equity capital would enable the platform to expand its portfolio, that currently stands at 3.69 GW[1], increasing from 1.74 GW as of March 2021.

ICRA's rating action factors in the improvement in the operating portfolio under the special purpose vehicles (SPVs) of ARRPL, led by the commissioning of the 300-MW solar project in Rajasthan in December 2021 within the budgeted cost and acquisition of 400-MW solar assets. The Group's operating renewable power portfolio increased to 1,290 MW as of April 2022 from 590 MW as of March 2021. The Group has another 2,400 MW under-development, comprising 1,350-MW solar assets with firm power purchase agreements (PPAs), and another 1,050 MW (600 MW solar and 450 MW solar-wind hybrid) won recently through the bidding route, wherein the PPAs are pending to be signed.

[1] Includes operating, under-construction and newly awarded projects

The ratings continue to favourably factor in the long-term PPAs at fixed tariffs for 2,640-MW[2] capacity and the superior tariff competitiveness for the ultimate offtaker utilities, leading to low offtake risks for the SPVs of ARPPL. For the balance 1,050 MW, the company won projects from the Solar Power Corporation of India Limited (SECI) for which the PPAs are expected to be signed in due course.

The ratings also factor in the low counterparty credit risk profile as Central counterparties, i.e. NTPC Limited, SECI and Indian Railways, account for ~82%[3] of the overall portfolio of ARPPL and the strengths that emanate from the relatively superior PPAs with NTPC and SECI. The ratings further take comfort from the satisfactory operational track record of the assets acquired through the inorganic route, albeit remaining slightly below the P-90 estimate. Nonetheless, the ability of these assets and the assets that would get commissioned going forward, to demonstrate generation performance in line or above the appraised estimate remains a key monitorable.

The ratings, however, are constrained by the company's limited revenue stream due to its holding company nature and the exposure to execution risks, given that the Group has considerable project capacity under implementation. The company's ability to secure the required approvals/land and commissioning the projects as per the applicable timelines and within the budgeted project cost remains a key monitorable from a credit perspective. Further, the company is exposed to the movements in solar module prices and foreign exchange rates, though the latter is mitigated to a large extent due to the hedging policy of the Group.

The rating also considers the counterparty credit risk for certain projects that are exposed to the state distribution utilities (discoms) of Karnataka, Maharashtra, and Tamil Nadu, given their modest financial position. Nonetheless, comfort can be drawn from the limited exposure (18% of ARPPL's portfolio) to these discoms. Given the single-part nature of the fixed tariff in the PPA and the variability of solar generation, the operations of ARPPL's SPVs and in turn, their cash flows, remain sensitive to the variation in solar irradiation levels and weather conditions.

Also, the debt coverage metrics of the company's SPVs remain exposed to interest rate risk, given the single-part fixed nature of the PPA tariff and the leveraged capital structure. The ratings further factor in the risks pertaining to the applicability of the scheduling and forecasting framework for renewable energy projects.

The Stable outlook on ARPPL's rating reflects ICRA's opinion that the company will be able to scale up its operating portfolio by commissioning the underlying projects within the scheduled timelines, supported by the strong capital commitment from the sponsors and the long-term PPAs with strong counterparties.

Key rating drivers and their description

Credit strengths

Large capital commitments and healthy financial flexibility by virtue of strong sponsors – The Ayana Group is backed by NIIF (51%), CDC Group Plc (32%) and GGEF (17%). NIIF is anchored by the Government of India (GoI) in collaboration with leading global and domestic institutional investors and is India's first sovereign investment fund. The full ownership of the CDC Group belongs to the Secretary of State for International Development, which is controlled by the UK Government. EverSource Capital, a joint venture between Everstone Capital and Lightsource BP, is the fund manager of GGEF, a $700-million target private fund, which has NIIF and the UK Government as anchor investors. All the three shareholders have committed a capital of $721 million as on date. NIIF had increased its shareholding to 51% from 25.5% as of March 2021, along with a majority board representation. ICRA notes that ARPPL is expected to remain strategically important to NIIF, evident from the largest equity commitment from its master fund. As on April 12, 2022, the shareholders have infused ~Rs. 2,604 crore in the platform.

[2] Including 500-MW capacity to be set up in partnership with IRCON International Limited (IRCON)

[3] Including the PPAs proposed to be signed

The committed equity capital would enable the platform to complete the under-construction and recently won projects aggregating to 2.4 GW.

Low offtake risks supported by long-term PPAs and superior tariff competitiveness for ultimate offtakers –Of the 3,690-MW portfolio under ARPPL, the Group has signed long-term PPAs for 2,640 MW at fixed tariffs, providing revenue visibility. The balance capacity was awarded recently and the PPAs are expected to be signed in due course. The tariffs offered by the Group's projects, with weighted average tariff for the portfolio at Rs. 2.59 per unit, is cost competitive for the ultimate offtakers and are likely to remain competitive in the long run, given that the average power purchase cost for the utilities remains relatively high (> Rs.4/unit). The long-term PPAs and the superior tariff competitiveness lower the offtake risks and provide high revenue visibility for the Group.

Low counterparty credit risk due to strong credit profile of Central counterparties – The counterparty credit risk for the company is low as NTPC and SECI are the offtakers for ~68% of the Group's capacity for the entire duration of 25 years. NTPC and SECI are on the list of Central public-sector undertakings (CPSUs), wherein the receivables are secured through tripartite agreements (TPA) among the GoI, the state governments and the Reserve Bank of India. NTPC and SECI are intermediary counterparties and in turn, have signed power supply agreements (PSA) with the state-owned distribution utilities of Andhra Pradesh (for 500 MW), Madhya Pradesh (for 300 MW), Rajasthan (for 350 MW) and Telangana (300 MW) as the ultimate offtakers.
Further, the payment security mechanism in the PPA/PSA arrangement is relatively superior (against the state policy PPAs), given the presence of letter of credit and payment security fund equivalent to three months of tariff receivables. Further, the additional provisions in the PPA/PSA related to compensation for grid curtailment and termination liability in the event of default by the discoms provide comfort. Within the balance portfolio of 32%, about 14% is tied-up with Indian Railways, wherein the payments are expected to be timely.

Satisfactory operational track record of assets acquired inorganically – The assets acquired from the First Solar Group (40 MW) have a track record of more than three years, whereas the asset acquired from the Renew Group (300 MW) has a track record of almost two years. Further, in FY2022, the assets acquired from the ACME Group (250 MW) and the Phelan Group (50 MW) also have an operational track record of more than two years and three years, respectively. The generation performance of the assets remains satisfactory, though remaining slightly below the P-90 estimate. Further, the company is undertaking measures such as additional repowering of 40 MW solar power plants in Karnataka to offset any future under-performance due to low irradiation. Going forward, the company's ability to improve the generation performance of the assets remains a key monitorable.

Credit challenges

Limited revenue streams – The company, at the standalone level, has limited revenue streams due to its status as a holding company.

Execution risks arising from ~2,400 MW of under-construction assets – The projects under ARPPL remain exposed to project execution risks as ~2,400-MW capacity is under construction. The company's ability to secure the required approvals/land and commissioning the projects as per the applicable timelines and within the budgeted project cost remains critical. Timely achievement of financial closure for the under-construction capacity and availability of long-tenure debt at cost competitive rates is also important.
Further, the company is exposed to the movements in solar module prices and foreign exchange rates, though the latter is mitigated to a large extent due to the hedging policy of the Group. Moreover, the project remains exposed to an increase in the overall cost because of the imposition of safeguard duty/basic custom duty on imported cells / modules post project award. However, these changes are likely to be covered under the change in law clause of the PPA and the Ayana Group is expected to be reimbursed for the additional cost incurred. Nonetheless, a time lag in receiving these funds cannot be ruled out and the shareholders' group may need to infuse additional funds in the interim.

Exposure to interest rate risk, PLF variation and leveraging levels – The debt metrics for solar & wind power projects remain sensitive to the PLF level, given the one-part tariff structure under the PPA. Hence, any adverse variation in weather conditions and/or module/WTG performance may impact the PLF and consequently the cash flows. ARPPL's ability to ensure satisfactory operational performance in line with the expected PLF level post the commissioning of the projects remains important from a credit perspective. Moreover, given the single-part nature of tariff for the entire project duration and the leveraged capital structure for the projects under the SPVs, the company's consolidated cash flows and debt metrics remain exposed to interest rate risk. Additionally, any material increase in leveraging on the books of the holding company to fund the project SPVs' requirements will remain a key rating sensitivity.

Counterparty credit risks due to exposure to state discoms – ARPPL's portfolio remains exposed to counterparty credit risks arising from the exposure to the state distribution utilities (discoms) of Karnataka, Maharashtra and Tamil Nadu and their modest financial position. While the payments from the Maharashtra discom have been on time so far, payments from some of the discoms in Karnataka and Tamil Nadu have been delayed. Nonetheless, comfort can be drawn from the limited exposure to these discoms within ARPPL's portfolio (18%).

Regulatory risk of implementing scheduling and forecasting framework for renewable sector – The company's operations remain exposed to regulatory risks pertaining to the scheduling and forecasting requirements applicable for renewable energy projects, given the intermittent nature of generation and the limited experience of the developers in forecasting in Indian conditions.

Liquidity position: Strong

The company's liquidity is strong with the repayment obligation at the standalone level in FY2022 being restricted to the SGD loan taken for the Anantapuramu project. The loan has an outstanding balance of ~Rs. 65 crore at present and the repayment is due in FY2023. ICRA does not expect the company to receive a compensatory SGD reimbursement order before the due date of this loan and expects this loan to be serviced through the resources available at the holding company level. ARPPL had cash balances of ~Rs. 640 crore as on April 12, 2022. All the operational SPVs are expected to be self-sufficient in meeting their repayment obligations. The overall liquidity profile also draws comfort from the reputed sponsors in the Ayana platform and their firm equity commitment of USD 721 million. The balance equity commitment for the under-construction projects can be met through the existing capital commitment from the sponsors.

Rating sensitivities

Positive factors - The ratings can be upgraded based on the progress in commissioning the under-construction projects without any major time and cost overruns. Further, a generation performance in line with the appraised PLF level post commissioning will support an upgrade.

Negative factors - The ratings could be downgraded in case of any major time/cost overruns in project execution, any major regulatory challenges, any material increase in the leveraging on the books of the holding company to fund the project SPVs' requirements, and delay in the infusion of capital/adverse change in capital commitments by the sponsors in the Ayana platform. Further, material under-performance in the generation of the operating assets adversely affecting the debt service coverage metrics or delays in receiving payments from offtakers impacting the Group's liquidity profile could warrant a downgrade in the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Energy Projects Rating Methodology for Wind Power Producers Rating Methodology for Holding Company
Parent/Group Support	ICRA favourably factors in the superior financial flexibility enjoyed by ARPPL by virtue of being backed by NIIF, CDC and GGEF.
Consolidation/Standalone	The rating is based on the consolidated financial statements of the ARPPL and its subsidiaries [Details in Annexure 2]

About the company

Ayana Renewable Power Private Limited (ARPPL) is a renewable energy focused player which aims to build a multi-GW renewable energy portfolio in India. ARPPL was previously fully backed by CDC Group Plc (CDC) (100% owned) which is a development finance institution owned by the UK government. However, in early 2019, CDC divested its 51% stake in ARPPL and the same has been acquired equally by the National Investment and Infrastructure Fund of India (NIIF) and EverSource Capital through its fund Green Growth Equity Fund (GGEF). In March 2021, NIIF increased its stake in the platform to 32%, which further increased to 51% in November 2021, committing to be a majority shareholder.

Key financial indicators

ARPPL Standalone	FY2020 (Audited)	FY2021 (Audited)	9M FY2022^
Operating Income (Rs. crore)	12.1	24.3	23.4
PAT (Rs. crore)	-0.3	7.2	25.1
OPBDIT/OI (%)	-84.2%	-73.1%	-31.5%
PAT/OI (%)	-2.6%	29.8%	107.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.0	0.2	0.2
Total Debt/OPBDIT (times)	NM	NM	NM
Interest Coverage (times)	NM	NM	NM

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ^ Provisional; NM – Not meaningful

ARPPL Consolidated	FY2020 (Audited)	FY2021 (Audited)	9M FY2022^
Operating Income (Rs. crore)	0.6	74.3	295.5
PAT (Rs. crore)	-1.9	-50.3	20.8
OPBDIT/OI (%)	-2873.0%	29.7%	73.2%
PAT/OI (%)	-287.8%	-67.3%	7.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.12	1.72	2.5
Total Debt/OPBDIT (times)	NM	NM	13.5
Interest Coverage (times)	NM	NM	1.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ^ Provisional; NM – Not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None