

November 01, 2022

Axis Wind Farms (Anantapur) Private Limited: Provisional [ICRA]BBB+ (Stable) assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Long term – Fund based - Term loan	575.00	Provisional [ICRA]BBB+ (Stable); assigned
Total	575.00	

*Instrument details are provided in Annexure-1

Rating in the absence of pending actions/documents	[ICRA]BBB
--	-----------

Note: The table above captures ICRA's opinion on the rating if the pending actions/ documents are not completed for the proposed term loan facility

Rationale

The assigned rating for Axis Wind Farms (Anantapur) Private Limited (AWFAPL) favourably factors in the presence of a 25-year power purchase agreement (PPA) with Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL) at a feed-in tariff of Rs. 4.84 per unit for its 105-MW wind power project, thus limiting the demand and pricing risks. ICRA takes note of the favourable resolution of the tariff issue faced by wind and solar power generators in Andhra Pradesh, with the High Court of Andhra Pradesh (APHC) issuing an order in March 2022, directing the distribution utilities (discoms) of Andhra Pradesh to adhere to the terms of the PPA and make payments at the full PPA tariff. APSPDCL is clearing the outstanding dues as of June 2022 through an instalment scheme, with three instalments received so far, thereby improving the liquidity position of AWFAPL.

The rating also factors in the company's financial flexibility (in terms of timely access to capital) because of the presence of a strong sponsor – the Brookfield Group. The Brookfield Group has a strong track record in operating renewable energy assets across multiple geographies. Further, ICRA takes comfort from the sponsor undertaking from Brookfield, proposed under the terms of the sanction for the new term loan facility, for infusing funds to meet any shortfall in Debt Service Reserve and debt resizing to restore the base case business plan, if the tariff is reduced from Rs. 4.84 per unit. ICRA draws comfort from the proposed refinancing of the project debt, with a reduction in the interest rate to 8.95% from the current level of 12.25%. Under the terms of this loan, the company would create a debt service reserve account (DSRA) of two quarters before the loan drawdown. The proposed term loan would replace the existing term debt as well as the working capital debt and the company would subsequently secure a new working capital facility.

However, the rating is constrained by the exposure to a single counterparty, APSPDCL, which has a modest financial profile. While the company is receiving payments from APSPDCL through the instalment scheme, the overall receivable position remains high at Rs. 218 crore as on October 17, 2022, owing to the past overdues arising from the payments at an interim rate at Rs. 2.43 per unit till July 2022 and the delay in the realisation of the ongoing bills post June 2022. While the receipt of payments under the instalment scheme is expected to moderate the receivable position over the next nine months, the timely receipt of ongoing bills from APSPDCL remains the key monitorable for AWFAPL.

The rating is also constrained by the vulnerability of the revenues and cash flows to seasonality and variation in wind power density across the years, owing to the single-part nature of the tariff under the PPA with APSPDCL. The rating also remains tempered by the geographic concentration of the project at a single location. Also, the fixed tariff nature of the project exposes the company to the variations in interest rates on project debt. The generation performance over the past three years was constrained by instances of grid curtailments and relatively weak wind season. Nonetheless, the generation performance has

improved in H1 FY2023, compared to H1 FY2022 and H1 FY2021. A sustainable improvement in generation performance remains important for the company.

The Stable outlook on the provisional rating for the term loan facility of AWFAPL factors in the revenue visibility with the presence of long-term PPA, and the improving receivable position with the realisation of dues under the instalment scheme.

Key rating drivers and their description

Credit strengths

Long-term power purchase agreement with APSPDCL – AWFAPL has signed a long-term PPA of 25 years with APSPDCL at a fixed tariff rate, which provides revenue visibility for the company and limits the demand and tariff risks.

Favourable resolution of tariff issue; discoms are clearing past dues through 12-month instalments – AWFAPL, along with other renewable IPPs, received a favourable verdict from the High Court of Andhra Pradesh (APHC) in March 2022 on a tariff issue under the PPAs signed with Andhra Pradesh discoms. The APHC set aside the order issued by the single bench on payment of interim tariff and directed the discoms to pay the full tariff. The discoms are clearing the outstanding dues as of June 2022 through 12-month instalments since August 2022 and have received three instalments so far.

Improved generation performance in H1 FY2023 - The generation performance of the 105-MW wind power project of AWFAPL has improved in H1 FY2023, with PLF at 39.3% against 35.2% in H1 FY2022, led by a reduction in instances of grid curtailment. The PLF in FY2021 and FY2022 was constrained by instances of grid curtailment and a weaker wind season. While the improvement in the current fiscal remains a positive, the sustainability of the same remains key for the company.

Strong financial flexibility with presence of Brookfield Renewable Partners LP as the sponsor group - In July 2019, AWFAPL was acquired by Brookfield Renewable Partners LP through an investment vehicle - BIF III FVCI Holdings India I Pte Limited - along with an associate entity, Axis Wind Farms (Rayalaseema) Private Limited. The presence of a strong sponsor - Brookfield Group - is expected to help the company in accessing additional capital in case of a funding requirement. Further, a sponsor undertaking from Brookfield is proposed under the terms of sanction for the new term loan facility, for infusing funds to meet any shortfall in Debt Service Reserve and debt resizing to restore the base case business plan, if the tariff is reduced from Rs 4.84 per unit. The company received support from the sponsor in FY2022 in the form of Rs. 13.60-crore optionally convertible debentures (OCDs).

Credit challenges

Counterparty risk arising out of exposure to a single discom in Andhra Pradesh with a modest financial profile; receivable position expected to moderate in the next 9-12 months - The long-term PPA with APSPDCL exposes AWFAPL to the counterparty credit risk of being exposed to a single discom, which has a moderate financial profile. The financial profile of the discom is constrained by the high subsidy dependence and inadequate tariffs in relation to the cost of supply. The company's receivable position remained high due to the receipt of payments from APSPDCL at an interim rate of Rs. 2.43 per unit (since February 2019) compared to the PPA tariff of Rs. 4.84/Kwh, constraining the company's liquidity position. Following the AP High Court's order in March 2022 and notification of the late payment surcharge rules by the Ministry of Power, the discom has started clearing the outstanding dues as of June 2022 through an instalment scheme since August 2022.

The company has received three instalments so far, aggregating to Rs 37.64 crore, improving the liquidity position of the company. Nonetheless, the receivables remain high for the company at ~Rs. 218 crore as on October 17, 2022. Therefore, the receipt of the balance instalments for the past overdues and the timely clearance of the ongoing monthly bills remain key to moderating the receivable position.

Operating risks associated with exposure to wind conditions and geographic concentration of the project – The generation by wind farm and in turn the cash flows of the project are susceptible to seasonality and the variations in wind power density, given the one-part tariff structure of the PPA with APSPDCL. This risk is amplified by the geographic concentration of the asset as the entire capacity is at a single location.

Interest rate risk - The company’s debt coverage metrics remain sensitive to the movements in interest rate on the project debt, given the single-part fixed tariff of the project and a leveraged capital structure. The interest rate on the existing term loan has gone up to 12.25% from 10.45%. The higher interest rate will adversely impact the debt coverage metrics in the near term for AWFAPL. Nonetheless, the interest rate is expected to reduce to 8.95%, following the completion of the proposed refinancing.

Regulatory challenges of implementing scheduling & forecasting framework - The regulatory challenges associated with the implementation of scheduling & forecasting framework for wind power projects in Andhra Pradesh, as notified by SERC in the state, pose a risk.

Liquidity position: Adequate

AWFAPL’s liquidity position is expected to remain adequate, supported by the realisation of past dues from APSPDCL under the instalment scheme and available liquidity. The liquidity available as on October 17, 2022 is likely to cover its funding requirements for debt servicing over the next eight months. Post the creation of an upfront two-quarter DSRA under the proposed term loan, the liquidity buffer available with the company would improve further.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the receivable cycle from the offtaker reduces and the generation level improves on a sustained basis, leading to healthy credit metrics.

Negative factors – Pressure on AWFAPL’s rating could arise if any significant under-performance in generation, adversely impacts the debt metrics. Any further build-up in receivables from the offtaker adversely impacting the liquidity position of the company would be another trigger. A specific credit metric for downgrade is the cumulative DSCR on project debt falling below 1.20x. Moreover, any change in financial flexibility/liquidity support from Brookfield (sponsor) to meet the funding requirements 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 rated entity

Pending actions/documents required to be completed for conversion of provisional rating into final

The assigned rating is provisional and would be converted into final upon execution of:

1. Loan agreement
2. Trust & retention account agreement
3. Creation of two quarter DSRA
4. Any other documents required for the transaction

Validity of the provisional rating

In case the borrowing facility for which a provisional rating has been assigned is subsequently issued, the provisional rating would have to be converted into a final rating within 90 days (validity period) from the date of availing the borrowing facility. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final, in circumstances where the rated entity expressly indicates its intention to complete the pending actions/documents over the near term. Under no circumstances shall the validity period be extended beyond 180 days from the date of issuance. For further details, refer to ICRA's Policy on Provisional Ratings available at <http://www.icra.in/>.

If neither the pending actions/documents nor the issuance is completed after one year of the assignment of the provisional rating, ICRA would withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at <http://www.icra.in/>.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon the review of the required actions/documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at <http://www.icra.in/>.

About the company

AWFAPL operates a 105-MW wind power project at Kuderu and Pampanoor Thanda in the Anantapur district of Andhra Pradesh. The wind power plant was fully commissioned in June 2017. AWFAPL has signed a long-term PPA with APSPDCL valid for a period of 25 years at a fixed tariff of Rs. 4.84 per unit. The project was developed by Axis Energy Ventures India Private Limited (AEVIPL), with WTGs supplied and installed by Suzlon Energy Limited. In July 2019, AWFAPL was acquired by the Brookfield Group, which operates one of the world's largest renewable power platforms with 22,680-MW generation capacity across hydro, wind, solar, distributed generation and storage. AWFAPL is held by BIF III FVCI Holdings India I Pte Ltd.

Key financial indicators

AWFAPL Standalone	FY2021	FY2022
Operating income (Rs. crore)	109.2	101.8
PAT (Rs. crore)	-0.1	-28.5
OPBDIT/OI (%)	85.0%	66.3%
PAT/OI (%)	-0.1%	-28.0%
Total outside liabilities/Tangible net worth (times)	3.4	3.9
Total debt/OPBDIT (times)	8.3	11.2
Interest coverage (times)	1.4	1.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. Crore)	Amount outstanding as on Mar 31, 2022 (Rs. Crore)*	Date & rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
1	Term Loan	575.0	-	November 01, 2022 Provisional [ICRA]BBB+(Stable)	-	-	-

*Debt is yet to be drawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan*	-	-	-	575.00	Provisional [ICRA]BBB+ (Stable)

Source: Company; *Debt is yet to be drawn

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 4067 6518
vikram.v@icraindia.com

Mahesh Patil
+91 22 6169 3379
mahesh.patil@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.