

November 01, 2022

## Axis Wind Farms (Rayalaseema) Private Limited: Provisional [ICRA]BBB+ (Stable) rating assigned to proposed term loan facility; outlook revised to Stable from Negative for the existing bank lines

### Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term – Fund based - Term loan	513.63	513.63	[ICRA]BBB; reaffirmed; outlook revised to Stable from Negative
Long term – Fund-based working capital facilities	45.00	45.00	[ICRA]BBB; reaffirmed; outlook revised to Stable from Negative
Unallocated	50.37	50.37	[ICRA]BBB; reaffirmed; outlook revised to Stable from Negative
Long term - Fund based – Term loan (proposed)	-	552.00	Provisional [ICRA]BBB+ (Stable); assigned
<b>Total</b>	<b>609.00</b>	<b>1161.00</b>	

\*Instrument details are provided in Annexure-1

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

#### For the Provisional [ICRA]BBB+ (Stable) Rating

The Provisional [ICRA]BBB+ (Stable) rating assigned to the proposed term loan facility of Axis Wind Farms (Rayalaseema) Private Limited (AWFRPL) 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 AWFRPL.

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. 197 crore as on October 17, 2022, owing to the past over dues 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 AWRPL.

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 AWRPL 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.

### For the [ICRA]BBB (Stable) Rating

The revision in the outlook to Stable from Negative for the long-term rating assigned to the existing bank lines of AWRPL factors in the favourable resolution of the tariff issue faced by wind and solar power generators in Andhra Pradesh, with the APHC directing the discoms to adhere to the terms of the PPA and make payments at the full PPA tariff and the ongoing realisation of the past overdues through an instalment scheme. The rating continues to factor in the availability of long-term PPA and financial flexibility from being part of the Brookfield Group with the presence of a sponsor undertaking to support the funding requirements.

However, the rating is constrained by the exposure to a single counterparty, APSPDCL, which has a modest financial profile and high receivable position. This apart, 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 of the project exposes the company to the variations in interest rates on project debt; the interest rate has gone up in the last 6-8 months to 12.25% for the existing term loan, adversely impacting the debt metrics. 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.

### Key rating drivers and their description

#### Credit strengths

**Long-term power purchase agreement with APSPDCL** – AWRPL 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 the past dues through 12-month instalments** - AWRPL 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 AWRPL has improved in H1 FY2023, with PLF at 39.8% against 35.5% in H1 FY2022, led by a reduction in instances of grid curtailment.

The PLF in FY2021 and FY2022 was constrained by instances of grid curtailments 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, AWRPL was acquired by Brookfield Renewable Partners LP through an investment vehicle BIF III FVCI Holdings India I Pte Limited and an associate entity Axis Wind Farms (Anantapur) 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. In November 2019, the Brookfield Group (via its investment holding company BIF III FVCI Holdings India I Pte. Ltd and Axis Wind Farms (Anantapur) Private Limited) signed a sponsor undertaking which mentions that the group would infuse additional funds to resize the debt to maintain a base case business plan, if the tariff is reduced from the existing PPA tariff of Rs. 4.84/Kwh and to support the working capital requirements of AWRPL. Further, a similar sponsor undertaking from Brookfield is proposed under the terms of sanction for the new term loan facility. The company received support from the sponsor in FY2022 in the form of Rs. 9.50-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 AWRPL 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 39.74 crore, improving the liquidity position of the company. Nonetheless, the receivables remain high for the company at ~Rs 197 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 remains 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 AWRPL. 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

AWFRPL'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 10 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

### For the Provisional [ICRA]BBB+ (Stable) rating

**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 AWFRPL'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.

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## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Wind Energy Projects</a>
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:

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 borrowings 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

AWFRPL operates a 105-MW wind power project at Kuderu and Pampanoor Thanda in the Anantapur district of Andhra Pradesh. The wind power plant commenced commercial operations in various phases from March 2018 to September 2018. AWFRPL 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 and the balance plant work was undertaken by other promoter group entities. The appraised project cost is Rs. 784 crore, funded through a debt of Rs. 564 crore and equity of Rs. 220 crore.

In July 2019, AWFRPL 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.

## Key financial indicators

AWFRPL Standalone	FY2021	FY2022
Operating income (Rs. crore)	109.3	107.6
PAT (Rs. crore)	13.5	-15.25
OPBDIT/OI (%)	94.8%	70.30%
PAT/OI (%)	12.4%	-14.17%
Total outside liabilities/Tangible net worth (times)	4.1	4.4
Total debt/OPBDIT (times)	6.4	8.6
Interest coverage (times)	1.7	1.3

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 of Mar 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
				November 01, 2022	Nov 23, 2021	Aug 31, 2020	Oct 04, 2019	Aug 20, 2019 Jul 18, 2019 Jul 10, 2019
1 Term loans	Long Term	513.63	502.13	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- &
2 Working Capital Loan	Long Term	45.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- &
3 Unallocated	Long Term	50.37	-	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- &
4 Proposed Fund based – Term Loan	Long Term	552.00	NA*	Provisional [ICRA]BBB+ (Stable)	-	-	-	-

\* Debt is yet to be drawn

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Fund-based – Working Capital Facilities	Simple
Proposed Term Loan	Simple
Unallocated	NA

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](http://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	<b>Term Loan</b>	Feb 2018	-	Sep 2036*	513.63	[ICRA]BBB (Stable)
NA	<b>Working Capital Loan</b>	-	-	-	45.00	[ICRA]BBB (Stable)
NA	<b>Unallocated</b>	-	-	-	50.37	[ICRA]BBB (Stable)
NA	<b>Term Loan<sup>^</sup></b>	-	-	-	552.00	Provisional [ICRA]BBB+ (Stable)

Source: Company; \*post availing 6-month moratorium from March 2020 to August 2020; <sup>^</sup>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



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For more information, visit [www.icra.in](http://www.icra.in)

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