April 14, 2021

Azure Power Thirty Eight Private Limited: Rating put on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	55.16	55.16	[ICRA]BBB&; rating put on watch with developing implications
Total	**55.16**	**55.16**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has put the rating of the Azure Power Thirty Eight Private Limited (APTEPL) on watch with developing implications on account of the proposed acquisition of the company by Radiance Renewables Private Limited (RRPL) (rated [ICRA]A(Stable)/A2+). Azure Group has signed a binding agreement to sell its entire rooftop solar portfolio to RRPL which is fully backed by Green Growth Equity Fund (GGEF), India's leading climate fund, managed by EverSource Capital. The 16 MW plant under APTEPL is part of this transaction. ICRA will continue to monitor this development and take rating action post completion of the transaction.

The rating continues to take into account the strengths by virtue of track record in development & operation of the solar projects of Azure Power India Private Limited (APIPL) which is the flagship entity of the Azure Group, given the operational solar portfolio of 1987 MW and capacities under development of 5128 MW as on December 31, 2020. ICRA also favourably factors in the majority equity stake owned by CDPQ in Azure Group with its shareholding being 50.9% in Azure Power Global Limited (APGL) (i.e. parent of APIPL). The rating further positively factors in the operational nature of the project for the company and the revenue visibility due to the presence of long-term power purchase agreements (PPA) with Delhi Jal Board (DJB) for a period of 25 years from commissioning and no execution risk given the full capacity of 16 MW has been commissioned before the approved scheduled commissioning date (SCOD).

Notwithstanding, the company's profitability and debt protection metrics remain sensitive to its operational performance. Any adverse variation in weather conditions may impact PLF levels and consequently affect cash flows. Moreover, as the plant has been commissioned in a phased manner with complete commissioning taking place in November 2019, the project has limited generation track record. The generation performance of the plant has been sub-optimal with actual PLF being around 11-12% as against the designed energy expectation of 15%. Further, APTEPL remains exposed to the credit risk profile of DJB, which offtakes the entire power generated by the project. ICRA takes into account the elongated receivable cycle of the plant with actual receivable cycle being around 10 months at present. Further, the company's ability to ensure the operations & maintenance for the roof-top assets being located at multiple sites so as to keep the module performance/availability as per the budgetary estimates, remains important. Given the single part fixed nature of tariff, the company also remains exposed to interest rate risk.

Key rating drivers and their description

Credit strengths

Strong operating track record of Azure Group in solar segment – APIPL, the parent company of APTEPL, is the flagship company of the Azure Group. APIPL was incorporated in 2008 and is involved in the business of constructing, developing and operating solar power plants in India and is among the leading solar developers in India and has an operational solar capacity of 1987 MW (under various SPVs) and ~5128 MW under various stages of development (as on December 31, 2020). Moreover, CDPQ owns more than 50% stake in the group.

Revenue visibility due to long-term PPA with DJB – APTEPL has low offtake risk, owing to the presence of a 25-year PPA at a remunerative tariff of Rs.4.94/unit for the 16-MW rooftop plants. Presence of the PPA also provides long-term revenue visibility for the company.

No execution risk with project commissioned before the approved SCOD – The full 16 MW capacities have been set up on more than 60 rooftops and the project was fully commissioned in November 2019 19 as against the approved SCOD of 31 December 2019. The project has received multiple extensions primarily on account of change in sites for locating modules as multiple sites proposed initially were unsuitable due to lack of insolation, shadow effect, clearances from municipal bodies etc.

Credit challenges

Limited track record of operations with generation being lower than expected levels – The plant was commissioned in a phased manner from December 2017 onwards and the installation was completed in November 2019. The modules for the 16 MW capacity have been installed in 60+ locations with the installation at a single location ranging from as low as 6 KW to 1.8 MW. The estimated generation from the project is 15% for the first year and is expected to decline in a linear manner thereafter factoring in the standard module degradation rates. The FY2020 PLF for the plant was low at 11% as meter reading could not be attained for a majority of the locations for the month of March 2020 on account of prevailing lockdown in the country. Thus, the generation has got spilled over to the next few months for some locations. The current year PLF is ~12% and continues to be lower than the P 90 estimate. The primary reasons for lower generation are stabilisation issues, higher shadowing and insufficient water availability in some locations etc.

Counterparty credit risk with Delhi Jal Board (DJB) being the sole offtaker of the power generated through the project - The counterparty credit risk for APTEPL is high as DJB offtakes all the power generated from the plant for the entire duration of 25 years of the project. At present the company has received payments uptill the generation for the month of May 2020 with the receivable cycle at present being around 10 months. The progress in collection of the arrears and sustained improvement in the receivable pattern remains a key rating monitorable.

Vulnerability of cash flows to variation in weather conditions – Key factors that may impact the operations of the solar plant are solar radiation levels, losses in PV systems due to temperature and climatic conditions, design parameters of the plant, inverter efficiency and module degradation due to aging. Given the fixed & single part nature of tariff, company's revenues & in turn the cash flows, remain exposed to weather pattern affecting the solar irradiation levels & hence the solar generation level.

Liquidity position: Adequate

The liquidity profile of the company is **adequate** as reflected by availability of surplus cash of Rs. 2.4 crore as on December 2020 end which includes 1 quarter DSRA reserve. The second quarter DSRA reserve will have to be created by the end of May 2021. Going forward the internal cash flow generation from the project is expected to be sufficient to meet the debt servicing obligations with generation expected to improve and move towards the designed energy estimate. In case of a shortfall in cash flow generation, ICRA expects the promoter group to infuse additional funds to meet the cash flow mismatch if any.

Rating sensitivities

Positive factors – The rating watch is expected to be concluded post completion of the change in ownership. ICRA could upgrade APTEPL's rating in case of demonstration of actual generation level in line with the expected levels of 15% on a sustained basis leading to healthy cash accruals for the company, along with correction in the elongated receivable position.

Negative factors – The rating watch is expected to be concluded post completion of the change in ownership. Negative pressure on APTEPL's rating could arise in case actual PLF remains significantly lower than the P 90 estimate on a sustained basis and/or further deterioration in the receivable cycle adversely impacting the liquidity position of the company. Also, rating could be revised downwards in case of inadequate support from the parent or weakening in the credit profile of its parent. i.e. Azure Power India Private Limited.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers
Parent/Group Support	We expect APTEPL's parent, APIPL to be willing to extend financial support to APTEPL, should there be a need
Consolidation/Standalone	The rating is based on the standalone financial profile of the company [Details in Annexure 2]

About the company

APTEPL has set up a solar power capacity of 16 MW (on various rooftops) across 67 project locations provided by the DJB. These projects are set up under the RESCO model wherein the consumer (DJB) pays only for the electricity generated, while the solar plant is owned by the RESCO developer (Azure Group). This capacity was won through a tender floated by DJB. APTEPL has signed long term PPA of 25 years with DJB at a tariff of Rs 4.94/unit.

Key financial indicators (standalone) (audited)

APTEPL Standalone	FY2019	FY2020	9M FY2021^
Operating Income (Rs. crore)	2.2	6.9	5.8
PAT (Rs. crore)	-0.1	-5.8	-4.0
OPBDIT/OI (%)	77.0%	85.3%	78.2%
PAT/OI (%)	-6.0%	-84.7%	-68.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.29	2.10	2.35
Total Debt/OPBDIT (times)	6.37	10.61	11.10
Interest Coverage (times)#	5.39	0.64	0.95

**PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*
^provisional and unaudited
 # – takes into account interest on promoter debt as well

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 30, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					April 14, 2021	March 18, 2020	-	-
1	Term Loan	Long term	55.16	45.0	[ICRA]BBB&	[ICRA]BBB(Stable)	-	-

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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 Loans (LT Scale)	June 2017	NA	December 2031	55.16	[ICRA]BBB &

Source: *Company*

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Annexure-2: List of entities considered for consolidated analysis : Not Applicable

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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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