March 24, 2023

Aditya Birla Renewables Solar Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	127.74	127.74	[ICRA]AA (Stable); reaffirmed
Total	**127.74**	**127.74**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the rating for Aditya Birla Renewables Solar Limited (ABReSL) factors in the company's strong parentage as a part of the Aditya Birla Group (ABG). ABReSL is a subsidiary of Aditya Birla Renewables Limited (ABReL), which is, in turn, 100% held by Grasim Industries Limited (GIL; rated [ICRA]AAA (Stable)/ [ICRA]A1+), ABG's flagship company. The Group has an operational renewable (RE) power capacity of 747 MW and assets under construction and development of over 1,300 MW, with large plans to grow the RE platform, going forward. ABRSL benefits on the financial, operational and managerial front because of its strong parentage.

ICRA positively factors in the presence of long-term power purchase agreements (PPA) with Hindalco Industries Limited (HIL) under the captive mode for the entire 100.2-MW (DC) capacity, including 49.2-MW operational solar assets and the 51-MW under-construction hybrid project of ABReSL. The PPA for the proposed 9.4-MW floating solar project is expected to be tied up with HIL in due course. The tariff rates offered by ABReSL remain highly competitive against the grid tariffs and would enable HIL to meet its renewable purchase obligation (RPO)/sustainability targets. ICRA also takes note of HIL's strong credit profile and timely track record of payments from HIL. Further, ICRA factors in the competitive cost of debt and the long tenure of debt availed by ABRSL, which is likely to result in healthy debt coverage metrics for the company.

The rating, however, is constrained by the under-construction status for 60.4-MW capacity under ABReSL and the limited track record of generation as FY2023 is the first full year of operations for 49.2-MW operational capacity. Nonetheless, ICRA draws comfort from the limited execution challenges for the 51-MW capacity scheduled to be commissioned by March 31, 2023, with the required land and connectivity approvals in place and the advanced progress in construction. Further, the rating is constrained by the vulnerability of the company's cash flows and debt protection metrics to its generation performance. Any adverse variation in weather conditions and module performance may impact the PLF levels and consequently affect its cash flows, given that the PPA tariff is single part in nature. The average PLF for the operating capacity was lower than the apprised estimate for 10M FY2023, given the first year of operations and stabilisation period involved. Going forward, the demonstration of generation performance in line or above the appraised estimate remains important to achieve the desired return metrics. Given the debt equity mix of 80:20 for the projects, ABReSL is expected to have a leveraged capital structure and the debt coverage metrics would remain exposed to adverse interest rate movements, as seen in the current fiscal.

The Stable outlook assigned to the long-term rating factors in the steady cash flow visibility, aided by the long-term PPA and timely collections expected from the customer along with the benefits of being part of ABG.

Key rating drivers and their description

Credit strengths

Strong financial, operational and managerial support as part of Aditya Birla Group – ABReSL is a subsidiary of ABReL, which is a 100% subsidiary of GIL, ABG's flagship entity. The Group has an operational solar power portfolio of ~747 MW (including

~81 MW housed under another promoter entity but managed by ABReL), with assets under construction and development of over 1,300 MW. It is focused on increasing its presence in the renewable energy segment, with large growth plans. The Group has already infused equity capital of over Rs. 550 crore for the RE platform and the same will increase further as more capacity is added. GIL has significant control over the operations of the renewable arm. With ~33% of the operational capacity procured by the Group entities and common centralised resources, the linkages between GIL and ABReL are very strong. The Group remains committed to providing need-based support to ABReL's assets. ABReL also benefits on account of the strong financial flexibility of ABG, reflected in the cost-competitive rate of funding for its various projects.

Revenue visibility from long-term PPA with HIL; superior tariff competitiveness – ABReSL has signed PPAs with HIL for 22 years for the 100.2-MW capacity. The weighted average tariff for the full capacity stands at Rs. 3.1 per unit, with escalation available for the 49.2-MW operating capacity. The tariff is fixed for the entire PPA tenure for the 51.0-MW hybrid project. The long-term PPA provides revenue visibility and mitigates the offtake risks for ABRSL. The tariffs offered by these projects is significantly cheaper than the grid tariff rates offered by the state discoms. Moreover, the power from these units of ABReSL will help HIL meet its RPO targets.

Presence of strong counterparty and timely payments – The presence of a strong counterparty like HIL is expected to result in timely payments for the company, as demonstrated so far for the operating capacity. Moreover, comfort can be drawn from the presence of a termination payment clause in the PPA, ensuring takeover of the project debt by HIL and equity compensation linked to the fair market value of ABReSL. Also, the PPA has a deemed generation clause ensuring payments to ABReSL in case of a disruption in generation due to reasons attributable to HIL.

Long tenure of project debt and cost-competitive debt likely to result in healthy debt coverage metrics – The company's leverage level is expected to remain high as the projects are funded through debt and equity in the ratio of 80:20. However, the coverage metrics are likely to remain healthy with cumulative DSCR above 1.3 times, supported by the long tenure of project debt and highly competitive cost of debt.

Credit challenges

Execution risk for under-construction projects and limited track record of generation for operational projects – The 49.2-MW capacity under ABReSL was commissioned between September 2021 and December 2021. Hence, there is limited track record of generation. Further, 60.4-MW capacity under ABReSL is under construction/development phase, thereby exposing it to execution risks. Nonetheless, comfort can be drawn from the advanced progress for the 51-MW project, thereby limiting execution related challenges. However, execution risks remain for the 9.4-MW project, which is in an early stage of development.

Vulnerability of cash flows to variation in weather conditions – As tariffs are one part in nature, the company may book lesser revenues in the event of non-generation of power due to variation in weather conditions or equipment performance. This, in turn, would affect the company's cash flows and debt servicing ability. ABReSL's ability to ensure a satisfactory operational performance in line with the expected PLF level post the commissioning of the projects remains important from a credit perspective.

Leveraged capital structure and exposure to interest rate risk – The projects are being funded in a debt-to-equity ratio of 80:20. As a result, the company's capital structure is leveraged. Given the single-part nature of the tariff in the PPA and floating interest rates, its profitability and debt coverage metrics remain exposed to the variation in interest rates.

Regulatory risks – The company's operations are exposed to regulatory risks pertaining to the scheduling and forecasting requirements of solar and wind power projects. Also, the company remains exposed to regulations related to captive power projects and adverse variation in open access charges, which could impact the competitiveness of the tariff offered.

Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate with expected cash flows from operations of Rs. 7.5 crore and Rs. 11.0 crore over FY2023 and FY2024 against repayment obligations of Rs. 2.60 and Rs. 6.40 crore, respectively. As on December 31, 2022, the outstanding cash balance was Rs. 33.31 crore, including DSRA equivalent to one quarter of debt servicing. The funding for the 51-MW and 9.4-MW under-development assets is expected to be met through equity from sponsor and debt funding. ICRA also draws comfort from the fact that this entity belongs to the Aditya Birla Group and support from the Group will be forthcoming in case of a cash flow requirement.

Rating sensitivities

Positive factors – ICRA could upgrade ABReSL's rating if the credit profile of its parent, i.e., Aditya Birla Renewables Limited, improves.

Negative factors – The rating could be downgraded in case of any major time/cost overruns in commissioning the under-construction projects, impacting the company's coverage metrics. Also, the rating may be affected if the generation performance is lower than the estimated levels, bringing down the cumulative DSCR below 1.20 times, or if there are delays in payments from the offtaker impacting its liquidity position. Further, any weakening of linkages with the parent or weakening of the credit profile of the parent will be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Rating Methodology for Wind Power Producers Rating Approach - Implicit parent or group support
Parent/Group Support	ICRA expects ABReSL's parent, ABReL to be willing to extend financial support to ABReSL, should there be a need, given the high strategic importance that ABReSL has for ABReL
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

ABReSL is a 74% subsidiary of ABReL with the remaining 26% shareholding held by HIL. ABReSL operates 49.2-MW (DC) solar power projects across five locations in three states (Madhya Pradesh, Maharashtra and Uttar Pradesh), has a 51-MW hybrid (30 MW solar + 21 MW wind) project under construction in Gujarat and another 9.4-MW floating solar project under-development, taking the overall capacity to 109.6 MW. All the operational and under-construction projects are set up/being set up under the group captive mode wherein the counterparty is HIL. Within the operating 49.2-MW capacity, 45.0-MW solar capacity is set up within the facilities of HIL.

Key financial indicators (Standalone)*

ABReSL Standalone	FY2021 (Audited)	FY2022 (Audited)
Operating income (Rs. crore)	NM	8.10
PAT (Rs. crore)	NM	2.40
OPBDITA/OI (%)	NM	87.4%
PAT/OI (%)	NM	29.1%
Total outside liabilities/Tangible net worth (times)	NM	3.73
Total debt/OPBDITA (times)	NM	17.16
Interest coverage (times)	NM	2.87

**Ratios are as per ICRA's computation; PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation, NM – The company was in project phase; hence, the financials are not meaningful (NM)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating	Date & rating in FY2022			Date & rating in FY2021	Date & rating in FY2020
					Mar 24, 2023	Dec 02, 2021	Aug 25, 2021	Jul 21, 2021	-	-
1	**Term loan**	Long term	127.74	122.16	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	-	-

Complexity level of the rated instrument

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: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
-	**Term loan-I**	June 2021	-	June 2037	105.74	[ICRA]AA (Stable)
-	**Term loan-II**	September 2021	-	December 2040	22.00	[ICRA]AA (Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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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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