April 10, 2023

Green Infra Renewable Energy Limited: Rating upgraded to [ICRA]AA+ (Stable) from [ICRA]AA (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	1,233.00	1,233.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable)
Total	**1,233.00**	**1,233.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA's upgrade of the long-term rating assigned to Green Infra Renewable Energy Limited (GIREL) factors in the improvement in the credit rating of its parent, Green Infra Wind Energy Limited (GIWEL) to [ICRA]AA+ (Stable) from [ICRA]AA (Stable). The upgrade in GIWEL's credit rating factors in the improvement in the credit profile of its ultimate parent, Sembcorp Industries Limited (SCI), supported by improved demand for energy in its operating markets and increasing share of renewables in its portfolio. The credit profile of SCI draws comfort from its diversified asset profile and a strong parentage with a 49% shareholding by Temasek Holdings (Private) Limited (rated Moody's Aaa (Stable)). Also, the improvement in the credit profile of GIWEL factors in its improved asset diversity post the acquisition of the Vector Green portfolio and strengthening of its debt coverage metrics. GIWEL remains strategically important to SCI amid its objective to grow the renewable portfolio. The rating also derives comfort from the presence of an experienced management and execution team at the Sembcorp Group with a proven track record and the fact that the entire external debt availed by GIREL is backed by corporate guarantees issued by Sembcorp Utilities Pte Limited (SUPL)[1].

The rating considers the limited demand and tariff risks for GIREL's 249.9-MW wind power project, given the 25-year long-term power purchase agreements (PPA) signed with PTC India Ltd. (PTC; rated [ICRA]A1+) for the entire project capacity at a fixed tariff rate of Rs. 3.46 per unit. ICRA notes that the tariff offered by the project remains competitive in relation to the average power purchase cost of the ultimate customers. While the generation performance of the plant was healthy in FY2021 remaining above the declared PLF under the PPA, the PLF declined in FY2022 and 9M FY2023 on a year-on-year (YoY) basis owing to the variation in wind availability.

While the project leverage remains high as the project cost was largely funded through debt, the debt coverage metrics are comfortable backed by satisfactory operating performance and highly competitive interest rates, which are fixed for the five-year tenure of the loan. Also, the company is eligible to receive carbon credits for generation from its wind power project and the recent revival in the market for carbon credits is expected to aid the profitability and cash flows of the company in the near term. The company booked carbon credits sale income of Rs. 27.5 crore in FY2022 and Rs. 23.5 crore in 9M FY2023, which supported its revenue despite the decline in generation.

The rating is, however, constrained by the single asset and single location nature of the company's operations, along with the vulnerability of its cash flows to high seasonality and possible variation in wind density. As the PPA tariff is single part and fixed in nature, the revenues are linked to the actual units generated and exported.

[1] Green Infra Renewable Energy Limited (GIREL) is a step-down subsidiary of Sembcorp Utilities Pte Limited (SUPL), which is in turn held by Sembcorp Industries Limited (SCI)

The rating is also constrained by the counterparty credit risks arising from the exposure to PTC, which in turn is selling power to the state distribution companies (discoms) of Uttar Pradesh, Bihar and Jharkhand, which have a modest financial risk profile. Nonetheless, the payments have been largely timely from all the discoms, except for instances of delays in some of the months by the Jharkhand discom; also, PTC has opened a letter of credit as payment security in favour of GIREL. While the interest rate is fixed for the tenure of the term loans, the company is exposed to the risk of interest rate hike at the end of the loan tenure (five years). Further, the rating is constrained by the refinancing risk associated with bullet repayments for the loan facilities at the end of the five-year tenure.

Nonetheless, ICRA draws comfort from the strong financial flexibility of the Sembcorp Group and the long residual tenure of the PPAs for GIREL. The rating also factors in the regulatory risks of implementing the scheduling and forecasting regulations, given the challenges in forecasting with accuracy for wind power projects.

The Stable outlook on the [ICRA]AA+ rating reflects ICRA's opinion that the company would benefit from the long-term PPAs, a satisfactory generation performance, timely receipt of payments and the benefits of being part of the Sembcorp Group.

Key rating drivers and their description

Credit strengths

Strong sponsor and experienced management team - GIREL is a step-down subsidiary of Sembcorp Utilities Pte Limited (SUPL) through Green Infra Wind Energy Limited (GIWEL), which is in turn held by Sembcorp Industries Limited [~49% held by Temasek Holdings (Private) Limited; rated Aaa by Moody's]. The companies within the Sembcorp Group are managed by a team of experienced technocrats and investment/finance professionals who have a long and demonstrated track record of project execution and operations. The debt availed by GIREL is backed by the corporate guarantees issued by SUPL. The credit profile of GIWEL has improved, supported by an improvement in the credit profile of SCI, better asset diversity and strengthening of its debt coverage metrics.

Long-term PPAs limit demand risks - GIREL has signed long-term PPAs with PTC India Ltd. to supply to the discoms of Uttar Pradesh (99.9 MW), Bihar (50 MW), Jharkhand (50 MW) and Delhi (50 MW; BSES Rajdhani Power Limited) for the entire project capacity of 249.9 MW at a fixed tariff of Rs. 3.46 per unit for a tenure of 25 years, limiting the demand and tariff risks. Also, the competitiveness of the project is supported by the tariff offered by GIREL, which is well below the average power purchase cost (APPC) of the discoms purchasing this power.

Satisfactory generation performance of the asset since CoD; recent dip in generation is a concern - The generation performance of the wind asset under GIREL was healthy with PLF of 34.0% in FY2021, remaining above the declared PLF under the PPA. However, the PLF declined to 32.0% in FY2022 and further to 33.5% in 9M FY2023 against 35.0% in 9M FY2022. The generation has been impacted due to lower wind resource availability and the change in wind patterns; however, the grid and machine availability for the asset have remained satisfactory over FY2020-9M FY2023.

Debt coverage metrics to remain comfortable - As the project was largely funded through debt, the project's leverage remains high. Notwithstanding this, the company's debt coverage metrics are expected to be comfortable, backed by a satisfactory operating performance and highly competitive interest rates (fixed for the five-year tenure of the loan).

Credit challenges

Single-asset operations; sensitivity of debt metrics to energy generation - The debt metrics for the wind power project under GIREL remain sensitive to the PLF level, given the single part and fixed tariff structure under the PPA. Hence, any adverse variation in weather conditions may impact the PLF and consequently the cash flows. Further, the geographic concentration of the asset in Tuticorin, Tamil Nadu, amplifies the generation risk. While the performance was healthy in FY2020 and FY2021, there is a dip in PLF in FY2022 and 9M FY2023. This remains a key monitorable for the company, going forward.

Credit risks due to exposure to state discoms - While comfort is drawn from the presence of PTC India Limited (rated [ICRA]A1+) as the customer, the exposure to the discoms in Uttar Pradesh (UP), Bihar, Jharkhand and Delhi (BSES Rajdhani) gives rise to counterparty risks. The financial risk profile of the discoms in UP, Bihar and Jharkhand remains modest, which could expose the company to the risk of delays in payments. However, the company has largely been realising payments on time, except for a delay seen in realising payments for the power sold to the Jharkhand discom for a few months in FY2022.

Refinancing and interest rate risks - The company is exposed to refinancing risks associated with bullet repayments for the loan facilities at the end of five years. However, this risk is mitigated by the strong financial flexibility of the Sembcorp Group and the long residual tenure of the PPAs for GIREL. Also, the company is exposed to interest rate revision risk at the end of the tenure (five years) of the term loans.

Challenges of scheduling & forecasting regulations - The regulatory challenges of implementing the scheduling and forecasting framework for wind power projects pose a risk, given the variable nature of wind energy generation. Also, the risk is more prominent for wind power projects due to higher generation variability compared to solar power projects. The company witnessed an increase in deviation settlement charges from Rs. 12.6 crore in FY2021 to Rs. 15.4 crore in FY2022, as it is still in the process of getting the wind patterns estimated accurately for effective forecasting and scheduling owing to the relatively limited track record of the project.

Liquidity position: Adequate

The company's liquidity position is adequate, supported by healthy cash flow from operations in relation to the debt servicing obligations. Against the annual repayment obligation of Rs. 63.6 crore in FY2024 and Rs. 66.4 crore in FY2025, the company is expected to generate cash flows of over Rs. 100.0 crore, providing sufficient cushion in debt servicing.

Rating sensitivities

Positive factors - The rating can be upgraded if the credit profile of the parent Group improves and the generation performance stays above the appraised estimates, leading to healthy cash flows for the company and improvement in its credit metrics.

Negative factors - The rating can be downgraded in case of a material decline in the generation performance of the project adversely impacting its credit metrics. A specific credit metric for downgrade includes the cumulative DSCR falling below 1.30 times. Further, significant delays in payments from the offtaker or large upstreaming of the cash flows to the sponsor, adversely impacting the liquidity of the company, could be a factor for a downgrade. Also, any deterioration in the credit profile of the parent Group or weakening of linkages between GIREL and the parent Group would be a rating sensitivity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Wind Power Producers Impact of Implicit Support from Parent or Group
Parent/Group support	Parent Company – Green Infra Wind Energy Limited / Sembcorp Utilities Pte Ltd Rating is based on implicit support from parent company / Group which is expected to extend support in case of cash flow mismatches
Consolidation/Standalone	The rating is based on the standalone financials of the entity

About the company

Green Infra Renewable Energy Limited (GIREL) is a wholly-owned subsidiary of Green Infra Wind Energy Limited (a step-down subsidiary of Sembcorp Industries Limited through SUPL). GIREL operates a 249.9-MW wind power project in Tuticorin, Tamil Nadu. The plant commenced operations from October 2018. The company has signed a 25-year PPA with PTC India Ltd at a fixed tariff of Rs 3.46/unit. This project was awarded under the competitive bidding route in February 2017, under the first such tender for wind power projects in the country by Solar Energy Corporation of India Limited (SECI).

Key financial indicators (audited)

GIREL Standalone	FY2021	FY2022
Operating income	241.5	255.0
PAT	13.1	24.2
OPBDIT/OI	82.9%	81.2%
PAT/OI	5.4%	9.5%
Total outside liabilities/Tangible net worth (times)	5.5	4.3
Total debt/OPBDIT (times)	7.4	6.1
Interest coverage (times)	1.4	1.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; ROCE: PBIT/Avg (Total debt + Tangible net worth + Deferred tax liability - Capital work in progress); DSCR: (PBIT + Mat credit entitlements - Fair value gains through P&L - Non-cash extraordinary gain/loss)/(interest)

**Total debt includes shareholder loan of Rs. 227.8 crore as on March 31, 2021 and Rs. 62.00 crore as on March 31, 2022*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Jan 02, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 10, 2023	-	Mar 23, 2022	-
1	Term loans	Long term	1233.0	1,159.0*	[ICRA]AA+ (Stable)	-	[ICRA]AA (Stable)	-

** company data*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loans**	FY2022	NA	FY2027	1233.0	**[ICRA]AA+ (Stable)**

Source: Company

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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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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