April 10, 2023

Green Infra Wind Generation Limited: Rating upgraded to [ICRA]AA- (Stable) from [ICRA]A+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term- Fund-based TL	60.28	60.28	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable)
Total	**60.28**	**60.28**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in Green Infra Wind Generation Limited's (GIWGL) rating factors in the improvement in the credit rating of GIWGL's parent, Green Infra Wind Energy Limited (GIWEL) to [ICRA]AA+ (Stable) from [ICRA]AA (Stable). GIWGL is a part of a co-obligor arrangement comprising three SPVs, including Green Infra Wind Power Projects Limited (GIWPPL) and Green Infra Wind Energy Project Limited (GIWEPL). While the parent for only one (GIWGL) of the three SPVs is GIWEL, this would become the parent for the entire Group once the reverse merger of Sembcorp Green Infra Ltd. (SGIL)[1] with GIWEL is completed. 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 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.

The rating favourably considers the improvement in GIWGL's generation performance in FY2022 and 9M FY2023, supported by the repairs undertaken and improved maintenance activity. This has enabled the company to improve its debt coverage metrics in FY2022. GIWGL's revenue visibility is supported by the power purchase agreements (PPAs) with commercial and industrial (C&I) customers under the group captive structure at competitive tariff rates, which are at a discount to the retail grid tariffs. The rating also derives comfort from the comfortable credit profile of majority of the group captive customers, with a track record of timely realisation of payments. Going forward, the debt metrics are expected to remain comfortable, supported by PPAs at remunerative rates, adequate generation performance and a competitive interest rate, which is fixed for a majority of the debt tenure.

The rating is, however, constrained by the sensitivity of the debt metrics to the generation performance, given the single part tariff under the PPA. Any adverse variation in weather conditions and equipment performance may impact the PLF levels and consequently the cash flows and debt metrics. The rating further remains constrained by the lack of lock-in period and termination payments under the existing PPAs and the risks associated with the renewal of PPAs with the C&I customers at adequate tariff rates. ICRA also takes note of GIWGL's susceptibility to regulatory risks associated with group captive norms, revision in open access charges and forecasting and scheduling norms.

[1] SGIL is the current parent for the other two entities under the co-obligor structure, i.e., GIWPPL and GIWEPL, and is also GIWEL's parent

The Stable outlook assigned to the long-term rating of GIWGL factors in the revenue stability from the availability of PPAs, improving generation performance and a strong parent.

Key rating drivers and their description

Credit strengths

Strong parentage as the company is a part of the Sembcorp Group; support from the entities in the pool - GIWGL is a step-down subsidiary of Sembcorp Utilities Pte Limited (SUPL) through SGIL/GIWEL, which is in turn held by SCI [~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 credit profile of SGIL/GIWEL has improved, supported by an improvement in the credit profile of SCI, better asset diversity and strengthening of its debt coverage metrics. Also, given the cross-default linkages among GIWGL, GIWEPL and GIWPPL, each SPV is expected to receive support from the other two in case of distress.

PPAs with C&I customers - The 25.5-MW capacity under GIWGL has tied up PPAs having a tenure of 2-10 years with C&I customers under the group captive structure, leading to revenue visibility. Also, majority of these customers have comfortable credit profiles, leading to low counterparty credit risk and timely payments. However, the residual tenor of these PPAs is moderate at ~4.5 years. Notwithstanding this, given the competitive tariffs offered by GIWGL in relation to the grid tariffs, and the long-standing relationship with the customers, the PPAs are expected to be renewed, going forward.

Improved generation performance in FY2022 and 9M FY2023 - The operational track record of the 25.5-MW wind asset under GIWGL has been moderate with the actual PLF lower than the P-90 levels over the years due to grid availability issues in Tamil Nadu till FY2016 and O&M contractor related issues, owing to which the company had shifted to self O&M for the asset in FY2019. The improved maintenance activity and major repairs undertaken recently has led to higher generation, marked by PLF level of 18.0% in FY2022 against 14.2% in FY2021. Further, the PLF level stood satisfactory at 21.75% in 9M FY2023 compared to 21.92% in 9M FY2022.

Comfortable debt coverage metrics - GIWGL's debt coverage indicators are expected to remain comfortable with annual DSCR estimated to remain over 1.3x over the medium term, supported by improved generation performance, adequate profitability and a competitive interest rate, which is fixed till FY2028.

Credit challenges

Risks associated with renewal of PPAs at adequate tariffs - The PPAs signed by GIWGL do not have a provision for lock-in period or termination payments in case of premature termination. Further, the residual tenure of the PPAs remains moderate at 4.5 years. Given the falling tariffs in the renewable energy sector, the ability of the asset to renew the PPAs with the C&I customers at adequate tariff rates remains important.

Sensitivity of debt metrics to energy generation - The debt metrics for the wind power asset remain sensitive to the PLF levels, given the one-part tariff structure under the PPA. Hence, any adverse variation in weather conditions and/or machine performance may impact the PLF and consequently the cash flows. The geographic concentration of the asset in Tamil Nadu amplifies the generation risk.

Regulatory challenges - The company's operations are exposed to regulatory risks pertaining to group captive norms, revision in open access charges and scheduling & forecasting requirements of wind power projects. Given that the open access charges are borne by GIWGL under most of the PPAs, any increase in these charges and losses may impact its profitability. Also, any reduction in the banking period or increase in banking charges may also impact the operations. Further, any revision of the shareholding norms for group captive projects could adversely impact the operations of GIWGL.

Liquidity position: Adequate

GIWGL's liquidity remains adequate, marked by robust cash flows from operations in relation to the debt servicing requirements, along with the presence of free cash balances. The company is expected to generate cash flows from operations of over ~Rs. 9.0 crore against annual debt repayments of ~Rs. 6.7 crore over FY2024-FY2025. While the lenders have exempted the company from maintaining a debt service reserve account (DSRA), it is expected to maintain sufficient cash balances to meet the debt servicing obligations and O&M expenses.

Rating sensitivities

Positive factors – A satisfactory operational performance of the asset on a sustained basis and renewal of PPAs at remunerative tariffs, leading to an improvement in the debt coverage indicators, could lead to a rating upgrade. Also, the rating would remain sensitive to the credit profile of the parent (SGIL/GIWEL) and GIWEPL & GIWPPL.

Negative factors – Pressure on the rating could emerge if the generation performance deteriorates or the company is unable to renew the PPAs, adversely impacting the debt coverage metrics. Also, deterioration in the payment cycle from counterparties on a sustained basis adversely impacting the liquidity profile is another negative factor. A specific credit metric for downgrade is the cumulative DSCR falling below 1.20x. Also, the rating would remain sensitive to the credit profile of the parent (SGIL/GIWEL) and GIWEPL & GIWPPL.

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 Rating Approach – Explicit third-party Support
Parent/Group support	The rating assigned to GIWGL factors in the cross-default linkages with GIWEPL and GIWPPL. Also, the rating factors in the implicit support from Group holding company, SGIL/GIWEL, with support expected to be forthcoming in case of any cash flow mismatch. The rating for GIWGL has been arrived at by following the analytical steps as given below: 1. An assessment of the standalone credit profile of GIWGL. 2. An assessment of the Group's credit profile by undertaking a consolidated assessment of the three SPVs in view of the cross-default linkages among them, and then further notching up the Group's notional rating based on expectations of implicit support from the Group's holding company, SGIL/GIWEL[2]. 3. The final rating for the bank facility of GIWGL is arrived at by suitably notching up the standalone rating after duly considering the Group's rating and the linkages between the standalone entity and the Group
Consolidation/Standalone	Standalone

[2] ICRA notes that SGIL is being reverse merged into GIWEL (rated [ICRA]AA+ (Stable)/[ICRA]A1+)

About the company

GIWGL is a special purpose vehicle (SPV) promoted by GIWEL. The company has set up a 25.5-MW wind power plant at Theni in Tamil Nadu which was commissioned in March 2012. The company has signed PPAs with group captive consumers, who hold 29.45% of the shareholding of the company as required under the group captive norms. The balance 70.55% shareholding is held by GIWEL and its nominees as of May 2022.

Key financial indicators (audited)

GIWGL	FY2021	FY2022
Operating income	17.6	25.4
PAT	(9.2)	17.1*
OPBDIT/OI	59.3%	70.7%
PAT/OI	(52.5%)	67.3%
Total outside liabilities/Tangible net worth (times)	(4.1)	(6.84)
Total debt/OPBDIT (times)	13.5	6.5
Interest coverage (times)	1.3	2.3

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; * higher as the company booked a one-time net gain of Rs. 16.7 crore due to the change in the fair value of preference shares*

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 on Jan 02, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 10, 2023	Sep 09, 2022*	Jun 18, 2021	-
1	**Long term-Fund based TL**	Long term	60.28	55.3^	**[ICRA]AA-(Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+(CE) (Stable)**	-

** [ICRA]A+(CE) (Stable) withdrawn; [ICRA]A+ (Stable) assigned simultaneously; ^ company data*

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: 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 loan-I**	May 2017	9.25%	FY2032	60.28	[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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