April 16, 2024

Avaada MHGreen Private Limited: [ICRA]A- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based - Term loan	397.40	[ICRA]A- (Stable); assigned
Long term – Interchangeable - Letter of comfort	(270.00)	[ICRA]A- (Stable); assigned
Long term – Unallocated	45.20	[ICRA]A- (Stable); assigned
Total	**442.60**	

**Instrument details are provided in Annexure-I*

Rationale

The rating for Avaada MHGreen Private Limited (AMGPL) factors in its strong parent - Avaada Energy Private Limited (AEPL) - which has an established track record in the renewable energy sector with an operating solar power portfolio of 4 GWp and and an under-development capacity of 5.4 GWp. AEPL is backed by Avaada Ventures Private Limited (AVPL) and PTT Thailand; together they have committed an overall investment of $700 million to this platform in FY2024 with $400 million infused so far. The committed equity will enable AEPL to scale up its portfolio over the next few years. The long-term PPAs at competitive tariffs, the satisfactory generation performance of the assets under AEPL and the availability of long-term project finance at competitive interest rates ensure adequate debt coverage metrics for the Group.

The rating also factors in the limited demand and tariff risks for AMGPL due to the presence of 25-year long-term power purchase agreements (PPAs) for its solar power project at a fixed tariff under the group captive mode at competitive rates. The tariff rate offered by the company is at a significant discount to the state grid tariff rates, resulting in savings for the customers.

However, the rating is constrained by the execution risks, given the under-construction status of the project and the pending receipt of open access approval. Nonetheless, comfort is drawn from the availability of 94% of the required land as of March 2024 with the balance land to be acquired shortly, the advance progress in construction of the transmission line and pooling substation and the track record of the Group in developing solar power project transmission lines. The company expects to commission the full project capacity by May 2024. The Ministry of New & Renewable Energy (MNRE) has recently notified the re-imposition of the ALMM regulation[1] effective April 1, 2024. ICRA will continue to monitor the developments with respect to any adverse impact for the project being developed. ICRA further notes that 46% of the modules were installed at the site as on March 26, 2024. The company has sourced the modules from Jinko Solar and Solarspace. ICRA continues to take comfort from the company's strong parent, which is expected to extend the necessary support in case of any adverse developments.

The company has secured project debt at a competitive cost with a long tenure of 19 years, which is expected to lead to comfortable debt coverage metrics over the debt tenure. Post commissioning, the company's cash flows and debt protection metrics would remain sensitive to its generation performance, given the single-part tariff under the PPAs. This constraint would be amplified by the geographic concentration of the asset. Any adverse variation in weather conditions and equipment performance can impact the generation levels and consequently the cash flows. The lender can exercise the option to call back

[1] The Approved List of Models & Manufacturers (ALMM) regulation mandates that solar modules should be from the MNRE's approved list of models and manufacturers, with exceptions for projects to be taken on case-to-case basis, if the modules are already available at the site and the delay in commissioning is not attributable to the developer

the loan at the end of 12 years which will expose the company to refinancing risk. The demonstration of generation performance in line or above the appraised P-90 PLF levels remains a key credit monitorable.

ICRA notes that the termination payments under the PPAs cover the entire debt outstanding. Further, comfort can be drawn from the competitive tariffs offered by the company to its customers against the HT industrial grid tariff and the track record of the sponsor in securing PPAs with large industrial and commercial customers.

The company is also exposed to interest rate risks because of the leveraged capital structure and floating interest rate, subject to regular resets. Further, the company's operations remain exposed to the regulatory risks associated with forecasting & scheduling regulations, regulations for captive projects and open access charges. Any significant increase in the open access charges or imposition of new charges would impact the competitiveness of the tariff offered under the PPAs.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that AMGPL would benefit from the long-term PPAs for its portfolio with reputed customers and the track record of the Group in developing and operating solar power projects.

Key rating drivers and their description

Credit strengths

Experienced promoter group with a demonstrated track record – AMGPL is a 74% subsidiary of the renewable energy holding company of the Avaada Group i.e., AEPL, which has an established track record in the solar power sector. AEPL is backed by Avaada Ventures Private Limited (AVPL), which holds about a 57% stake and the remaining stake of about 43% is held by Global Renewable Synergy Company, which is a part of PTT Thailand. AEPL has an overall portfolio of 9.4 GWp, comprising an operating capacity of 4.0 GW and the balance is under development.

Revenue visibility from long-term PPAs; competitive tariff rates – AMGPL has signed 25-year long-term PPAs for the entire capacity at a fixed tariff with reputed commercial and industrial (C&I) customers under the captive mode, providing revenue visibility and limiting the demand and pricing risks. The customers will subscribe to the equity capital of AMGPL, as required under the group captive regulations. The tariffs offered by the company are at a significant discount to the state grid tariff rates. Moreover, the power supplied by AMGPL would enable the customers to meet their renewable purchase obligations and sustainability goals.

Comfortable debt coverage metrics and liquidity profile – AMGPL's debt coverage metrics are expected to be comfortable with cumulative DSCR above 1.30x over the debt tenure, supported by PPAs at attractive rates, long tenure of the debt and competitive interest rates. Also, the liquidity profile of the company is supported by the presence of a peak two-quarter DSRA to be created within 1.5 years of the COD.

Credit challenges

Risks from pending construction work and open access approvals – The rating is constrained by the execution risks, given the under-construction status of the project and the pending receipt of open access approval. Nonetheless, comfort is drawn from the availability of 94% of the required land with the balance land to be acquired shortly, the advance progress in the construction of transmission line and pooling substation and the track record of the Group in developing solar power project transmission lines. ICRA further notes that 46% of modules were installed at the site as on March 26, 2024. The company expects to commission the full project capacity by May 2024. The completion of the balance work, receipt of open access approval and commissioning within the scheduled timeline remain the key credit monitorables for the company.

Debt metrics of solar projects sensitive to PLF levels – The debt coverage metrics remain exposed to the generation level because of the one-part structure under the PPAs. Hence, any adverse variation in weather conditions and/or module performance may impact the PLF and consequently the cash flows. The geographic concentration of the asset amplifies the generation risk. The demonstration of generation performance remains to be seen, given the limited track record of operations.

Exposed to interest rate risks – The interest rates on the term loans availed by the company for its project is floating and subject to regular resets. Given the fixed nature of the tariffs under the PPAs and the leveraged capital structure, the debt coverage metrics are exposed to the movements in interest rates.

Regulatory risks – The company's operations are exposed to regulatory risks pertaining to the scheduling and forecasting requirements of solar power projects. However, the risk of variation is relatively low for solar power projects compared to wind power projects. Also, the company remains exposed to regulations related to captive power projects and the adverse variation in open access charges, which could impact the competitiveness of the tariff offered. Further, the receipt of open access approval remains important to ensure uninterrupted operations. Additionally, the project remains susceptible to any adverse impact due to the re-imposition of ALMM regulation effective April 1, 2024.

Liquidity position: Adequate

The liquidity of the company is expected to remain adequate, aided by the healthy cash flow from operations because of the long-term PPAs at a fixed rate for the solar power project and expectation of timely receipt of payments from the customers with comfortable credit profiles. The debt repayment is scheduled to commence in June 2025, giving the project adequate time for stabilisation of the operations. The company is expected to generate cash flow from operations of Rs. 24 crore in FY2026 against a debt repayment of Rs. 13.91 crore. Further, the company has a provision for a peak two-quarter DSRA.

Rating sensitivities

Positive factors – ICRA could upgrade AMGPL's rating following successful commissioning of the project without any major cost overruns and demonstration of satisfactory generation performance in line with the P90 estimate. Also, the rating would remain sensitive to the credit profile of its parent, AEPL.

Negative factors – AMGPL's rating can be downgraded in case of significant delays in commissioning the project or large cost overruns, impacting the project's credit metrics. The rating may also be downgraded if the actual generation performance post commissioning is lower than the P90 level on a sustained basis leading to decline in cumulative DSCR to less than 1.20x or if there are delays in payments from the customer, impacting its liquidity profile. Further, the rating would remain sensitive to the credit profile of its parent, AEPL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Power - Solar
Parent/Group support	Parent Company: Avaada Energy Private Limited. The rating assigned to AMGPL factors in the implicit support available from AEPL, if required
Consolidation/Standalone	Standalone

About the company

Avaada MHGreen Private Limited (AMGPL) is a 74% subsidiary of Avaada Energy Private Limited (AEPL). The company is developing a 130.0 MW (DC)/100.0 MW (AC) solar power capacity under the group captive mode in the Aurangabad district of Maharashtra. The project is expected to be commissioned in May 2024. AMGPL has signed 25-year long term PPAs at a fixed tariff of Rs. 3.30 per unit with the C&I customers in Maharashtra. As required under the group captive regulations, the customers have subscribed to the shareholding of the company.

Key financial indicators (audited)

Standalone	FY2023
Operating income	-
PAT	-
OPBDIT/OI	-
PAT/OI	-
Total outside liabilities/Tangible net worth (times)	NM
Total debt/OPBDIT (times)	NM
Interest coverage (times)	-

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation
NM: not meaningful as the project is under-construction

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 26, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 16, 2024	-	-	-
1	Fund based - Term loan	Long term	397.40	220.00	[ICRA]A- (Stable)	-	-	-
2	Interchangeable-Letter of comfort	Long term	(270.00)	-	[ICRA]A- (Stable)	-	-	-
3	Unallocated	Long term	45.20	-	[ICRA]A- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based -Term loan	Simple
Long term – Interchangeable - Letter of comfort	Simple
Long term – Unallocated	Not Applicable

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	Long term – Fund based - Term loan	January 2024	-	FY2044	397.40	[ICRA]A- (Stable)
NA	Long term – Interchangeable- Letter of comfort	January 2024	-	-	(270.00)	[ICRA]A- (Stable)
NA	Long term – Unallocated	-	-	-	45.20	[ICRA]A- (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 - NA

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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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