July 05, 2024

Alfanar Energy Private Limited: Rating downgraded to [ICRA]BBB (Negative)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	1,570.00	1,570.00	[ICRA]BBB (Negative); downgraded from [ICRA]BBB+ (Negative)
Total	**1,570.00**	**1,570.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for the long-term rating of Alfanar Energy Private Limited (AEPL) factors in the sustained under-performance of its 301.4-MW wind power project in Gujarat with the actual generation remaining below the anticipated levels as well as the appraised P-90 estimate since commissioning (in March 2021). ICRA expects the generation to remain below the P-90 estimates in the near to medium term, as per the trend seen in the recent months' generation.

Post commissioning in April 2021, the project's performance remained subdued in FY2022, with the average PLF for the year at ~81% of the P-90 estimate. While the generation improved on a year-on-year basis, it remains below the P-90 estimate, with the company reporting PLF of 29.3% and 29.8% in FY2023 and FY2024 respectively, against the P-90 estimate of 36.6%. This in turn has adversely impacted the company's debt coverage metrics, with the debt service coverage ratio (DSCR) on the external debt remaining modest at 1.0x in FY2024. The ability of the company to improve its generation performance in line with the appraised estimate and improve the coverage metrics remains a key monitorable, going forward.

The rating also remains constrained by the vulnerability of the cash flows to the variation in weather conditions and wind seasonality, given the single part tariff under the PPA. Additionally, the company remains exposed to asset concentration risk as the entire capacity is located at a single site in Gujarat. Further, the project's credit metrics remain exposed to the movement in interest rates, given the single-part PPA tariff and the leveraged capital structure. Also, the company is vulnerable to the regulatory challenges of implementing the scheduling and forecasting framework for the wind power sector, given the variable nature of wind generation.

However, ICRA continues to draw comfort from the high revenue visibility and the low offtake risk for the 301.4-MW wind power project of AEPL, with the presence of a long-term (25-year) power purchase agreement (PPA) with Solar Energy Corporation of India Limited (SECI) at a fixed tariff of Rs. 2.45 per unit. SECI is an intermediary counterparty and has signed a power supply agreement (PSA) with the state-owned distribution utilities (discoms) of Bihar and Delhi and with Tata Power Delhi Distribution Company, which are the ultimate offtakers.

The rating further positively considers the high tariff competitiveness, with the PPA tariff being well below the average power purchase cost of the offtaking discoms. Moreover, the payment security mechanism in the PPA/PSA is relatively superior (against the state policy PPAs), given the provision for letter of credit equal to an average one-month billing under the PPA and the benefits available to SECI under the tripartite agreement (TPA) with the Government of India, the Reserve Bank of India and the state government. The payments from SECI have remained timely so far. The additional provisions in the PPA/PSAs related to compensation in case of grid curtailment or backdown and the termination liability in the event of default by the buyer provide comfort.

Further, the rating draws comfort from the long maturity profile of the project debt and a competitive interest rate. The promoter contribution has been infused through a mix of equity and compulsorily convertible debentures (CCDs). The promoter CCDs remain subordinated to the debt availed from the project lenders. The company has also prepaid the project debt instalments up to September 2024 and increased the debt service reserve to three quarters of debt servicing from two quarters earlier. ICRA also notes the presence of an experienced equipment supplier and O&M contractor – Siemens Gamesa

Renewable Energy Private Limited - for 250.8 MW and Senvion Wind Technology Private Limited for the balance capacity. The O&M for the balance of plant has been tied up with Renom.

The Negative outlook assigned to the company factors in the likelihood of the generation remaining well below the appraised generation estimate, resulting in modest debt coverage metrics.

Key rating drivers and their description

Credit strengths

Long-term PPA and superior tariff competitiveness - AEPL has low offtake risks owing to the long-term (25-year) PPA at a highly competitive tariff of Rs. 2.45 per unit for the entire project capacity. The long-term PPA provides revenue visibility to the company. SECI is an intermediary counterparty and has signed PSAs with the state-owned distribution utilities of Bihar, Delhi and Tata Power Delhi Distribution Company, which are the ultimate offtakers. Further, the applicable tariff for the ultimate offtakers is highly competitive compared to the average power purchase cost of the utilities.

Relatively superior PPA with SECI and low counterparty credit risk – The PPA with SECI is superior to the state policy PPAs due to a favourable payment security mechanism that has a provision for letter of credit equal to average one-month billing as well as a provision for generation compensation for grid unavailability or backdown and termination liability in the event of default by the discoms. Further, SECI has been included in the tripartite agreement (TPA) with the Government of India, the Reserve Bank of India and the state government that provides comfort against payment delays from the discoms. These factors, coupled with the strong credit of SECI and the high tariff competitiveness, mitigate the counterparty credit risk associated with the ultimate offtakers.

Established track record of Alfanar Group in power sector – Though the Alfanar Group has limited experience in the renewable energy sector in India, this risk is mitigated to a certain extent by the Group's established track record in the power sector through its EPC business in Saudi Arabia and its renewable projects in other countries. In the power sector, the Group has set up thermal power projects with a cumulative capacity of 850 MW. In the transmission sector, it has set up various sub-stations, transmission lines and underground cable projects in Saudi Arabia. Further, the Group has experience in renewable energy with the development of renewable projects in Egypt and Spain in the past.

Credit challenges

Lower-than-expected cash flows due to underperformance by wind power project - The company's revenues and profitability is exposed to the variation in weather conditions as the tariff under the PPA is one part in nature. As witnessed in the recent fiscals, the generation performance has remained subdued with the actual average PLF not exceeding 30% since commissioning, against the P-90 estimate of 36.6% owing to the lower-than-expected wind speed. This has adversely impacted the company's debt coverage metrics with the DSCR remaining low at 1.0x in FY2024. This risk is also amplified by the single location of the project. Going forward, AEPL's ability to improve its generation and in turn its debt coverage metrics remains important from a credit perspective.

Interest rate risk - The company's debt metrics remain exposed to the movement in interest rates due to the single-part tariff under the PPA and the leveraged capital structure.

Regulatory risk of implementing scheduling and forecasting framework for wind sector - The company's operations remain exposed to the regulatory risks pertaining to scheduling and forecasting requirements for renewable energy projects, given the limited experience of the developers in operating under Indian conditions and the variable nature of wind generation.

Liquidity position: Adequate

The liquidity of the company is expected to remain adequate with the cash flow from operations along with the available cash balances likely to be adequate in relation to the debt servicing obligations, supported by the long-term PPA and timely payments from SECI. Further, comfort is drawn from the DSRA being increased recently to nine months of debt servicing from six months earlier, available in the form of bank guarantee. The company had a cash balance of ~Rs. 49 crore as on March 31, 2024.

Rating sensitivities

Positive factors – Given the Negative outlook, a rating upgrade is unlikely for AEPL in the near term. The outlook can be revised to Stable if the actual generation performance by the wind power project improves closer to the appraised P-90 estimate.

Negative factors – The rating would be downgraded if the actual generation performance continues to be lower than the appraised P-90 level, leading to the cumulative DSCR on the project debt falling below 1.1x. Also, delays in receiving payments from the offtakers will have an adverse impact on the liquidity profile and would be another trigger for downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Power - Wind
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

AEPL is promoted by Alfanar Company (KSA) and Alfanar Power Limited (UK), which are subsidiaries of Alfanar Principals. Alfanar is a family-owned Saudi Arabia-based group, with the main promoters being Mr. Abdul Salam Al Multaq, Mr. Sabah Mohammad Al Multaq and Mr. Hisham Mohammad Al Multaq. AEPL has set up a 301.4-MW wind power project in Bhuj, Gujarat. The plant was commissioned in phases - from July 2020 to March 2021 - and the final CoD was achieved on April 01, 2021, ahead of the scheduled CoD of May 29, 2021. The total project cost is ~Rs 2,117.08 crore, funded by debt to equity of 73:27. The capacity was awarded via a reverse bidding process conducted by SECI under its tranche-III wind power auction for 2 GW of inter-state transmission system (ISTS)-connected projects.

Key financial indicators (audited)

	FY2022	FY2023	FY2024*
Operating income	179.1	194.4	194.8
PAT	-100.3	-32.1	-43.2
OPBDIT/OI	93.2%	92.6%	90.5%
PAT/OI	-56.0%	-16.5%	-22.2%
Total outside liabilities/Tangible net worth (times)	-22.6	-16.4	-11.9
Total debt/OPBDIT (times)	11.5	10.3	10.2
Interest coverage (times)	1.0	1.5	1.4

*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*

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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 05, 2024	Jun 19, 2023	May 12, 2022	Jun 08, 2021
1	**Term loan**	Long Term	1,570.00	**[ICRA]BBB (Negative)**	[ICRA]BBB+ (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	**Non-fund-based letter of credit***	Short-term/ Long-term	-	-	-	[ICRA]A- (Stable)/ [ICRA]A2+ (withdrawn)	[ICRA]A- (Stable)/ [ICRA]A2+
3	**Long term - Unallocated**	Long-term	-	-	-	-	[ICRA]A- (Stable)

**Sublimit of term loan*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – 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**	February 2022	-	June 2042	1570.0	[ICRA]BBB (Negative)

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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