Press Release

Aavanti Renewable Energy Private Limited

October 13, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action
Long Term Bank Facilities – Term Loan	86.03 ^ (reduced from Rs.90.19 crore)	IVR A+ [CE]; Stable Outlook (IVR Single A Plus [Credit Enhancement] with Stable Outlook) *	IVR BB+ Stable Outlook (IVR Double B Plus with Stable Outlook) *	Revised
Short Term Bank Facility – Bank Guarantee	2.00	IVR A1+ [CE] (IVR A One plus [Credit Enhancement])	IVR A4+ (IVR A Four Plus)	Revised
Total	**88.03**			

**CE rating based on corporate guarantee from OPG Power Generation Private Limited ^Outstanding as on June 30, 2020*

Details of Facilities are in Annexure 1

Note: *Previously the long term and short-term ratings were IVR BB+ (IVR Double B Plus) and IVR A4+ (IVR A Four Plus) respectively on a standalone basis respectively. However, now Infomerics have assessed the credit profile of the company based on an explicit credit enhancement through corporate guarantee extended by its group company OPG Power Generation Private Limited.*

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Aavanti Renewable Energy Private Limited (AREPL) takes into account its experienced sponsors with corporate guarantee from OPG Power Generation Private Limited (OPGPL). This corporate guarantee results in credit enhancement in the rating of the said instrument to **IVR A+ (CE)/Stable Outlook (IVR Single A Plus [Credit Enhancement] with Stable Outlook)** against the unsupported rating of **IVR BB+/Stable (IVR Double B plus with Stable Outlook)**. Further, the ratings also derive strength from availability of long term PPA with Bangalore Electricity Supply Company Limited (BESCOM) with presence of DSRA and defined escrow mechanism against loans availed, locational advantage and Government's thrust on solar energy. The ratings also factor in improvement in financial performance of the company in FY20. However, the rating strengths continues to be constrained by its relatively nascent stage of operations, capital intensive nature of the project, dependence on climatic conditions and exposure to interest rate risk.

Key Rating Sensitivities:

Upward factors

- Stabilisation of operation and achieving projected PLF.
- Timely receipt of payments against generation invoices from BESCOM
- Improvement in financial risk profile of the corporate guarantee provider

Downward factors

- Reduction in PLF impacting the operating performance thereby the profitability on a sustained basis
- Significant delays in receipt of payments from BESCOM
- Deterioration in financial risk profile of the corporate guarantee provider

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Strong Parentage

Aavanti Renewable Energy Private Limited (AREPL) is sponsored by OPG Power Generation Private Limited (OPGPL) belonging to OPG group, being one of the leading power generating companies in the country, operating 414 MW thermal power projects in India. OPGPL with over a decade of operation is a reputed name as a developer and operator of power plants in India with a track record of delivery and experienced management team. Over the period, AREPL has received need based funding support from its parent company. Going forward, Infomerics believes timely, need based financial support will also be extended by the parent, in case of pressure on cash flows. AREPL is currently governed by the Directors - Mr. Puneet Goyal and Mr. ES Purushotham. Mr. Puneet Goyal and Mr. ES Purushotham are engineers by profession and have considerable experience in the solar power sector. The Directors are duly supported by a team of experienced and qualified professionals in managing the affairs of the company.

Corporate guarantee from the promoters

The bank facilities of AREPL is backed by an unconditional corporate guarantee from OPGPL. Over the period AREPL has received need-based funding support from its parent company. Going forward, Infomerics believes timely, need based financial support will continue to be extended by the parent, in case of pressure on cash flows.

Locational advantage

The plant is located at Hosadurga Taluk, Chitradurga District, Karnataka which is at a distance of 3 kms from the nearest substation for power evacuation located at Mathod, District Chitradurga; thus, providing the company with locational advantage. The insolation at the site is around 5 kwh/m2/day which is above annual average. The location is considered to be a high potential site for solar power generation.

Availability of Long term PPA with a Government body ensures revenue visibility and relatively lower counterparty credit risks

The entire 20 MW capacity of the project has been tied up with Bangalore Electricity Supply Company Limited (BESCOM) for 25 years at a tariff of Rs.4.97/Unit. The PPA tariff is cost competitive from the offtakers' perspective which in turn substantially mitigates the counter party credit risk. Also, presence of robust payment security mechanism in PPA with BESCOM limits the counterparty risk to a certain extent. Further, BESCOM has built its own transmission line up to the project site and the power will be lifted by BESCOM itself.

Presence of DSRA and defined escrow mechanism against loans availed

The company has to maintain a debt service reserve account (DSRA) equivalent to two quarters of interest and principal to provide additional comfort to the lenders. The same is expected to meet any intermittent cash flow mismatch within the SPV.

Satisfactory PLF since commissioning of the project

The project has had a generation track record of around 2.5 years and the actual generation performance has been in line with generation estimates.

Healthy financial profile of the guarantor - OPGPL

The capital structure of OPGPL remained comfortable by its strong net worth base of Rs. 1115.11 crore as on March 31, 2020. The overall gearing ratio remained comfortable as on the past three fiscals and stood at 0.47x as on March 31, 2020 (0.67x as on March 31, 2019). The interest coverage ratio remained comfortable at 2.85x in FY20 (2.79x in FY19).

Improvement in financial performance of AREPL in FY20 albeit slight moderation in top line

The solar power project was commissioned from February 2018 and FY19 was the first full year of operation for the company. Total operating income declined marginally from

Rs.17.07 crore in FY19 to Rs.16.97 crore in FY20 on account of marginal decline in the number of units generated from the solar power project. Also, there was a marginal decline in PLF from 20.27% in FY19 to 20.05% in FY20. However, in spite of decline in PLF coupled with marginal decline in TOI in FY20 as compared to FY19, EBITDA improved substantially from Rs.14.73 crore in FY19 to Rs.16.19 crore in FY20 resulting in improvement in EBITDA margin from 86.29% in FY19 to 95.40% in FY20. This is due to decline in operational and administrative expenses most of which is generally incurred during the initial year of operation of the company. Consequently, AREPL achieved a PBT margin of 8.81% in FY20 as against a loss at the PBT level in FY19. Also, on account of adjustment of deferred tax asset, the PAT margin significantly improved to 14.16% in FY20 as against a loss at the PAT level during FY19. GCA improved from Rs.5.56 crore in FY19 to Rs.6.01 crore in FY20. During Q1FY21, AREPL achieved a TOI of Rs.4.35 crore with PBT of Rs.0.43 crore.

Government's thrust on solar energy

The Government of India has provided a thrust on developing renewable energy generation including solar power. The Ministry of New and Renewable Energy (MNRE) has set an ambitious target to set up renewable energy capacities to the tune of 175 GW by 2022 of which about 100 GW is planned for solar.

Key Rating Weaknesses

Nascent stage of operations

The company commenced its operations with effect from February 12, 2018 and is relatively at its nascent stage of operations. However, the company is expected to receive continuous support with OPG Group's vast experience in the power sector.

Capital Intensity of the project

Solar PV systems are capital intensive and is at a nascent stage in India. The cost incurred for the project is a huge investment, given the fact that power project generally has long gestation. This high capital intensity along with uncertainty associated with achievement of desired PLF makes the solar power project less competitive vis-à-vis other forms of power projects. Due to high capital outlay, the capital structure of the company remained leveraged with the overall gearing and TOL/TNW at 3.12x and 3.13x respectively as on March 31, 2020. However, the interest coverage ratio was moderate at 1.70x in FY20.

Dependence on climatic conditions

The industry is weather dependent. Only those areas that receive good amount of sunlight are suitable for producing solar energy. During daytime, the weather may be cloudy or rainy, with little or no sun radiation. This makes solar energy panels less reliable as a solution.

Exposure to interest rate risk

The project remains exposed to interest rate risk, given the single part fixed nature of tariff.

Analytical Approach: Credit Enhancement (CE) rating: Assessment of the credit profile of OPG Power Generation Private Limited, provider of corporate guarantee to the bank facilities aggregating to Rs.98.85 crore of AREPL.

Unsupported rating: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Parent & Group Support

Rating methodology for Structure Debt Transactions (Non securitisation Transactions)

Liquidity - Stretched

The liquidity profile of the AREPL is adequate as reflected by the availability of surplus cash (Rs.4.55 crore as on March 31, 2020). Further, there is an upfront DSRA requirement of two quarters interest and instalment to be maintained by the company. The above-mentioned sources are expected to meet any intermittent cash flow mismatch within the SPV. Infomerics also factors in the presence of a reputed parent, OPGPL which can support the project in case of a shortfall in funds.

The liquidity profile of OPGPL is strong marked by the current ratio 1.46x as on March 31, 2020 and adequate cash and cash equivalents to the tune of Rs.66.76 crore (including restricted bank deposits of Rs.46.24 crore) as on March 31, 2020. The average month end cash credit limit utilization was at ~25% during the 12 months period ended March 2020 indicating an adequate liquidity buffer.

About the Company

Aavanti Renewal Energy Private Limited (AREPL) is a Special Purpose Vehicle established to set up a 20MW AC/22.40 MW DC Solar PV Project at Hosadurga Taluk, Chitradurga District, Karnataka. AREPL is sponsored by OPG Power Generation Private Limited (OPGPL), one of the leading power generating company operating 414 MW Thermal Power

Projects in India. The other shareholders are Samriddhi Energy Private Limited (part of OPG Group) and IBC Solar Venture India BV. AREPL has signed a long term Power Purchase Agreement (PPA) with Bangalore Electricity Supply Company Limited (BESCOM) for 25 years. The EPC Contract has been executed by Gita Power and Infrastructure Private Limited (GPIPL) which has implemented more than 600 MW projects in the country. The nearest 66/11 KV substation for power evacuation is located at Mathod, district Chitradurga, which is at a distance of 3 kms from the project site. The power evacuation arrangements for the project is made in coordination with Karnataka Power Transmission Corporation Limited (KPTCL). The project was commissioned on February 12, 2018.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	17.07	16.97
Total Income	17.65	17.12
EBITDA	14.73	16.19
PAT	-3.33	2.42
Total Debt	99.06	98.06
Tangible Net worth	28.96	31.38
EBITDA Margin (%)	86.29	95.40
PAT Margin (%)	-18.87	14.16
Overall Gearing Ratio (x)	3.42	3.12

**Classification as per Infomerics' Standard*

Financials of the Corporate Guarantor OPG Power Generation Private Limited

(Rs. Crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	1454.03	1395.64
Total Income	1474.63	1412.48
EBITDA	258.07	238.11
PAT	24.16	34.27
Total Debt	725.53	525.80
Tangible Net worth	1084.21	1115.11
EBITDA Margin (%)	17.75	17.06
PAT Margin (%)	1.64	2.43
Overall Gearing Ratio (x)	0.67	0.47

**Classification as per Infomerics' Standard*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	86.03 *	IVR A+ [CE]; Stable Outlook	IVR BB+/Stable Outlook (February 22, 2020)	IVR BBB-/Stable Outlook (November 06, 2018)	-
2.	Bank Guarantee	Short Term	2.00	IVR A1+ [CE]	IVR A4+ (February 22, 2020)	IVR A3 (November 06, 2018)	-

**Outstanding as on June 30, 2020*

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan	-	-	October, 2032	86.03 *	IVR A+ [CE]; Stable Outlook
Short Term Bank Facilities – Bank Guarantee	-	-	-	2.00	IVR A1+ [CE]

**Outstanding as on June 30, 2020*