

Press Release

Aavanti Renewable Energy Private Limited

February 22, 2020

Ratings

| Sl. No. | Instrument/Facility | Amount (Rs. Crore) | Ratings Assigned | Rating Action |
|---------|---|---|---|---|
| 1 | Long-Term Bank Facility-Term Loan | 90.19* (Reduced from Rs.96.85 crore) | IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook) | Rating downgraded from IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook) |
| 2 | Short-Term Bank Facility-Bank Guarantee | 2.00 | IVR A4+ (IVR A Four Plus) | Rating downgraded from IVR A3 (IVR A Three) |

**outstanding as on December 31, 2019*

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Aavanti Renewable Energy Private Limited (AREPL) takes into account its lower-than-expected financial performance in FY19 marked by book loss incurred due to higher operational cost during the year. However, the ratings continue to derive comfort from its experienced sponsors, locational advantage, availability of long term PPA with Bangalore Electricity Supply Company Limited (BESCOM) and Government's thrust on solar energy. 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.

Downward factors

- Reduction in PLF impacting the operating performance thereby the profitability on a sustained basis.
- Significant delays in receipt of payments from BESCOM.

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. 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 a three-member Board of Directors comprising Mr. Puneet Goyal, Mr. ES Purushotham and Mr. Ravi Gupta. Mr. Puneet Goyal and Mr. ES Purushotham who have considerable experience in the solar power sector.

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 Method, District Chitradurga, thus providing the company with locational advantage. 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. The PPA tariff is cost competitive from the off takers 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.

Government's thrust on the 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 Weaknesses

Relatively Nascent stage of operations

The company commenced its operations from February, 2018 with FY19 being the first full year of operations for the company. The company is relatively at its nascent stage of operations.

Capital Intensity of the project

Solar PV systems are capital intensive and is at a nascent stage in India. The cost of Rs.130.14 crore incurred for the project is a huge investment, given the fact that power project is generally having 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/ANW at 3.23x and 3.43x respectively as on March 31, 2019. However, the interest coverage ratio was moderate at 1.53x in FY19.

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.

Subdued financial performance in FY19

The company incurred book loss in FY19 due to higher than expected operational costs incurred during the year. Further, the debt protection metrics also remained weak in FY19 marked by Total debt to GCA at 41.59x in FY19. During 9MFY20, the company has achieved a total operating income of Rs.10.76 crore.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity profile of the company is adequate as reflected by the availability of surplus cash of Rs.4.43 crore as on December 31, 2019. 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.

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 and IBC Solar Venture India BV which are a part of OPG Group. 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 Infomerics Valuation And Rating Pvt. Ltd. www. infomerics.com 4 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 Method, 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):

| For the year ended* / As On | (Rs. crore) |
|------------------------------------|--------------------|
| | 31-03-2019 |
| | Audited |
| Total Operating Income | 17.50 |
| EBITDA | 14.89 |
| PAT | (3.33) |
| Total Debt | 93.53 |
| Tangible Net worth | (3.29) |
| Adjusted Net worth # | 28.96 |
| EBITDA Margin (%) | 85.06 |
| PAT Margin (%) | (18.58) |
| Overall Gearing Ratio (x) | 3.23 |

**Classification as per Infomerics' standards.*

#Optionally convertible unsecured debentures (OCDs) of Rs.32.25 crore subscribed by the promoter group in FY19 have been treated as a part of Adjusted Net worth.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2019-20) | | | Rating History for the past 3 years | | |
|---------|-------------------------------|-------------------------------|--------------------------------|----------------|---|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 | Date(s) & Rating(s) assigned in 2016-17 |
| 1. | Term Loan | Long Term | 90.19* | IVR BB+/Stable | IVR BBB-/Stable (November 06, 2018) | - | - |
| 2. | Bank Guarantee | Short Term | 2.00 | IVR A4+ | IVR A3 (November 06, 2018) | | |

**outstanding as on December 31, 2019*

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.

Name and Contact Details of the Rating Analyst:

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| Name: Ms. Harshita Didwania Tel: (033) 46022266 Email: hdidwania@infomerics.com | Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@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. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|-------------------------|-------------------------|-------------------------|----------------------|-------------------------------------|---------------------------------|
| Term Loan | - | - | July, 2033 | 90.19* | IVR BB+/Stable |

**outstanding as on December 31, 2019*