

## WAA Solar Limited

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	33.83 (Reduced from 48.00)	CARE BBB+; Stable	Reaffirmed

Details of facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to the bank facilities of WAA Solar Limited (WSL) continues to derive strength from vast experience of its promoters in the infrastructure industry, presence of long-term power purchase agreement (PPA) with a strong counterparty i.e. Gujarat Urja Vikas Nigam Limited (GUVNL; rated CARE AA; Stable/ CARE A1+) and its established track record of solar power generation marked by satisfactory capacity utilisation factor (CUF) and timely receipt of monthly payments since July 2013.

The rating continues to factor adequate liquidity backed by presence of funded Debt Service Reserve Account (DSRA) for more than one quarter of debt servicing and sub-ordinated lien marked fixed deposit as per sanction terms, comfortable capital structure and debt coverage indicators along with reduction in guaranteed debt, and stable industry outlook for solar power segment.

The above rating strengths are, however, partially offset by vulnerability of power generation to variation in climatic conditions and technology risk associated with solar power projects, interest rate and client concertation risk. The rating also takes cognizance of need-based support required to be made to one of its three Special Purpose Vehicles (SPV), wherein WSL has extended its corporate guarantee and expected deterioration in liquidity post downward revision in tariff rates from January 2024 and July 2023 onwards for Surendranagar and Bhopal solar project respectively.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- WSL's ability to demonstrate sustained improvement in its Capacity Utilisation Factor (CUF) levels above 20% on a sustained basis, resulting in improvement of its profitability and cash flow available for debt servicing.
- Significant recovery of loans & advances/ investments in group companies or reduction in recourse nature of debt resulting in improvement in liquidity position.

#### Negative factors

- Reduction in its CUF levels below 17.50% on a sustained basis.
- Consistent delay in receipt of payments from GUVNL beyond 30 days.
- Increase in the debt levels through securitisation of receivables of existing project, leading to a reduction in the tail period or deterioration of the debt coverage indicators.
- Additional investment in group companies or increase in recourse nature of debt impacting its debt coverage indicators and liquidity position.

**Analytical approach:** Standalone audited financials of WSL along with combined cashflows of WSL and its SPVs, wherein WSL has extended its un-conditional and irrevocable corporate guarantee for the bank facilities availed by SPVs, has been considered while assigning rating to bank facilities of WSL.

### Outlook: Stable

The 'Stable' rating outlook reflects that, WSL will continue to benefit from the extensive experience of its promoters in the infrastructure industry, long- term PPA with strong counter party GUVNL and expected timely payments from the counterparty.

### Detailed description of the key rating drivers:

#### Key strengths

**Experienced promoter group with established presence in the infrastructure industry:** WSL is a part of Vadodara-based Madhav group which has demonstrated satisfactory track record in executing various solar power projects on EPC basis for third parties as well as for group companies. The group has executed more than 90 MW solar power projects till August 31, 2023 in multiple states. WSL is promoted by Mr. Ashok Khurana and his son Mr. Amit Khurana, who possess vast experience in the infrastructure industry. The promoters are duly supported by a team of experienced professionals in their day-to-day operations.

**Established track record of power generation operations and long-term PPA with GUVNL resulting in low counter party credit risk:** WSL had commissioned 10.25-MW (AC -10 MW) grid-connected solar plant in January 2012 and has

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

operational track record of over 11 years till August 31, 2023. WSL has entered into a long-term PPA of 25 years with GUVNL for supply of entire generation capacity at a fixed tariff of Rs.15/ kWh for the first 12 years (till January, 2024) and Rs.5/kWh thereafter. GUVNL is a wholly owned subsidiary of Government of Gujarat (GoG), has a strong financial risk profile. Long-term PPA with GUVNL alleviates the counterparty credit risk, ensures assured offtake and cash flow sustainability, indicated by receipt of payments from GUVNL within 5-10 days of monthly invoices raised by WSL against 30 days permissible payment period as per PPA.

**Moderate generation levels:** During FY23, WSL reported average CUF levels of 18.76% (17.89% in FY22); improvement in power generation was on account of favourable weather conditions at both the plant location and thereby TOI grew to Rs.25.81 crore (Rs.23.52 crore in FY22).

However, average CUF levels during 5MFY24 declined to 17.73% (18.31% in 5MFY23), due to cyclonic storm in the Gujarat state during mid of June – July 2023. Considering moderation in generation during peak period along with downward revision in tariff rate from January 2024 and July 2023 onwards for Surendranagar and Bhopal solar project respectively, CARE Ratings Limited (CARE Ratings) expects WSL's TOI to moderate during FY24.

**Comfortable capital structure and moderate debt service coverage indicators:** WSL's capital structure continued to remain comfortable marked by below unity overall gearing, which has further improved to 0.22x as on FY23 end (0.30x as on FY22 end) on account of scheduled repayment of its debt obligations.

Debt coverage indicators improved as indicated by PBILDT interest coverage of 4.45x in FY23 (3.58x in FY22) and total debt to GCA of 2.36 years in FY23 (3.40 years in FY22). Overall gearing adjusted for recourse nature of debt of SPVs remained high, albeit improved as on FY23 end owing to reduction in overall amount of debt guaranteed by WSL on account of scheduled repayment of debt obligations by its respective SPVs.

**Satisfactory operations of guaranteed group entities:** WSL has extended its un-conditional and irrevocable corporate guarantee towards the debt of three operational SPVs/ associates of the Madhav group namely Madhav (Phoolsagar Niwas Shahpura Corridor) Highways Private Limited (MPHPL; rated CARE BBB+; Stable/ CARE A2), Madhav (Sehora Silodi Corridor) Highways Private Limited [MSHPL; rated CARE BBB+(CE); Stable and CARE BBB; Stable (unsupported)] and Madhav Solar (Vadodara Rooftop) Private Limited [MSVRPL; rated CARE BBB+(CE); Stable, CARE BBB-; Stable (unsupported)]. While MPHPL and MSHPL are self-sustainable and generating cash surplus; MSVRPL require need-based support from WSL/ other group companies for servicing its debt obligations. CARE Ratings expects need-based support from WSL towards debt servicing of MVRSP to continue. With expected reduction in surplus levels post downward revision in tariff, the amount of support towards SPV and its funding remains crucial from the credit perspective

**Stable industry outlook:** India has an installed renewable capacity of around 125 GW (excluding large hydro) as on March 31, 2023, comprising solar power of 67 GW, wind power of 43 GW, small hydro of 5 GW, and other sources including biomass of 11 GW. There has been a significant traction in solar power installations over the past few years and the cumulative solar power capacity has surpassed the installed wind power capacity, despite its late and slow start. The overall renewable energy installations have increased at a CAGR of 17% from FY16 to FY23. Over the years, the renewable energy industry has benefitted on account of the government's strong policy support, India's largely untapped potential, the presence of creditworthy central nodal agencies as intermediary procurers, and the improvement in tariff competitiveness. Going forward, with India setting up an ambitious target of achieving 450 GW renewable capacity by 2030, the regulatory framework is expected to remain supportive. Nevertheless, challenges in terms of elevated landed cost of modules, turbines, and other ancillary products remain the key challenges for the industry. This apart, impediments in the acquisition of land and the availability of transmission infrastructure also remain key bottlenecks. However, the Indian renewable industry continues to be a preferred investment alternative for both, domestic as well as foreign investors and is expected to post robust growth going forward, which results in CARE Ratings assigning a 'Stable' outlook to the industry.

### Key weaknesses

**Vulnerability of power generation; technological risk with solar power project:** The CUF level of a solar power plant primarily depends upon solar radiation levels, climatic conditions, degradation of modules and technology used. Furthermore, the performance track record of the thin film type PV modules, used by WSL, in Indian conditions is relatively limited. Although, the modules and other equipment have been sourced from reputed suppliers, climatic variations as well as technological risk persists for the entire project duration.

**Interest rate risk:** Considering the term loan availed is on a floating rate basis and the power tariff with GUVNL is fixed, WSL's profitability remains exposed to any upward revision in interest rates.

**Foray in solar power generation under RESCO model:** WSL has been awarded Letter of Intent (LOIs) by Paschim Gujarat Vij Company Limited (rated CARE AA: Stable/ A1+) for commissioning and operation of solar power plants at multiple location in Gujarat (47.50 MW - AC capacity) under Renewable Energy Service Company (RESCO) model at a rate of Rs.3/kWh for a period of 25 years. The total estimated cost of the project is around Rs.160-180 crore, which will be funded partly through support from the government in form of grant and balance through a mix of debt and equity. The project is at a very nascent stage and WSL is yet to finalize funding pattern for the project. Execution of the above project is expected to commence from FY25 onwards subject to acquisition of land, execution of PPA and achievement of financial closure.

#### **Liquidity: Adequate**

WSL's liquidity position remained adequate characterized by defined cash-flow mechanism, maintenance of adequate funds in DSRA, comfortable tail period of five years and timely receipt of payments from GUVNL within 5-10 days of monthly invoices raised. As on June 30, 2023, WSL had funded DSRA of Rs.5.25 crore (incl. interest accrued thereon) in the form of fixed deposit (FD) [more than one quarter of debt servicing obligations] and sub-ordinated FD of Rs.1.07 crore (incl. interest accrued thereon), in line with sanction terms. Free cash and bank balance stood low at Rs.2.15 crore as on June 30, 2023 (Rs.6.34 crore as on March 31, 2023).

While cash flow available for debt servicing during FY24 is envisaged to remain adequate, it is expected to be tightly matched with repayment obligations from FY25 onwards post downward revision in tariff, resulting in low cushion for need-based support towards SPVs/ up streaming to its group companies.

**Environment, social, and governance (ESG) risks:** Not applicable

#### **Applicable criteria**

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Solar Power Projects](#)

[Infrastructure Sector Ratings](#)

#### **About the company and industry**

##### **Industry classification**

Macro Economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Generation

Incorporated in November 2009, Vadodara-based WSL is a subsidiary of Madhav Power Private Limited, promoted by Mr. Ashok Khurana and Mr. Amit Khurana. The promoters of WSL were the erstwhile promoters of MSK Projects India Limited, which was subsequently taken over by the Welspun group (now known as Welspun Enterprises Limited). WSL had commissioned 10.25- MW (AC -10 MW) grid interactive solar PV power project at District Surendranagar, Gujarat, which was operational since January, 2012. WSL signed a Power Purchase Agreement (PPA) for 25 years with GUVNL under the Gujarat Solar Policy 2009 framework for the sale of entire generated solar power. WSL has also commissioned a 0.10 MW grid interactive solar PV power project at Rajabhoj Airport, Bhopal, which was operational since July 2013. Apart from the above, WSL has sponsored Madhav group's various project specific SPVs in the road construction and solar power segments.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	23.52	25.81
PBILDT	20.35	21.02
PAT	4.94	6.49
Overall gearing (times)	0.30	0.22
Interest coverage (times)	3.58	4.45

A: Audited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** None

**Any other information:** Not applicable

**Rating history for last three years:** Please refer Annexure-2

**Covenants of rated instrument/ facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Term Loan-Long Term		-	-	March, 2032	33.83	CARE BBB+; Stable

#### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Term Loan-Long Term	LT*	33.83	CARE BBB+; Stable	-	1)CARE BBB+; Stable (21-Sep-22)	1)CARE A-; Stable (01-Oct-21)	1)CARE A-; Stable (03-Mar-21) 2)CARE A-; Stable (31-Aug-20)

\*Long term

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable

#### Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Term Loan-Long Term	Simple

#### Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

## Contact us

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