

RATING RATIONALE

26 August 2021

Azure Power India Pvt Ltd

Brickwork Ratings assigns ratings to the Term Loan Facility aggregating ₹ 507.39 Crs of Azure Power India Pvt Ltd

Particulars

Facility [#]	Rating Amount (₹ Crs)	Tenure	Rating*
Fund Based	507.39	Long Term	BWR AA-/Stable
Total	507.39	Rupees Five Hundred Seven Crores and Thirty Nine Lakhs Only	

* Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

Please refer to Annexure-I for the lender-wise details of the rated amount

Note: The assigned rating is for a project loan and relies heavily on the project's strengths

Rating Action / Outlook

Brickwork Ratings (BWR) has assigned BWR AA-/Stable to the loan facility availed by Azure Power India Pvt Ltd (APIPL or the company) for its AP100 project.

The rating draws comfort from the strong risk profile of the AP100 project with it being operational for more than four years with satisfactory levels of capacity utilisation and power generation, long-term offtake arrangement for the project with NTPC Vidyut Vyapar Nigam Ltd at a fixed tariff and track record of timely payments by the offtaker. In addition, the rating factors in the company's strong parentage with reputed international investors being the key promoters in the company, experienced and professional management team, geographically diversified portfolio with significant operational capacities, revenue visibility on account of long-term power purchase agreements (PPAs) for the operational and under-implementation capacities along with fixed tariffs for the term of the PPAs, satisfactory financial performance at the consolidated level and adequate liquidity position.

The rating, however, is constrained on account of a substantial increase in the debt levels due to continuous capacity enhancements, project execution risk associated with under-implementation assets and exposure to adverse climatic conditions.

The outlook assigned is Stable as the project is expected to continue to maintain a stable capacity utilisation factor (CUF) and receive payments from the offtaker in a timely manner. Additionally, no material deterioration in the company's consolidated financial performance is expected in the medium term. The company is also expected to receive support from the sponsor as and when required, and the same has been factored into the rating and outlook.

Key Rating Drivers

Credit Strengths:-

Comfortable performance and risk profile of AP100 Project: The project for which the rated debt has been availed has a generation capacity of 100 MW and is located in Andhra Pradesh. The project achieved COD in 2017 and has a satisfactory track record of operations for 4 years with the actual capacity utilisation being in line with the P90 estimates (~22% in FY21). The project has a long term PPA with NTPC Vidyut Vyapar Nigam Ltd for a period of 25 years at a fixed tariff of Rs.5.12/kWh and has been generating adequate cash accruals since inception to ensure the timely servicing of its debt obligations. The applicable interest rate by the lender has been recently reduced to 9.70% from 10.50%, and with that, the debt servicing ability of the project is expected to improve further. APIPL has also maintained a debt servicing reserve account (DSRA) equivalent to two quarters of principal and interest, charged to the lender for the project.

Resourceful promoters and high financial flexibility of the company: APIPL is the Indian arm of Azure Power Global Ltd (APGL), a NYSE listed entity. The group is backed by various international investors such as Caisse de dépôt et placement du Québec (CDPQ), a Canadian pension fund with a presence in more than 60 countries (more than 50% stake in the company) and OMERS Infrastructure; it manages the investments in infrastructure for OMERS, which is a defined benefit pension plan for municipal employees in the Province of Ontario, Canada. The investors have a long-term outlook and have increased their stake in the company multiple times in the past. Need-based support from the promoters to fund expansion has been factored into the rating. Additionally, being an NYSE-listed company, the company's financial flexibility is also high in terms of raising funds.

Considerable operational portfolio with a diversified geographical presence: APIPL has a presence only in the solar energy sector and has a significant operational portfolio of ~2 GW spread across multiple states such as Gujarat, Karnataka, Andhra Pradesh, Maharashtra, Punjab, Bihar, Chhattisgarh, Rajasthan, Uttar Pradesh, Delhi and Telangana. Of the total operational portfolio, nearly 1 GW capacity has an operational track record of 3 years or more, and ~1.3 GW capacity has been tied-up with with strong counterparties such as Solar Energy Corporation of India (SECI), NTPC, Gujarat Urja Vikas Nigam Ltd (GUVNL) and Bangalore Electricity Supply Company (BESCOM).

Revenue visibility due to assured offtake: The group has an operational portfolio of nearly 2 GW and projects under-implementation of 1190 MW. The company has long-term power purchase agreements in place for the entire operational, as well as under-implementation capacity. The majority of the company's operational portfolio achieved a COD in the last 5 years, with each project having a PPA for 25 years, lending revenue visibility for the company. Moreover, the renewable energy projects enjoy a must-run status from the Ministry of New and Renewable Energy (MNRE) ensuring the full off-take of the generated power. The group also did not face any curtailments on account of the covid-19 pandemic during FY21 and ongoing FY22. The weighted average tariff of all the operational projects is also comfortable at Rs. 4.25/kWh.

Comfortable consolidated financial performance: The group continues to add capacities on a YoY basis, leading to a consistent improvement in revenue and profits. The company's operating income on a consolidated basis increased by 27% in FY20 to Rs. 1302.42 Crs from Rs. 1023.70 Crs in FY19. The OPBITDA also increased by 24% in FY20 from Rs. 814.71 Crs in FY19 to Rs. 1006.35 Crs in FY20. Based on the provisional financial statements for FY21, revenue and the OPBITDA have further increased to Rs. 1521.26 Crs and Rs. 1370.03 Crs, respectively. Furthermore, additional capacities of 1 GW are likely to get commissioned in FY22, leading to further growth in revenue and profitability.

Credit Risks:-

Substantial increase in debt levels: The group has been continuously adding capacities, which has led to a substantial increase in the debt levels as well. Going forward also, the group plans to add 1 GW capacity every year, which is expected to result in an increase of Rs. 3500-4000 Crs of debt every year. The group has debt of close to Rs. 10000 Crs at the consolidated level (resulting in a gearing of more than 5x as on 31 March 2021), which is set to increase substantially on account of the under-implementation assets of 1190 MW and 4 GW of capacities in the pipeline. This would also require a considerable equity commitment from the company. Nonetheless, the company has been able to timely raise funds for all its projects in the past, and the group also has high financial flexibility, which is expected to help it in funding the required capex.

Project execution related risks: On account of the huge capacities that are under-implementation and in the pipeline, the group is exposed to project execution related risks. While the group has an adequate track record in successfully implementing large-scale utility projects, rising module costs may pose a risk to under-implementation projects and projects in the pipeline. Additionally, the group also has to set-up a module manufacturing facility with a capacity of 1 GW in line with its projects of 4 GW in the pipeline. While the group has received an LoA from SECI, the PPAs in the project are yet to be signed. The delay in the signing of the PPA is largely on account of SECI's inability to sign power sale agreements (PSA) with the discoms. SECI has been facing troubles in terms of signing PSAs for many solar projects that have been bid in recent times, and that has in turn, impacted the execution of these projects.

Exposure to risk of adverse climatic conditions: Solar power projects are dependent on favourable climatic conditions to operate at optimum levels. While the company's projects are located in different states, diversifying the risk to some extent, the group remains exposed to the risk of adverse climatic conditions due to the nature of the business.

Analytical Approach And Applicable Rating Criteria

To arrive at the rating, BWR has considered the parameters of the AP100 project, its past and projected cash flows, and track record of timely payments from the counterparty. In addition, the company's consolidated financial risk profile has been analysed, including consolidated financial statements and the consolidated DSCR analysis. List of entities consolidated are given in the annexure.

For more details, please refer to the applicable criteria at the end.

Rating Sensitivities

Positive: The rating can be revised upwards if the consolidated gearing has improved to the levels of 2.5x-3x, under-implementation projects are completed as per schedule without any significant cost overrun and the company is able to achieve projected growth in its financial performance.

Negative: The rating can be revised downwards if there are significant cost overruns in under-implementation projects, impacting their profitability, and if there is unavailability of adequate funding from the sponsor for future capex.

Liquidity Position of the Project: Superior

The AP100 project has an operational track record of more than 4 years and has been generating healthy cash accruals to meet its debt obligations. The project's cash accruals are expected in the range of Rs. 35-45 Crs over the next 5 years, in comparison with its repayment obligations in the range of Rs. 22-32 Crs. The project lenders also have exclusive access to a DSRA equivalent to two quarters of principal and interest. On account of comfortable cash generation by the project, the project is self-sustainable and not dependent on any support from promoters to meet its obligations.

Liquidity Position of the Group: Adequate

At the consolidated level, the company's liquidity position is adequate with cash and bank balances of Rs. 1050 Crs as on 31 March 2021 on a consolidated basis. APIPL's consolidated cash accruals are expected to remain comfortable in comparison with its consolidated debt obligations. The group has also been able to successfully refinance the green bonds maturing in FY23, bringing down the amount of debt to be serviced in the near term. APIPL is also in the process of raising additional equity from sponsors, which will partially be used to repay debt. Additionally, all the operational projects are self-sufficient and are backed by a DSRA in the range of 1-2 quarters as per the terms of their sanction, providing additional liquidity back-up.

Company Profile:

Azure Power India Pvt Ltd (APIPL) was incorporated in 2008 and is a leading solar energy producer in the country with an operational portfolio of ~2 GW and capacities of 1190 MW at various stages of implementation. A capacity of 342 MW comes directly under APIPL (including the AP 100 project), and the balance capacities are housed under various SPVs. In addition, the company has received an LoA from SECI for a manufacturing-linked solar project of 4 GW. The company's portfolio is geographically diversified, with a presence in multiple states such as Gujarat, Karnataka, Andhra Pradesh, Maharashtra, Punjab, Bihar, Chhattisgarh, Rajasthan, Uttar Pradesh, Delhi and Telangana. APIPL is a subsidiary of Azure Power Global Ltd, which in turn has investments from various reputed international investors and is also listed on the New York Stock Exchange.

Key Financial Indicators (Consolidated):

Key Financial Indicators			
Particulars	Unit	FY19 (A)	FY20 (A)
Operating Income	Rs. Crores	1023.70	1302.42
OPBITDA	Rs. Crores	814.71	1006.35
Net Profit	Rs. Crores	-74.65	-248.34
Debt to Equity	Times	3.42	3.69

Key Financial Indicators (Standalone):

Key Financial Indicators			
Particulars	Unit	FY19 (A)	FY20 (A)
Operating Income	Rs. Crores	1816.65	1141.40
OPBITDA	Rs. Crores	298.06	199.87
Net Profit	Rs. Crores	88.13	-16.73
Debt to Equity	Times	0.61	0.60

Note: All financials are adjusted as per BWR standards.

Non-cooperation With Previous Rating Agency If Any: NA

Key Covenants:

Covenants specific to the rated amount:

- Debt servicing reserve account (DSRA) equivalent to two quarters of principal and interest, charged to the lender for the project.
- DSCR for each operation year to be minimum 1.10x prior to the restricted payments
- TOL/TNW of the project to not exceed 3:1
- TOL/TNW of the borrower not to exceed 3:1 and 5:1 after including the contingent liabilities
- TOL/TNW of the borrower on a consolidated basis not to exceed 5:1 (any funds infused by APGL shall be considered as equity for the purpose of this calculation)
- Consolidated DSCR for each operation year to be minimum 1.10x

Rating History for the past three years (including withdrawals and suspensions)

Sl. No.	Facilities	Current Rating (Aug 2021)			Rating History		
		Type	Amount (Rs. Crs)	Rating	2020	2019	2018
1.	Term Loans	Long Term	507.39	BWR AA-/Stable	NA	NA	NA
Total			507.39	Rupees Five Hundred Seven Crores and Thirty Nine Lakhs Only			

Complexity Levels Of The Instruments: Simple

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference To Applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Power Generation Projects](#)

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Azure Power India Pvt Ltd

Annexure I - Details of Bank Loan Facilities Rated

Term Loan for the Project	
Name of Bank/FI	Amount O/S (Rs. Crs)
Indian Renewable Energy Development Agency Ltd	507.39
Total	507.39

Azure Power India Pvt Ltd

Annexure II - List of Entities Consolidated

Name	Country of Incorporation /Principal place of business	% of equity interest
		March 31, 2020
Subsidiaries		
Azure Power (Punjab) Private Limited	India	99.99%
Azure Power (Haryana) Private Limited	India	99.17%
Azure Solar Private Limited	India	99.99%
Azure Power (Rajasthan) Private Limited	India	99.99%
Azure Solar Solutions Private Limited	India	99.99%
Azure Sun Energy Private Limited	India	99.99%
Azure Urja Private Limited	India	99.99%
Azure Surya Private Limited	India	99.99%

Azure Power (Karnataka) Private Limited	India	99.99%
Azure Photovoltaic Private Limited	India	99.99%
Azure Power Infrastructure Private Limited	India	99.99%
Azure Power (Raj.) Private Limited	India	99.99%
Azure Green Tech Private Limited	India	99.99%
Azure Renewable Energy Private Limited	India	99.99%
Azure Clean Energy Private Limited	India	99.99%
Azure Sunrise Private Limited	India	99.99%
Azure Sunlight Private Limited	India	99.99%
Azure Sunshine Private Limited	India	99.99%
Azure Power Earth Private Limited	India	99.99%
Azure Power Eris Private Limited	India	99.99%
Azure Power Jupiter Private Limited *	India	51.01%
Azure Power Makemake Private Limited	India	99.99%
Azure Power Mars Private Limited	India	99.99%
Azure Power Mercury Private Limited	India	99.99%
Azure Power Pluto Private Limited **	India	99.99%
Azure Power Uranus Private Limited	India	99.99%
Azure Power Venus Private Limited	India	99.99%
Azure Power Saturn Private Limited	India	99.99%
Azure Power Thirty Three Private Limited	India	99.99%
Azure Power Thirty Four Private Limited	India	99.99%
Azure Power Thirty Five Private Limited	India	99.99%
Azure Power Thirty Six Private Limited	India	99.99%
Azure Power Thirty Seven Private Limited	India	99.84%
Azure Power Thirty Eight Private Limited	India	99.99%
Azure Power Thirty Nine Private Limited	India	99.99%
Azure Power Forty Private Limited	India	99.99%
Azure Power Forty One Private Limited	India	99.99%
Azure Power Forty Two Private Limited	India	99.99%
Azure Power Forty Three Private Limited	India	99.99%
Azure Power Forty Four Private Limited	India	99.99%
Azure Power Forty Five Private Limited***	India	99.99%

Azure Power Forty Six Private Limited	India	99.99%
Azure Power Forty Seven Private Limited***	India	99.99%
Azure Power Forty Eight Private Limited***	India	99.99%
Azure Power Forty Nine Private Limited***	India	99.99%
Azure Power Fifty Private Limited***	India	99.99%
Azure Power Fifty One Private Limited	India	99.99%
Azure Power Fifty Two Private Limited	India	99.99%
Azure Power Fifty Three Private Limited	India	99.99%
Azure Power Fifty Four Private Limited	India	99.99%
Azure Power Green Private Limited***	India	99.99%
Azure Power Maple Private Limited	India	99.99%
Aster Power Inc.	United States of America	100.00%

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