

Press Release

Azure Power Eris Private Limited (APEPL)

30 May, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 51.45 Cr
Long Term Rating	SMERA BBB/Stable (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of **SMERA BBB (read as SMERA triple B)** to the Rs. 51.45 crore bank facilities of Azure Power Eris Private Limited (APEPL). The outlook is **'Stable'**.

APEPL is a special purpose Vehicle (SPV) incorporated in 2014 as a 100 per cent wholly owned subsidiary of Azure Power India Private Limited (APIPL). APEPL has commissioned a 10MW solar power project in Bihar. The project commenced commercial operations in FY2017.

List of Key Rating Drivers and their detailed description

Strengths:

Presence of a Power Purchase Agreement resulting in low offtake risk: APEPL has entered into a 25 year Power Purchase Agreement (PPA) with North Bihar Power Distribution Company Limited (NBPDC) and South Bihar Power Distribution Company Limited (SBPDCL) at a fixed tariff of Rs.8.39 per unit (kWh).

SMERA believes that the presence of the long term PPA significantly mitigates the offtake risk associated with the solar power project. Enforcement of the PPA and timely collection of receivables from the Distribution Companies shall be critical in maintaining a healthy credit risk profile over the medium term.

Strong parentage: APEPL is a wholly owned subsidiary of APIPL. APIPL has long track-record of operations in the solar power industry. The company was promoted by Mr. Indrajeet Wadhwa and Mr. H.S. Wadhwa. The management has over five decades of experience in the renewable energy industry. APIPL reported Profit After Tax (PAT) of Rs. 14.19 cr in FY2016 on operating income of Rs. 945.13 cr vis-à-vis a PAT of Rs. 65.33 cr in FY2015 on operating income of Rs. 939.64 cr.

APIPL's credit profile is supported by its conservative financial risk profile, experienced management and well-established track-record of operations in the solar power industry. The gearing stood at 0.45 times in FY2016 as against 0.56 times in FY2015. APIPL reported comfortable interest coverage ratio of 1.71 times in FY2016 as against 3.81 times in FY2015. The company has in the past raised funds from marquee investors like the World Bank, International Finance Corporation and other Developmental Finance Institutions across the world by issuing quasi-equity instruments including Compulsorily Convertible Debentures (CCDs) and Non-Redeemable Compulsorily Convertible Preference Shares (NRCCPS).

The ultimate holding company of APIPL – Azure Power Global Limited (APGL) was recently listed on the New York Stock Exchange (NYSE). The proceeds of the Initial Public Offering (IPO) are expected to aggregate in excess of \$470 million. Following the IPO by APGL, the holdings in quasi-equity instruments issued by APIPL were transferred to APGL in exchange of listed equity shares of

APGL. The proceeds from the IPO are expected to significantly deleverage APGL and its group companies and improve their overall financial flexibility.

The rating assumes ongoing support from APIPL to APEPL. The SPV is expected to significantly benefit from the operational, managerial and financial support extended by APIPL to APEPL over the near to medium term.

Weaknesses:

Short track-record of operations: APEPL has a track-record of approximately eight months. The company reported an average Plant Load Factor (PLF) of 14.39 per cent in FY2017. The rating is constrained by the short track-record of operations of the company.

SMERA believes that APEPL's credit risk profile shall remain susceptible to the company's ability to maintain an optimum PLF over the medium term. Lower than expected PLF can result in significant shortfall in operating cashflows vis-à-vis debt servicing commitments of the company.

Susceptibility of operating performance to timely realisation of receivables from Discoms:

APEPL's customers are North Bihar Power Distribution Company Limited (NBPDC) and South Bihar Power Distribution Company Limited (SBPDC). Since the credit profiles of these discoms are subdued, the timely realisation of receivables continues to be a key credit monitorable.

Certain recent policy initiatives like Ujwal Discom Assurance Yojna (UDAY) scheme are expected to support the discoms by reducing their debt burden. However, the long term credit profiles of these discoms will be dependent on their ability to improve their key operating parameters by various measures like reduction of Aggregate Technical & Commercial (AT&C) losses and improvement in collection efficiency.

Exposure to regulatory risks related to the solar power industry in India: The performance of the solar power industry in India is dependent on the regulatory environment surrounding the industry. There has been a significant decline in cost of solar power primarily due to a marked decline in Photo-Voltaic (PV) cell prices in the recent past.

SMERA believes that changes in renewable energy related policies resulting in fewer solar power purchase commitments for Discoms and/or availability of low cost power from other sources can result in increased offtake risk for APEPL.

Analytical approach: SMERA has taken a standalone view of APEPL. The rating has been notched up by factoring in the ongoing support from APIPL over the near to medium term.

Applicable Criteria

- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>
- Group/Parent Notch-up: <https://www.smera.in/criteria-group.htm>

Outlook: Stable

SMERA believes that APEPL will maintain a stable risk profile of the medium term on account of the presence of a Power Purchase Agreement, experienced management and ongoing support from the parent. The outlook may be revised to 'Positive' in case of significant improvement in the PLF and/or in case of substantial improvement in the credit risk profile of APIPL. Conversely, the outlook may be revised to 'Negative' in case of lower than expected PLF of the project or in case of significant delays in collection of receivables from the discoms. Significant deterioration in the credit risk profile of APIPL may also entail a 'Negative' outlook.

About the Rated Entity

APEPL was incorporated in December, 2014 as a Special Purpose Vehicle (SPV) to own and operate a 10 MW solar power project in Bihar. It is a 100% wholly owned subsidiary of APIPL.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: NA

Rating History for the last three years:

Name of Instrument /Facilities	FY2017			FY2016		FY2015		FY2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Term Loan	LT	51.45	SMERA BBB/Stable (Assigned)	-	-	-	-	-	-

*Annexure – Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs Crore)	Ratings/ Outlook
Term Loan	N.A	N.A	N.A.	51.45	SMERA BBB/Stable (Assigned)

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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