India Ratings & Research
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India Ratings Revises Adani Green Energy's Outlook to Negative; Affirms 'IND A+'

Mar 07, 2023 | Power Generation

India Ratings and Research (Ind-Ra) has revised Adani Green Energy Limited's (AGEL) Outlook to Negative from Stable while affirming the Long-Term Issuer Rating at 'IND A+'. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Fund-based limits	-	-	-	INR5.15	IND A+/Negative/IND A1+	Affirmed; Outlook revised to Negative from Stable
Non-fund-based limits	-	-	-	INR105.05	IND A+/Negative/IND A1+	Affirmed; Outlook revised to Negative from Stable
Proposed term loan/ working capital facilities				INR11.8	IND A+/Negative/IND A1+	Affirmed; Outlook revised to Negative from Stable

Analytical Approach: Ind-Ra continues to take a consolidated view of AGEL and its subsidiaries and has analysed the cash flow upstreaming available to AGEL from its subsidiaries while arriving at the ratings as per the bond documentation. As per various bond documents entered into by SPVs/subsidiaries, money can be upstreamed after meeting the respective restricted payment conditions.

The Negative Outlook reflects the risks regarding the terms of refinancing the upcoming debt maturities, interest rate risks, access to capital markets for raising equity, tie-up of debt to support take-out of construction facility (USD1.64 billion), and leveraging up the existing unlevered assets through fresh borrowings. Additionally, the ability of the group to churn assets for equity release to fund new projects through either platformisation of part of the capacity or outright sale would continue to be monitored.

The promoters have raised USD1.87 billion from GQG Partners Inc. to shore up its liquidity buffers. However, given the commitment at the promoter level to deleverage and retire the outstanding loan against shares, Ind-Ra would continue to monitor the ability of the promoters to infuse further equity for the under-construction (UC) projects and towards working capital requirements as required.

Key Rating Drivers

Large UC Portfolio and Funding Requirement: AGEL has an UC/near completion portfolio of 12GW for execution over FY24-FY28, which includes around 8GW of solar capacity under the manufacturing-linked contract with Solar Energy Corporation of India Limited (SECI). Ind-Ra, in its discussion with the management, understands that the capex has been phased out over a longer duration until FY28 depending on the legal completion risk than the previous assessment of achievement of 20GW by FY26. In the past, the company has relied on three means for funding the equity requirements of the UC projects, namely i) leveraging at the holding company with debt sizing in relation to free cash flow to equity (FCFE) and/or cash flow upstreaming from the underlying operational projects, ii) promoter infusion through sub-debt, perpetual securities and loans and advances, and iii) platformisation of capacity.

AGEL as part of its capital management philosophy has taken a construction finance facility (USD1.64 billion) for hybrid projects from a consortium of international lenders and has non-fund-based limits at holding company from domestic lenders to execute on the UC projects. Post the completion of a project, the limits are freed up through a takeout/go to market through a term debt or capital market issuance at the respective project level.

Ind-Ra assesses AGEL to be commercialising around 2GW annually over FY24-FY25, estimated at a total capex of INR200 billion-230 billion, to be funded in debt:equity of 70:30. For the equity funding required, Ind-Ra estimates a FCFE from operational projects at around INR50 billion including debt upsizing. Additionally, the company has received a favourable order in its case against Tamil Nadu Generation and Distribution Corporation Limited (debt rated at 'IND BBB'/Negative), which would release INR9 billion. As per management, additional funds could also be freed up by way of debt tie-ups in some projects which are largely funded through equity. Any shortfall, however, could require promoter fund infusions or monetisation/platformisation of assets. Furthermore, the FCFE would remain dependent upon the respective asset level covenant structuring, which will remain a key monitorable. Additionally, Ind-Ra will continue to monitor the go-to-market strategy of the company and ability to churn capital from a liquidity perspective.

Liquidity Indicator – Adequate: AGEL has large upcoming maturities of USD750 million at the standalone level and at restricted group 1 of USD500 million due in 2024. The servicing of the USD750 million facility at the standalone level rests on the ability of the SPVs to upstream FCFE. Any restriction on cash upstreaming beyond those stipulated by the lenders would remain a key monitorable as would be the situation in the dollar refinancing market. AGEL had cash balances of INR47 billion (including restricted balances/debt service reserve account) and unutilised limits of INR63 billion at end-December 2022. As per group's public disclosures, AGEL has credit lines of USD800 million and an inbound US private placement offer of USD350 million for refinancing needs. Any changes to the proposed refinancing plans would remain a key monitorable. Furthermore, the terms of the refinanced debt or a higher-than-expected funding cost on account of the higher premium prevailing on the group's long tenured bonds would be key monitorables as the same could lead to a lower FCFE than being forecasted by Ind-Ra.

Moderate Credit Metrics: During 9MFY23 AGEL's total gross external debt stood at INR454 billion (FY22: INR453 billion) and INR59 billion of non-convertible debentures from Total Solar Singapore Pte Limited (Total) and other party debts (FY22: INR78 billion). The gross debt includes INR15 billion of letter of credit, USD1.56 billion of construction facility and USD750 million holdCo bond taken for funding equity financing of UC projects. Excluding the debt for UC projects, the gross debt for the operational portfolio stood at INR329 billion at end-December 2022.

AGEL reported consolidated revenues of INR51.9 billion during 9MFY23 (FY22: INR51.3 billion), EBITDA of INR35.3 billion (excluding derivative losses of INR8.65 billion; FY22: INR35 billion, derivative gain of INR0.2 billion) and interest coverage ratio of 1.44x (FY22: 1.35x).

Ind-Ra estimates the net leverage (net debt/EBITDA) to remain elevated in the medium term (FY22: 14x, FY21: 10.4x) on account of the additional debt tie-ups for new capacities, debt upsizing of operational assets and replacing of non-fun-based lines with takeout facilities, while full-year EBITDA for the assets commissioned during the year may not flow in. On a run-rate EBITDA basis, although lower, the leverage is expected to remain higher than peers at over 7x in the medium term. Ind-Ra will continue to monitor the leverage, and higher-than-agency expected deterioration in leverage could be a key rating monitorable.

Sound Operating Parameters of Operational Assets: The ratings continue to reflect the strength of the counterparty profile, execution capability, long-term PPA for the capacity, declining debtors post the introduction of the Late Payment Surcharge scheme, availability of large resource potential to execute capacity (around 40GW), healthy plant load factors (9MFY23: solar – 24%; wind: 27.1% ; FY22: solar – 23.8%; wind – 30.8%) and operating parameters at a portfolio level. AGEL has a strong portfolio as reflected in the commissioned capacity of 8GW with 70% capacity being tied up with sovereign counterparties (SECI/NTPC Limited ('IND AAA'/Stable)/Adani Electricity Mumbai Limited ('IND AA+'/Stable) with 25-year PPAs. Also, a significant portion of UC capacity is with strong counterparties (SECI/NTPC/NHPC Limited ('IND AAA'/Stable)), thus providing visibility on EBITDA to cash flow conversion ratio being healthy as the portfolio expands. During 9MFY23, AGEL's debtors declined to INR12.4billion (FY22: INR18.1 billion), supporting cash flows.

Rating Sensitivities

Outlook Revision to Stable: A sustained reduction in the net leverage, reasonable certainty on future debt tie-ups of debt and equity funding, successful and timely completion of UC projects, and stabilisation of assets with sound operating parameters enabling cash flow upstreaming at the holdco could lead to an Outlook revision back to Stable.

Negative: Any of the following, on a sustained basis, could be negative for the ratings:
i) delays in the completion of UC projects
ii) delays in the tie-up of funding/refinancing facilities at either the SPV or the holdco level
iii) a lower-than-expected operating performance leading to lower-than-expected EBITDA generation and lower cash flow upstreaming
iv) an increase in the net leverage due to higher debt-funded capex

Company Profile

Founded in 2015, AGEL is a part of Adani Group. AGEL has around 20.0GW renewable energy portfolio across the country with 8GW operational and remaining UC. AGEL is a listed company with promoters holding a 57.26% stake. Additionally, Total holds 19.75%% equity stake in AGEL.

FINANCIAL SUMMARY

Particulars	9MFY23	FY22	FY21
Revenue (INR billion)#	51.9	51.3	31.2
EBITDA (INR billion)#	35.3	35.1	22.3
EBITDA margin (%)	68.0	68.4	71.5
EBITDA/finance cost (x)	1.44	1.35	1.1
Net debt/EBITDA (x)*		14.0	10.4
Source: AGEL, Ind-Ra # Including income and cost of traded goods and EPC contracts and excluding derivative gains/losses * Net debt excludes DSRA			

APPLICABLE CRITERIA

Corporate Rating

Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Rating Watch/Outlook				
	Rating Type	Rated Limits (billion)	Rating/Outlook	16 February 2022	17 November 2020	3 July 2020	13 February 2020	I November 2019
Issuer rating	Long-term	-	IND A+/Negative	IND A+/Stable	IND A+/Stable	IND A/Rating Watch with Developing Implications	IND A/Rating Watch with Developing Implications	IND A/Stable
Non-fund-based limits	Long-term/Short-term	INR105.05	IND A+/Negative/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A/Rating Watch with Developing Implications /IND A1/Rating Watch with Developing Implications	IND A/Rating Watch with Developing Implications /IND A1/Rating Watch with Developing Implications	IND A/Stable/IND A1
Fund-based limits	Long-term/Short-term	INR5.15	IND A+/Negative/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A/Rating Watch with Developing Implications /IND A1/Rating Watch with Developing Implications	IND A/Rating Watch with Developing Implications /IND A1/Rating Watch with Developing Implications	IND A/Stable/IND A1
Proposed term loan/ working capital facilities	Long-term/Short-term	INR11.8	IND A+/Negative/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	Provisional IND A/Rating Watch with Developing Implications /Provisional IND A1/Rating Watch with Developing Implications	Provisional IND A/Rating Watch with Developing Implications /Provisional IND A1/Rating Watch with Developing Implications	Provisional IND A/Stable/Provisional IND A1

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Non-fund-based limits	Low

Fund-based limits	Low
Proposed term loan/working capital facilities	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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