CareEdge Global assigns Long Term Foreign Currency Rating of 'Provisional CareEdge BBB+/Stable' to the proposed notes of Adani Green Energy Limited's Hybrid Restricted Group 1 (RG1)

Proposed up to USD650 million senior secured notes	Provisional CareEdge BBB+/ Stable

CareEdge Global has assigned 'Provisional CareEdge BBB+/Stable' to Adani Green Energy Limited Hybrid Restricted Group 1's (AGEL Hybrid RG1) proposed issuance[1] up to USD650 million 20-year US dollar senior secured notes.

AGEL has created the restricted group, comprising its three step-down wholly owned subsidiaries, Adani Hybrid Energy Jaisalmer One Limited, Adani Hybrid Energy Jaisalmer Two Limited and Adani Solar Energy Jaisalmer One Private Limited. These special purpose vehicles (SPVs) have a total wind-solar hybrid operational capacity of 1,140 MW (21% wind and 79% solar). These three SPVs are co-issuers to the proposed notes. The structure involves cross guarantees from each of the three SPVs.

CareEdge Global has reviewed draft transaction documents, including offering circular, while assigning the provisional rating. The provisional rating will be converted into a final rating on receipt of executed versions of transaction documents, such as note trust deed, project account deed, and security trustee & intercreditor deed, in line with the draft documents.

Rating Rationale
The rating is driven by high predictability of cash-flows owing to long-term fixed-priced power purchase agreements (PPAs), strong structural protections (such as distribution restrictions, debt resizing provision, and sweep mechanism), comfortable financial metrics (average debt service coverage ratio [DSCR] of 1.4-1.5x, and comfortable operational risk profile (use of proven technology and equipment from reputed suppliers, operational track record of about two years, and generating power in line with P90 level). These credit strengths are partially mitigated by exposure to resource risk inherent in renewable energy, particularly the wind resource, a moderate exposure to currency risk, and a moderate revenue counterparty profile.

CareEdge Global has evaluated these three SPVs on a combined basis, due to structural features and high cash-flow fungibility, and has applied its project finance methodology to rate these proposed notes.

[1] *To refinance the existing debt without any additional top-up*

Key Rating Drivers

Strengths

High predictability of cash-flows owing to long-term fixed-priced power purchase agreements

AGEL Hybrid RG1's revenue is fully contracted under 25-year fixed price PPAs with Solar Energy Corporation of India (SECI) for the entire capacity of 1,140 MW. SECI, fully owned by the Government of India (GoI), is one of the implementing agencies for the development and expansion of renewable energy capacity in India. Tariffs are fixed for 25 years and are competitive, ranging from Rs 2.67 to Rs 2.69/kWh (~USD0.032/kWh). Based on these factors, CareEdge Global believes that AGEL Hybrid RG1 has high predictability of cash-flows.

AGEL Hybrid RG1 projects are eligible for compensatory tariff arising from any 'change in law', as per PPA terms. The projects filed claims on account of levy of safeguard duty on import of solar modules and changes in indirect taxes related to certain project components. Barring the 390 MW project, other two projects have received favourable orders for change in law compensation. CareEdge Global considers such compensatory tariffs once the final order is received from the regulator.

Strong structural and legal protections

These three SPVs are co-issuers to the proposed notes. The structure involves cross guarantees from each of the three SPVs.

Each SPV is servicing its own share of the note and extending cash-flow support for the other SPVs of the restricted group. As a result, the restricted group has high cash-flow fungibility and common debt covenants. Furthermore, the restricted group is ring fenced and has a bankruptcy remote structure.

AGEL Hybrid RG1 has various cash-flow protection mechanism for noteholders such as graded distribution linked to DSCR, and debt resizing linked to project life coverage ratio (PLCR; 1.75x). Distribution is restricted from 18th year onwards to cover final balloon principal and interest repayment. We have provided a one-notch uplift to the core project credit profile on account of these legal and structural features.

Comfortable financial risk profile

The proposed notes have a substantially amortising structure with 90% repayment during the 20-year tenor. Therefore, CareEdge Global has factored in financial metrics applicable for amortising structure. In our base case, the annual DSCR over the debt maturity is comfortable at 1.4-1.5x. The residual refinancing risk, although low as the bullet is only 10%, is mitigated due to healthy PLCR.

Funds from Operations (FFO) to Debt and Debt to EBITDA ratio are at 8-10% and 5-5.5x respectively, indicating a moderate leverage. Our base case factors in a receivables cycle of two months, given a track record of timely payment by both the counterparties. The structure also has a standard two quarter forward debt service reserve account (DSRA) for both principal and interest payments.

Comfortable operational risk profile

AGEL Hybrid RG1's projects are based on commercially proven solar (Solar Photovoltaic) and wind technologies. Solar modules are sourced from reputed suppliers, LONGi Solar and Jinko Solar, while the wind turbines generators are from Suzlon Energy and Siemens Gamesa.

AGEL Hybrid RG1’s all wind and solar hybrid projects, are co-located in Jaisalmer, Rajasthan in the Thar desert in north-west of India, which has one of the best solar irradiance and wind speed in India. Furthermore, compared to standalone wind or standalone solar, wind-solar hybrid projects are better placed in terms of standard deviation of power generation, addressing peak power demand in the evening and grid stability. We have lowered our base case power generation assumption at P90 by 2% on account of clipping losses[2] and volatility in wind power generation. Renewable energy projects are accorded must run status in India thereby reducing curtailment risk.

AGEL Hybrid RG1 assets have a 7-year operational and maintenance (O&M) contract with Adani Infrastructure Management Service Ltd (AIMSL, an Adani group company) with annual escalations. AIMSL has a large fleet of projects, and advanced O&M technologies and monitoring systems. AIMSL has back to back arrangement with wind equipment providers for the O&M of wind turbines. Nonetheless, given that O&M contract tenor is shorter than that of the note tenor, there exists a risk of higher-than-expected O&M costs on the expiry of O&M contracts. We have factored higher escalations in O&M costs, after the expiry of the initial contract period, in our base case assumptions.

All projects have an operational track record of about two years, with performance at portfolio level in line with P90 estimates. The generation on wind component of hybrid plant was impacted due to lower wind speed resulting in underperformance in wind component of hybrid plant. Overall, there is sufficient headroom in the actual generation as against the PPA terms thereby minimizing any risk of penalties from offtakers. Based on these factors, CareEdge Global believes that AGEL Hybrid RG1 has a comfortable operational risk profile.

Weaknesses

Exposure to currency risk

AGEL Hybrid RG1 has inherent currency risk as the revenue is in Indian rupee while debt servicing is US dollar denominated. These risks are partly mitigated by the issuers’ commitment to fully hedge the currency risk (for both the principal and interest) throughout the tenure of the instruments. This is further supported by a board approved policy of hedging 95% currency risk and 75% interest rate risk throughout

[2] *Portion of loss in power generation due to cumulative solar and wind generation exceeding the PPA or awarded MW capacity*

the life of the instrument.

Typically, hedge instruments in India are available for up to 5 years and need to be rolled over. The hedge roll-over premiums and availability are market-linked. We have factored in annual hedging cost of 3.25% as part of interest cost. In our stress case, we have assumed an annual hedging cost of 3.75%. CareEdge Global expects the DSCR to remain within the tolerance level of ‘BBB+’ in the stress case as well.

CareEdge Global views currency risk at moderate level and has accorded a negative modifier of 1 notch on account of currency risk, given the operational intensity and risks related to ensure fully hedged protection over the entire tenure of the instrument.

Exposure to resource risk in renewable energy, particular wind resource
Renewable energy projects have an inherent exposure to resource risk. Solar irradiance has largely been stable as reflected in relatively lower standard deviation in solar power projects. Conversely, wind speed has been varying both intra year and inter year. Furthermore, wind power generation may be impacted due to changes in wind patterns, and other climatic conditions.

In our stress case, we have factored in higher degradation in solar modules (vs. base case assumption of 0.5%), generation loss of 5% (over and above 2% adjustment on account of clipping loss and volatility in wind power generation in the base case), and higher escalations in the O&M costs. AGEL Hybrid RG1 has exhibited high resilience in these stress assumptions.

Moderate revenue counterparty profile
CareEdge Global assesses revenue counterparty risk on two parameters i.e., creditworthiness and payment track record.

SECI, owned by GoI; rated **‘CareEdge BBB+/Stable (Unsolicited)**, is one of the implementing agencies for new and renewable energy projects in the country. We believe SECI’s credit profile is strongly linked with that of GoI, given full ownership and strategic importance in a key priority domain. SECI has been making timely payments to AEGL Hybrid RG1’s SPVs for about two years.

Outlook: Stable
The stable rating outlook reflects CareEdge Global’s expectation that AGEL Hybrid RG1's financial metrics will remain within the tolerance level of ‘BBB+’ rating over the medium term, supported by its fixed price long-term power purchase agreements, strong structural features, and comfortable operating profile.

Liquidity
AGEL Hybrid RG1 has a strong liquidity profile with expected cash-flows likely to be sufficient to cover its debt servicing and operational expenses. In addition, the structure mandates upfront DSRA creation for 2 quarters of principal and interest obligations. Further, the restricted group may avail working capital facility of up to

Rs.500 crore[3] thereby providing additional cushion.

Rating Sensitivities

Upward factors

- Revision in rating outlook to ‘Positive’ on India’s credit rating and revenue counterparty by CareEdge Global
- Significant improvement in operating performance leading to FFO to Debt Ratio and PLCR sustaining above 12% and 2x, respectively

Downward factors

- Revision in rating outlook to ‘Negative’ on India’s credit rating by CareEdge Global
- Downward revision in revenue counterparty assessment of SECI
- Significant deterioration in AGEL Hybrid RG1’s operating performance leading to weaker than expected cash flows and DSCRs

Environmental, Social and Governance (ESG) considerations

AGEL Hybrid RG1 benefits from positive sectoral trends and the group’s strong presence and focus on the renewable energy sector.

CareEdge Global notes that all three assets are in Jaisalmer, which is a periphery region for the Great Indian Bustard (GIB). We understand that as per the latest Honourable Supreme Court of India ruling, there is no impact on project operations due to GIB issue. Two projects (450 MW and 300 MW) use robotic cleaning for solar panels thereby minimizing the use of water in a water starved region.

Governance risk is moderate mainly on account of concentrated shareholding, partially mitigated by the non-recourse ringfenced structure. Furthermore, to ensure bankruptcy remoteness, two independent directors on the Board of each asset of the restricted group will have veto for any voluntary insolvency declaration.

List of combined entities

1. Adani Hybrid Energy Jaisalmer One Limited
2. Adani Hybrid Energy Jaisalmer Two Limited
3. Adani Solar Energy Jaisalmer One Private Limited

Solicitation Status

These ratings are solicited. The management has provided information and meetings to CareEdge Global analytical team for the rating.

Rating History

Instrument	Type	Rating	Date
Senior Secured Notes	Long Term Foreign Currency (Solicited)	Provisional CareEdge	November 18, 2024

[3] *USD59.2 million considering USD-INR exchange rate of 84.48 as on November 15, 2024*

BBB+/Stable

Criteria Applied
CareEdge Global's Rating Methodology for Project Finance

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