India Ratings & Research
A Fitch Group Company

# India Ratings Revises Mundra Solar PV’s Outlook to Stable; Affirms ‘IND BBB+’

**24**

MAY 2019

By Harsha Sodhani

India Ratings and Research (Ind-Ra) has revised Mundra Solar PV Limited’s (MSPVL) Outlook to Stable from Positive while affirming its Long-Term Issuer Rating at ‘IND BBB+’. The instrument-wise rating actions are given below:

| Instrument Type | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of Issue (million) | Rating/Outlook | Rating Action |
|---|---|---|---|---|---|---|
| Long-term loan | - | - | FY26 | INR12,845.6 (reduced from INR 13,970) | IND BBB+/Stable | Affirmed; Outlook revised to Stable from Positive |
| Fund-based limits | - | - | - | INR860 | IND BBB+/Stable/IND A2 | Affirmed; Outlook revised to Stable from Positive |
| Proposed fund-based limits* | - | - | - | INR3,140 | Provisional IND BBB+/Stable/Provisional IND A2 | Affirmed; Outlook revised to Stable from Positive |
| Non-fund-based limits | - | - | - | INR5,275 (reduced from INR 7,275) | IND A2 | Affirmed |
| Proposed non-fund-based limits* | - | - | - | INR5,305 (increased from INR3,305) | Provisional IND A2 | Affirmed |

*The ratings are provisional and shall be confirmed upon the sanction and execution of the loan documents for the above facilities by MSPVL to the satisfaction of Ind-Ra.

## KEY RATING DRIVERS

**Lower-Than-Expected Volumes and Profitability**: The Outlook revision reflects MSPVL's significant underperformance in terms of sales volumes and operating profitability in FY19. As per FY19 provisional financials, the company achieved volumes of 600MW (FY18: 580MW), almost 30% lower than Ind-Ra's base case estimates, on account of various one-off industry-wide issues. Consequently, MSPVL reported operating losses of INR163 million in FY19 as against a profit of INR3.4 billion in FY18. The lack of clarity on the implementation of safeguard duty and related aspects for most part of FY19, along with a considerable fall in solar module/wafer prices globally, led to deferment of purchases by the developers, resulting in lower offtake and inventory mark downs.

The management estimated inventory losses of INR0.8 billion in FY19. Adjusted for inventory losses, Ind-Ra believes the reported gross margin per unit of USD7-7.5 cents/watt(W) in FY19 (although lower by 6 cents/W yoy due to limited supplies to the premium domestic content requirement market) would have been only marginally lower than Ind-Ra's base case estimates. Ind-Ra expects significant recovery in volumes and profitability in FY20 as MSPVL emerges from these one-off industry-wide issues and strengthens its business profile by diversifying into EPC services for solar developers. Inability to ramp up volumes and profitability during FY20 will be a key rating sensitivity.

**Delay in Receipt of Capex Subsidy:** The Outlook revision also factors in continued delays in receipt of the capex subsidy of INR3.42 billion from the central government. Ind-Ra's base case had factored in the receipt of capital subsidy and the proportionate reduction of the term debt and promoter debt at the end of FY18/beginning of FY19. The company has received final approval under Modified Special Incentive Package Scheme and is likely to receive the subsidy by FY20. However, any significant delays in the receipt of subsidy beyond FY20 will be a credit negative.

**Deterioration in Credit Metrics; Weak Liquidity:** The delay in the receipt of capex subsidy as well as the operating losses, led to higher-than-expected net leverage (net debt including promoter debt/EBITDA) in FY19 (FY18: 7.08x). The company's gross debt (including promoter debt) reduced to INR17.45 billion in FY19 (FY18: INR22.14 billion), primarily due to the replacement of the promoter debt (FY19: INR0.56 billion, FY18: INR4.5 billion) through equity-like instruments. MSPVL's gross interest coverage was below 1.0x in FY19 (FY18: 2.45x).

During FY19, the company's debt servicing was largely met through internal accruals and fresh infusion by the promoters of INR4.5 billion in the form of compulsorily convertible debentures, given its weak liquidity position as reflected in low cash and cash equivalents of INR128 million in FY18 and negative cash flow from operations during FY19. Additionally, of the sanctioned fund-based working capital lines of INR1.61 billion, 69% remained utilised, on an average, in the 12 months ended January 2019. Ind-Ra expects the interest coverage and the net leverage to improve to 2.0x and 5.0x, respectively, in FY20, owing to the significant ramp up in the volumes and profitability.

**Favourable Government Policies:** The ratings reflect MSPVL's competitive positioning in the domestic market and its ability to capture the policy benefits extended by the government to module/cell manufacturers. On 30 July 2018, the government had implemented a 25% safeguard duty (as against a proposed duty of 70%) on the import of cells and modules from China and Malaysia, which is to be phased down over two years from the date of implementation. Further, the government has approved the Ministry of New & Renewable Energy's proposal for the implementation of Central Public Sector Undertaking Scheme for setting up 12GW of grid-connected solar power projects by the government producers over FY20-FY23. These measures, albeit in a limited way, have restored the price competitiveness and created a guaranteed offtake market for domestic solar modules for the next few years.

**Strong Sponsors:** MSPVL is promoted by Adani Green Technology Limited, which in turn is held by Adani Enterprises Ltd and Adani Properties Private Limited in the ratio of 51:49. AEL had given corporate guarantees till achievement of the COD or creation of the DSRA, whichever is later. AEL's guarantee has fallen off with the creation of the DSRA in December 2018. The group has strong experience in project execution of larger size and complexity, and has built a significant presence in the renewable energy value chain, both as a developer and a manufacturer. The promoters have demonstrated support to the company during the construction as well as the ramp up phase. Given the project is a part of group's strategic investment in the solar value chain, Ind-Ra believes the sponsors would continue to extend support, as and when necessary.

**Moderate Demand and Margin Risk:** At end-April 2019, MSPVL had an order book of 700MW (about seven months of revenue visibility), of which domestic orders accounted 47%, followed by exports (37%) and EPC (17%). Ind-Ra expects the demand risk to be moderate for MSPVL owing to the assured offtake for domestic module manufacturers through Central Public Sector Undertaking Scheme and attractive exports markets such as the US, given their continuity of 30% tariff on the import of Chinese solar modules.

Ind-Ra expects MSPVL's gross margin/unit to stabilise at USD 6.5-7.5 cents/W over FY20-FY22 during the duration of the safeguard duty and expected Central Public Sector Undertaking Scheme tenders/scheme, post which it is likely to compress as competition surges. The ratings factor in the timely execution of orders with a blended gross margin/unit of USD6.5-7.5cents/W. Inability to timely execute the order book and/or maintain the gross margin will be a key rating sensitivity.

## RATING SENSITIVITIES

**Positive:** Favourable operating environment coupled with order book visibility, leading to improved volumes with sustained gross margins, and timely receipt of the subsidy resulting in net leverage (including promoter debt) reducing below 3.75x, on a sustained basis, will be positive for the ratings.

**Negative:** Non-receipt of the subsidy and/or inability to significantly ramp up volumes and improve the gross margins, resulting in net leverage sustaining above 4.75x, will be negative for the ratings.

## COMPANY PROFILE

MSPVL has a 1.2GW photovoltaic cell and module manufacturing capacity - 900MW multi-crystalline, 200MW mono-crystalline and 100MW bifacial-mono module. The facility is located at Mundra Special Economic Zone.

**FINANCIAL SUMMARY**

| MSPVL | FY19 (Provisional) | FY18 |
|---|---|---|
| Revenue (INR million) | 13,945.6 | 17,481.9 |
| EBITDA (INR million) | -164.3 | 3,108.9 |
| Finance costs (INR million) | 2,850.9 | 1,270.8 |
| Gross debt (including related party loans) (INR million) | 17,450.3 | 22,142.5 |
| Gross debt (excluding related party loans) (INR million) | 16,894.2 | 17,614.7 |
| EBITDA margin (%) | -1.2 | 17.8 |
| EBITDA/Gross finance cost (includes interest on related party loans) (x) | n.a. | 2.45 |
| Source: MSPVL | | |

## RATING HISTORY

| Instrument Type | Current Rating/Outlook | | | Historical Rating/Outlook | |
|---|---|---|---|---|---|
| | Rating Type | Rated Limits (million) | Rating | 9 March 2018 | 10 November 2016 |

| | | | | | |
|---|---|---|---|---|---|
| Issuer rating | Long-term | - | IND BBB+/Stable | IND BBB+/Positive | IND BBB/Stable |
| Long-term loan | Long-term | INR12,845.6 | IND BBB+/Stable | IND BBB+/Positive | IND BBB/Stable |
| Fund-based limits | Long-term/Short- term | INR4,000 | IND BBB+/Stable/IND A2 | IND BBB+/Positive/INDA2 | Provisional IND BBB/Stable/Provisional IND A3+ |
| Non-fund-based limits | Short-term | INR10,580 | IND A2 | IND A2 | - |

## COMPLEXITY LEVEL OF INSTRUMENTS

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

## SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

## ABOUT INDIA RATINGS AND RESEARCH

**About India Ratings and Research:** India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

## DISCLAIMER

ALL CREDIT RATINGS ASSIGNED BY INDIA RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.INDIARATINGS.CO.IN/RATING-DEFINITIONS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE WWW.INDIARATINGS.CO.IN. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. INDIA RATINGS' CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

## Applicable Criteria

Corporate Rating Methodology

## Analyst Names


Primary Analyst

**Harsha Sodhani**

Senior Analyst
India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block.
Bandra Kurla Complex Bandra (East), Mumbai 400051
+91 22 40001792

Secondary Analyst

**Nitin Bansal**

Senior Analyst
+91 11 43567230

Committee Chairperson

**Prashant Tarwadi**

Director
+91 22 40001772

Media Relation

**Namita Sharma**

Manager – Corporate Communication
+91 22 40356121