



Rating Rationale

Mundra Solar PV Ltd

29 July 2019

Brickwork Ratings reaffirms the ratings for the Bank Facilities of ₹ 46 Crores of Mundra Solar PV Ltd (MSPVL or the ‘Company’).

Particulars

Facility	Amt Rated (Rs in Cr)		Tenor	Rating History	Rating based on current review
	Previous	Present		(July 2019)	Reaffirmation
Financial Bank Guarantee	46	46	Long Term	BWR A- (SO)* (Pronounced as BWR A Minus Structured Obligation) Outlook - Stable	BWR A- (SO)* (Pronounced as BWR A Minus Structured Obligation) Outlook - Stable

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

SO refers to Structured Obligation which indicates credit enhancement derived from the security cover of 25% cash margin, and 1.5x pledge of shares of Adani Ports and Special Economic Zone Ltd. (APSEZ)/ Adani Transmission Ltd. (ATL), for the remaining 75%.

Rating: reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the Company’s Audited financial results up to FY 19, publicly available information and information/clarifications provided by the Company’s management.

The rating factors, *inter alia*, strong parentage, successful commissioning of the plant in May 2017 at the Mundra Solar PV Ltd, favorable Government policies (including subsidies and safeguard duties) to support the Solar Manufacturing Industry in India, comfortable security and availability of liquidity in the form of cash margin and pledge of listed shares as detailed above.

However, the rating is constrained by short track record of manufacturing in a high technology oriented business, stiff competition in the solar PV cell and module manufacturing segment on account of cheap imports from China, increasing overall debt levels of Adani Group.

Analytical Approach: The rating is assigned for the Financial Bank Guarantee of Rs.46 Cr issued in favour of project lenders of Mundra Solar PV Ltd. in lieu of Debt Service Reserve Account maintenance (DSRA), as required by project term lenders. DSRA requirement is for one quarter of term debt servicing and includes principal & interest payable. It is further clarified that this is not a rating for the project loan



availed by the company from its project lenders. BWR has assigned a Structured Obligation rating, deriving credit enhancement from the security cover of 1.5x by the pledge of shares of APSEZ/ATL, which will cover 75% of the bank guarantee amount, besides 25% cash margin.

Description of Key Rating Drivers

Credit Strengths:

Strong Parentage: MSPVL is a 100% subsidiary of Adani Green Technology Ltd. Adani Green (Technology) Ltd. is 51% held by Adani Enterprise Ltd. and 49% by Adani Properties Pvt Ltd. Hence the Company derives strength and management support from the Adani Group. The promoters have demonstrated support to the Company during the construction as well as the ramp-up phase.

Favorable Government Policies: On 30 July 2018, the government had implemented a 25% safeguard duty 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, have restored the price competitiveness and created a guaranteed offtake market for domestic solar modules for the next few years providing revenue visibility for MSPVL in future years.

Cash margin and additional security: The Company is required to maintain the margin of 25% of the facility amount in the form of FD under lien with the bank. Balance 75% is secured 1.5x by the pledge of shares of Adani Ports and Special Economic Zone Ltd. (APSEZ) / Adani Transmission Ltd. (ATL) during the tenor of the facility. Currently APSEZ shares are quoted at Rs. 380, with 52 Week H/L of Rs.430 and Rs. 294. Similarly, ATL shares are quoted at Rs. 214, with 52 Week H/L of Rs.256 and Rs. 141. As and when there is a claim under the guarantee by MSPVL's project lenders, the Bank is required to pay the same immediately. The Bank can adjust the claim amount from the security it has in the form of cash and share-pledge. DSRA guarantee has a provision for reinstatement of amount, once MSPVL reimburses the claimed amount to the BG issuing Bank.

Credit Risks:

Delay in Receipt of Government Incentives: The government has proposed financial assistance to the manufacturers in the form of capital subsidy and other production incentives to set-up new capacities as well upgrade the existing ones. As per Government notifications for incentivizing greater domestic manufacturing capacity for setting up Solar Manufacturing Plant, the company is eligible for 20% of capital expenditure as subsidy from Central Government. As such, MSPVL is eligible for capital subsidy of Rs.342 Cr from Central Government which was to be received in FY19. However, the receipt is delayed and is expected by the company in FY20.



Deteriorated Financial Performance: During FY19, revenue of the Company declined by 20% to Rs. 1395 Cr and it incurred net loss of Rs. 306 Cr. This was primarily on account of various one-off industry wide issues with a considerable fall in solar module/wafer prices globally which led to deferment of purchases by the developers, resulting in lower offtake and inventory mark downs. During FY19, the company's debt servicing was largely met through internal accruals and fresh infusion by the promoters. The company had also converted its unsecured loans amounting to Rs. 450 Cr to compulsorily convertible debentures during FY19.

Increasing debt level of the Adani Group: The overall debt levels of the Adani Group has been increasing on account of new initiatives as well inorganic growth undertaken across businesses by the Group, given the significantly capital intensive infrastructure nature and long gestation period of most of these businesses. However, at an overall Group level, the debt is adequately covered through committed cash-flows across the strong businesses. For the equity requirements of new businesses and support requirements for existing businesses, the promoters largely rely on dividends from strong businesses and raising additional funds through pledge of their equity shares in the listed companies. Servicing of some of this debt largely depends on refinancing options.

Rating Outlook: *Stable*

BWR believes the **Mundra Solar Pvt Ltd's** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Negative' if the overall operating and financial performance of the company is weak, and the cash generated inadequate, necessitating frequent dip into the DSRA arrangement. This being a SO rating, anything that affects the liquid security structure, including share price movement of Adani Ports and Special Economic Zone Ltd. / Adani Transmission Ltd., is a key rating sensitive factor.

About the Company

Mundra Solar PV Ltd. (MSPVL), an Adani Group Company, is set up to carry on the business of manufacturing Solar Photovoltaic Equipment and Ancillaries in Special Economic Zone area (i.e., SEZ) area) at Mundra, District Kutch, Gujarat. It has set up the manufacturing facility at a cost of Rs. 2050 Cr, funded by way of Debt of Rs. 1397 Cr and Equity (including USL from promoters) of Rs. 653 Cr. Brief details of their financials are given below:

Rs. Cr	FY18	FY19
Revenue	1748	1395
EBITDA	331	40
PAT	(129)	(306)
Total Debt *	2214	1744
Total Debt to Tangible Networth (x)*	13.3	10.5
Current Ratio	1.3	1.0

* Total debt is adjusted for unsecured loans from promoters



Rating History for the last three years

S.No	Instrument /Facility	Current Rating (2019)			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	July 2018	Date, Month, Year	Date, Month, Year
1.	Bank Guarantee	Long Term	46	BWR A-(SO) (Stable)	BWR A-(SO) (Stable)	-	-
	Total		46	₹ Forty Six Crore Only			

Status of non-cooperation with previous CRA (if applicable)-Reason and comments

Any other information

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Structured Obligations](#)
- [Manufacturing Sector](#)

For any other criteria obtain hyperlinks from website



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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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