India Ratings & Research
A Fitch Group Company

India Ratings Assigns JSW Renew Energy Two's Proposed Bank Loan 'Provisional IND A-'/Stable

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By Asmita Pant

India Ratings and Research (Ind-Ra) has assigned a provisional rating to JSW Renew Energy Two Limited's (JRETL) proposed bank loan as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Proposed bank loan^*	-	-	-	INR22,000	Provisional IND A-/Stable	Assigned

^The rating is provisional on account of pending documents (list given in Annexure) and the final rating will be assigned on the receipt of the executed documents that conform to the proposed terms and conditions within 90 days from the first debt disbursement. The provisional rating may be extended by another 90 days, subject to Ind-Ra's policy, if the execution of the documents is pending.

*The rating is based on JRETL's proposed debt structure and delineated documentation. In the absence of the documentation considered while assigning the provisional rating, the agency would not have assigned any rating to the proposed instruments. Further details are present in 'Provisional Rating Disclosures'.

Analytical Approach: Ind-Ra has analysed JRETL's standalone credit profile for the rating purpose, and has not considered any subordinated debt instruments from sponsor as additional debt. This is in accordance with the proposed financing documents and as per the management's representation that such instruments will be fully subordinated to the senior-ranking bank loan. Any deviation from the above arrangement will be a credit negative.

The rating is anchored by the presence of a fixed-tariff power sale contract with a reasonably strong counterparty – Solar Energy Corporation of India (SECI), track record of the strong sponsor (JSW Energy Limited; JEL; 'IND AA-'/Stable/'IND A1+') in developing power projects and various sponsor undertaking providing comfort on timely equity, and sponsor support undertakings. Additionally, the sponsor's commitment to meet any cost overruns, creation of a debt service reserve (DSR) and resizing the debt to meet the base case financial parameters in case of a failure in achieving the base case energy generation numbers for immediately preceding 12 months anytime within three years from commissioning, support the rating. However, the rating is constrained by the inherent risks in wind projects, construction risk and the lack of operational history.

Timely commissioning of the project, along with optimum generation level post commissioning will be key rating monitorables.

KEY RATING DRIVERS

Long-Term Offtake with Strong Counterparty Secures Cash Flows: The rating is anchored by the presence of a 25-year power purchase agreement (PPA) with SECI for 450 megawatts (MW) of project capacity at a fixed tariff of INR2.78 per unit. SECI is a 100% government-owned entity under the administrative control of the Ministry of New and Renewable Energy, and dedicated to the renewable energy sector. On an average, SECI makes payments within 70 days from the date of the invoice for other Ind-Ra rated peers. Additionally, the PPA provides for generation compensation for lower off-take because of grid unavailability and back down constraints, which mitigate grid curtailment risks to an extent. SECI, being a central government undertaking, fares better in terms of meeting its tariff payment obligations than when directly selling to most distribution companies.

Adequate Sponsor Experience: JRETL is a wholly-owned subsidiary of JSW Future Energy Limited (JFEL), which is entirely held by JEL. JEL has power generation and transmission business primarily in Karnataka, Maharashtra, Rajasthan and Himachal Pradesh. The sponsor has its presence across power sectors including generation, power transmission, mining, power plant equipment manufacturing and power trading. JSWEL has a 4,559MW generation capacity, of which 3,158MW is thermal power, 1,391MW is hydropower and 10MW is solar power located across four states. Furthermore, the group's focus on the renewable space has significantly increased with under construction pipeline of renewable energy capacity of 2,458MW. JEL's liquidity is also considered to be adequate with free cash flow from existing mature businesses of INR10,000 million-INR12,000 million annually, and cash and equivalents of INR15,000 million. Ind-Ra considers the sponsor's experience in commissioning and operating power projects to be adequate.

Sponsor Support Undertaking: JEL has undertaken to fund any cost overrun in implementing the project, creation of a proposed DSR of one quarter of debt servicing and resizing the debt to meet the base case financial parameters in case of a failure in achieving the base case energy generation numbers for immediate preceding 12 months any time within three years from commissioning, either out of project's cash flows or additional fund infusion by the sponsor. Ind-Ra believes the project will continue to receive managerial and financial support from the sponsor during the entire construction and operational phase. Any change in the group's policy of timely supporting the project is a key rating sensitivity.

Moderate-to-Low Equity Risk: On 20 December 2021, the sponsors had injected the requisite equity portion of INR1,589.3 million of the total equity requirement of INR7,312.5 million. In line with the proposed term sheet, the sponsor will need to bring in additional INR823.8 million before the first debt disbursement. The remaining equity portion by way of shareholders loans/share capital and through quasi equity instruments in the form of interest-bearing unsecured loans will be infused in proportion to the proposed implementation schedule of the project. The quasi equity shall be subordinate to the senior debt; their payments will be subject to restricted payments conditions, and subordinated debt holders shall have no rights to call an event of default.

Adequate Execution Capability: The project is being implemented on a split contract basis (non-engineering, procurement and construction (non-EPC) mode), with split packages to complete each part of the project (including land procurement, supply of wind turbine generators (WTGs), towers, transmission lines, substations and balance of plant). JSW group has a significant experience in implementing various complex power projects, including thermal and hydro for its other group companies in a non-EPC mode. It is implementing a 240MW hydro project. Ind-Ra believes the group exhibits strong capabilities to execute this project in a timely manner as implementation of wind and solar projects is relatively less complex than thermal and hydro power projects. The performance bank guarantee provided by the sponsors to SECI will be invoked on a per day basis if the commissioning is delayed by nine months beyond the scheduled commissioning date (SCOD). However, the agency takes comfort from the fact that the contracts with various vendors have clauses to claim the liquidated damages occurring due to delays on part of respective contractors, leading up to delays in SCOD.

Liquidity Indicator - Adequate: A DSR equivalent to three months of debt servicing requirements is proposed to be created within 12 months from the commissioning of the project or SCOD, whichever is earlier from the internal accruals of the project. The reserve can be maintained in the form of cash, or an unconditional and irrevocable bank guarantee, or a fixed deposit lien marked in favour of the lenders. The project has an average debt service coverage ratio (DSCR) of above 1.3x throughout the loan tenor, according to Ind-Ra's base case projections. Ind-Ra believes should the generational level be equal to or above P90 level, the DSCR will be adequate to cover moderate stresses in the operations and maintenance expenses and interest rates.

Moderate Construction Risk: The project faces construction risk, as it is in the initial stages of construction phase. The entire project capacity is proposed to be constructed on 168 land parcels; of this 137 have been acquired until 20 December 2021; and as per the management, the land acquisition process would be completed by end-April 2022. As per the detailed project report dated 22 April 2021, the progress of the project was almost in line with the envisaged timelines. JRETL has signed a fixed-time, fixed-price contract with a strong and reputed wind original equipment manufacturer (OEM), who is one of the world's leading wind turbine suppliers across 80 countries. As per the management, orders for 112 WTGs of 168, have already been placed and are expected to arrive on site from April 2022. Term sheet for orders for the remaining 56 WTGs has been signed and the order will be placed in 4QFY22. The project has to achieve completion by 31 March 2023 (SCOD). Timely commissioning of the project will remain a key monitorable for Ind-Ra.

Moderate Debt Structure: The proposed term loan is repayable in over 70 structured quarterly instalments, starting after 12 months from the SCOD or commissioning date, whichever is earlier. The interest rate on the term loan is floating, exposing the cash flows to interest rate risk. Equity infusion in the project has been in line with the project's progress. While Ind-Ra takes comfort from the waterfall mechanism, restricted payment conditions and other terms prioritising servicing of the senior debt, Ind-Ra will review the rating in the event of any adverse change affecting the cash flows available for senior debt servicing and if the rights of unsecured loans could impede senior debt servicing. Also, the project has standard project finance features, including a cash flow waterfall and a DSRA equivalent to one quarters' principal and interest payments. The special purpose vehicle can also make restricted payments to its sponsors after complying with the stipulated covenants and in concurrence with the lenders.

Moderate Technology Risk: As per lenders independent engineer's report, WTGs selected for this project are well suited for selected wind sites. However, their actual performance will need to be monitored after the plant becomes operational. The wind turbine generator's variant offered for the project accounts for 163 other WTGs (about 440 MW) that are installed by the WTG provider in India. Additionally, the breakeven PLF provides sufficient cushion to a downside variation. If the project fails to achieve the P90 PLF in its first three years of operations, the company would have to resize the debt to restore the banking base case. Ind-Ra considers the wind turbine technology employed by GE to be standard and proven.

Reasonable Supply Risk: As with any wind farm, the project's revenue and operating cash flows are directly correlated with the wind speed; thus, the accuracy of the wind assessment studies and energy production forecasts is critical. There is always a risk stemming from low speeds, which may impact the cash flows available for debt servicing. The resource assessment study was done by TUV Rheinland India Private Limited, which is a dedicated services provider in the entire gamut of activities involved in consulting and setting up of wind power plants.

RATING SENSITIVITIES

Positive: Future developments that may, individually or collectively, lead to a rating upgrade are:

- timely commissioning of project by 31 March 2023,
- the project's financial and operational performance in line with Ind-Ra's base-case estimates,
- creation of a DSR equivalent to debt service requirements for the ensuing three months.

Negative: Future developments that may, individually or collectively, lead to a rating downgrade are:

- slippages in project completion from the SCOD of 31 March 2023,
- the project's financial and operational performance lower than Ind-Ra's base-case estimates with a yearly DSCR being below 1.15x,
- deterioration in the counterparty's credit profile,
- deterioration in sponsor's credit profile or absence of sponsor support.

COMPANY PROFILE

JRETL is a wholly-owned subsidiary of JSW Future Energy Limited, which is ultimately held by JEL. The holding will be in the form of common equity shares and unsecured loans. Ind-Ra has given 100% equity treatment to the unsecured loans, according to the terms and conditions shared. JRETL is implementing a 450MW wind power plant at two sites (Tuticorin and Dharapuram) in Tamil Nadu.

FINANCIAL SUMMARY
Financial summary is not available since the project is under construction stage.

ANNEXURE

KEY FINANCIAL COVENANTS AND TERMS

Financial Covenants	· Minimum fixed asset coverage ratio of 1.25x in any year · Minimum gross DSCR of 1.20x in any year · Minimum interest coverage ratio of 1.50x in any year · Debt/EBIDTA should be 6.20x for the first three years and 6.00x thereafter
Maintenance of DSRA	Ensuing one quarter of interest payment and principal repayment
Cash Sweep	In the event of generation of any surplus cash accruals in any financial year, lender(s) shall have the option to sweep the excess cash surplus in the below mentioned manner in the inverse order of maturity as per discretion of lenders: · In case of DSCR in any year is less than 1.10x, the lenders will have the right to sweep 50% of excess cash. Excess cash defined as surplus available above DSCR of 1.00x. · In case of DSCR in any year is between 1.10x and 1.25x, the lenders will have the right to sweep 40% of excess cash for prepayment of loan. Excess cash defined as surplus available above DSCR of 1.10x. · In case of DSCR in any year is above 1.25x, the lenders will have the right to sweep 50% of excess cash for prepayment of loan. Excess cash defined as surplus available above DSCR of 1.25x.
Source: Draft Term Sheet	

LIST OF PENDING DOCUMENTS

S. No.	Pending documentation considered while assigning provisional rating*	Risks associated with the provisional nature of the credit rating in the absence of completed documentation or change in documentation
1.	Signed sanction letter	The provisional rating is assigned pending the execution of the draft documents containing terms and conditions shared by the management with Ind-Ra. In the absence of executed documents which are in line with the terms and conditions shared by management with Ind-Ra, the transaction structure as articulated does not exist. In such a scenario, Ind-Ra will not be able to assign any rating.
2.	Executed common loan agreement	
3.	Executed trust and retention agreement	
4.	Executed sponsor undertaking	

* Additionally, any other relevant documents executed for the transaction should also be provided to the agency.

BANK WISE FACILITIES DETAILS

Click here to see the details

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Name	Complexity Indicator
Proposed bank loan	Low

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

SOLICITATION DISCLOSURES

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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.

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Applicable Criteria

Rating Criteria for Infrastructure and Project Finance

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