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India Ratings Affirms GP Wind (Jangi)'s NCDs at 'IND AA-'/Stable

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By Divya Charen C

India Ratings and Research (Ind-Ra) has affirmed GP Wind (Jangi) Private Limited's (GPWJ) non-convertible debentures (NCDs) as follows:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
NCDs	INE135Y07013	8 August 2017	9.25	8 August 2032	INR2,640 (reduced from INR2,820)	IND AA-/Stable	Affirmed

Analytical Approach: Ind-Ra continues to factor in the weak-to-moderate strategic linkages, and moderate legal and operational linkages between GPWJ and Genting Berhad (Fitch Ratings Ltd: Issuer Default Rating: 'BBB+'/Negative), the ultimate holding company, while arriving at the rating.

KEY RATING DRIVERS

Stable Financial and Operating Performance: GPWJ's revenue from the sale of electricity was INR797 million in 2019 (2018: INR779 million), while its plant load factor (PLF) was better than the P90 estimates at 28.8% (28.0%), owing to the machine and grid availability of above 98%.

Firm PPA at Competitive Rate: GPWJ signed a 25-year power purchase agreement (PPA) with Gujarat Urja Vikas Nigam Limited in 2011 at a fixed tariff of INR3.56kWh. The tariff is close to the average power purchase cost of INR3.62/kWh for Gujarat distribution utilities approved by the Gujarat Electricity Regulatory Commission, excluding the transmission and other charges for FY21. According to the PPA terms, termination can be initiated only on the premise that the other party has committed a default.

Weak-to-Moderate Linkages with Sponsor: There are weak-to-moderate strategic linkages, and moderate legal and operational linkages between GPWJ and Genting Berhad, as assessed under the 'Parent and Subsidiary Rating Linkage' criteria. Ind-Ra has notched up the standalone rating of GPWJ to arrive at the bonds' rating under the said criteria.

Genting Berhad is a dominant player in the space for gaming and leisure in Singapore and Malaysia. The Genting Group has provided support to GPWJ in the form of cash infusion as and when required, even to avoid covenant breaches. The group has a track record of supporting its other energy companies when needed. GPWJ shares monthly status reports with the group, and any challenges faced by GPWJ are highlighted in advance for suitable actions from the Genting Group.

The NCDs benefit from an sponsor support undertaking from Genting Energy Limited (a wholly-owned subsidiary of Genting Berhad) for meeting up to 15% increase in operations and maintenance (O&M) expenses from the budgeted amount in any year, as well as any tax liability arising solely from the accounting treatment of the mark-to-market gain or loss due to the unwinding of the hedges (US dollar-denominated loans is repaid). A letter of comfort from Genting Berhad has been provided to the debenture trustee, indicating its intent to continue its holding in GPWJ and manage GPWJ such that sufficient financial resources are maintained to meet payment obligations, as and when they fall due. Any support from the sponsor group will be subordinated to the bonds. Any weakening of the links with Genting Berhad will entail a review of GPWJ's bond rating.

Low Counterparty Risk: GPWJ has been receiving payments within 10 days of billing since March 2016, though a credit period of 30 days is allowed under the PPA. Gujarat Urja Vikas Nigam, the holding company for state-owned electricity utilities in Gujarat, benefits from low aggregate technical and commercial losses, stable subsidy receipts and minimal under-recovery in tariffs by the four distribution utilities held by it.

Liquidity Indictor – Superior: As on 30 March 2020, GPWJ maintained a debt service reserve of INR191 million equivalent to six months of debt service requirements and a refinance reserve of INR10 million. Additionally, the company had cash/investments of INR1,154 million in different accounts of trust and retention accounts. These reserves would help the company tide over any contingencies. This level of liquidity is not mandatory as per the transaction documents. The debt service coverage ratio (DSCR) is comfortable at above 1.20x in the next five years and can absorb moderate shocks to the PLF, which has been assumed to be 27% for projection. While any tax-related payments could affect the coverage in later years, the company is likely to have built in adequate liquidity by then. GPWJ has not availed the Reserve Bank of India-prescribed moratorium to meet the obligations for the NCDs and has no plans to do so.

Comfortable Debt Structure: The bonds would be amortised over 30 semi-annual structured payments, payable on 8 February and 8 August of each year. The features of the bonds include a debt service reserve (two quarters' principal and interest payment), refinance reserve, cash trap (if certain defined covenants are breached), standard waterfall mechanism, sponsor support undertaking by Genting Energy and a letter of comfort by Genting Berhad. The cash trap triggers include breach of financial covenant, non-maintenance of required reserve, receivable days beyond 180 and an event of default. The project is also required to build a refinance reserve as per the finance documents. The financial covenant for the NCDs is a minimum DSCR of 1.10x. The DSCR was 1.89x in 2019, aided by the actual PLF of 28.8% in 2019 and the interest income on the bank deposits of GPWJ.

Moderate Operating Risk: The plant has reported a high machine availability of above 98% since commissioning, with low deviation from the power curve 2012-2017. In FY19, GPWJ renewed its fixed-price, fixed-escalation O&M contract with Vestas Wind Technology India Private Limited, which also supplied wind turbine generators for the project. The contract includes an availability guarantee of 95% and a penalty associated with non-achievement of the same. The revised O&M contract, which would be valid up to 31 March 2024, has led to higher-than-envisaged O&M expenses. Nevertheless, Ind-Ra believes the risk is mitigated to some extent by the presence of the sponsor support undertaking to meet O&M expenses increment up to 15% compared to the budgeted O&M expenses.

Moderate Volume Risk: GPWJ has a consistent operational track record of over eight years. The average PLF was about 28% during 2012-2019, with the lowest PLF observed in any past calendar year standing at 26.2%. Garrad Hassan India Private Limited has undertaken a performance diagnostic study for GPWJ and arrived at P90, P75 and P50 PLF estimates of 23.3%, 24.6% and 25.9%, respectively. The plant has been performing above the P90 PLF estimate.

Counterparty and Geographical Concentration Risk: The single counterparty risk constrains the rating. Also, the lack of geographical diversification limits the project's resilience against variations in generation and grid curtailment. Furthermore, the uncertainty in generation, which is inherent in wind projects, could affect the project.

RATING SENSITIVITIES

Negative: Future developments that could, individually or collectively, lead to a negative rating action are:

- the annual debt service coverage reducing below 1.15x
- increase in receivables period beyond 60 days
- weakening of the linkages between GPWJ and the Genting group
- significant weakening of the credit profile of the parent

COMPANY PROFILE

GPWJ is a special purpose vehicle that operates a 91.8MW wind power project in Kutch, Gujarat. The project has been operating since December 2011. GPWJ has not availed any working capital facility and NCDs are the only outstanding external debt.

FINANCIAL SUMMARY

Particulars	2019	2018
Revenue from operations (INR million)	796.9	779.4
Total revenue (INR million)	889.4	843.5
Operating expenses (INR million)	189.8	204.7
EBITDA (INR million)	699.6	638.8
EBITDA margin (%)	79	76
Source: GPWJ		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (million)	Rating	16 September 2019	5 June 2019	16 May 2018	1 December 2017
NCDs	Long-term	INR2,640	IND AA-/Stable	IND AA-/Stable	IND AA-(SO)/Stable	IND AA-(SO)/Stable	IND AA-(SO)/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

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Applicable Criteria

Parent and Subsidiary Rating Linkage
Rating Criteria for Infrastructure and Project Finance

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