Press Release

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Leading renewables cos manage payment delays for now

Speedy resolution critical to avert weakening of credit outlook

Leading renewable energy producers are managing the stress arising from payment delays by distribution companies (discoms) in Andhra Pradesh and Telangana because of their diversified operations and financial flexibility.

However, prolonged delay in resolution of the issues can hurt credit outlook of the sector and moderate investor sentiment.

CRISIL analysed leading 10 companies which have won around half of the projects awarded in the past two years and account for ~32% of installed renewable capacity in India.

Distribution companies (discoms) of Andhra Pradesh have been delaying payments for contracted renewables assets for around 1 year. This was further compounded by the new state government's decision to set up a committee to review and bring down the purchase cost of wind and solar energy *(refer to CRISIL's press release titled,* 'AP order puts Rs 21,000 crore renewables sector debt at risk' *issued on July 23, 2019)*. Recently, discoms also petitioned their state electricity regulatory commission (SERC) to reduce tariffs for all renewable projects where agreements were entered between 2012 and 2017. SERC is looking into the issues and is likely to make a fresh assessment of the situation before passing final order.

For these renewables companies, the liquidity crunch also got intensified because Telangana discoms stretched their payments, and contributed to cash-flow mismatches.

Aggregate cash flows from Andhra Pradesh and Telangana discoms to these leading renewables companies were ~20% of aggregate revenues as of March 2019.

Says Manish Gupta, Senior Director, CRISIL Rating, "While smaller companies with single-asset exposure to Andhra Pradesh and Telangana discoms were impacted the most, leading diversified renewable companies have managed the stress better. On aggregate, these may see their receivables days inch up by 35-45 days by the end of the current fiscal, from around 115 days in fiscal 2019, despite Andhra Pradesh and Telangana stretching payments by more than 240 days."

Going forward, increasing contribution of stronger central counterparty viz. Solar Energy Corporation of India in operational portfolios could further improve risk diversification for these renewables companies.

Leading players with relatively higher exposure to AP demonstrated superior financial flexibilities reflected in timely refinancing of debt in the wake of building delays, attracting equity capital and prioritizing cash for debt servicing above capex thereby differentiating themselves. These companies refinanced/ extended maturities of debt repayments for impacted projects and attracted equity flows of over Rs 5500 crore during the first half of current fiscal (more than the quantum raised in last two fiscals).

Slower pace of new capacity awards in the past 18 months vis-à-vis in fiscal 2018, also allowed these companies to conserve cash and focus on consolidating capacities before embarking on the next phase of growth.

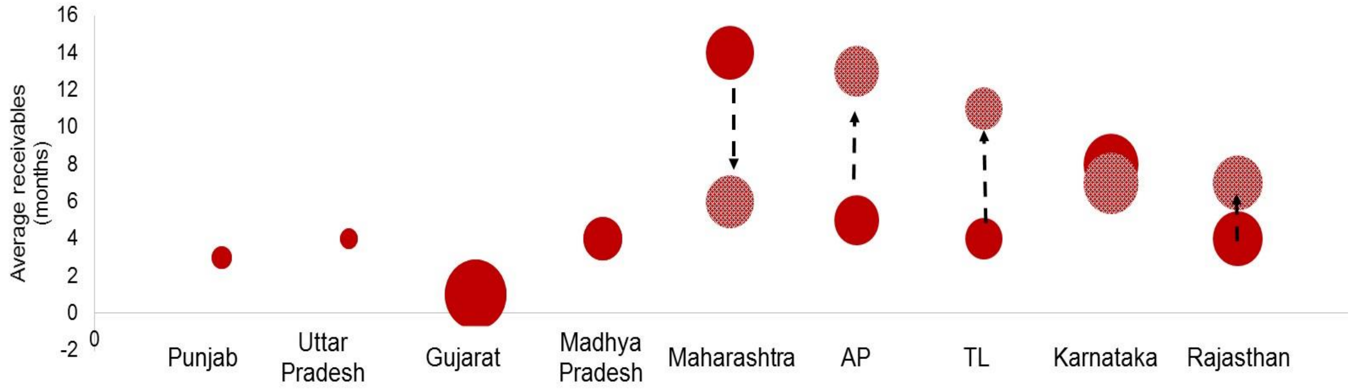
Leading renewables companies are, as of September 2019, maintaining unencumbered cash and unutilised working capital lines of around seven months of their overall debt servicing. This is over and above the one-two quarters of debt service reserves at the project level.

These companies are expected to utilise that buffer to support projects with direct exposure to counterparties delaying payments. This will also help them maximise project returns by not utilising their project debt service reserve accounts (DSRAs), which come at a higher interest cost. However, delayed cash flows may raise opportunity costs since buffer funds are being utilised for funding increasing working capital instead of investments in new projects.

Says Ankit Hakhu, Associate Director, CRISIL Rating, "The liquidity and sponsor support is only an interim cushion to manage stress. Extended delays in resolving the payment uncertainty can weaken the credit outlook of the sector and moderate investor sentiment."

Annexure

Average payment delays from March 2018 to August 2019



The size of the bubble represents renewables capacities with state discoms as the counterparty (as of June 2019)

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