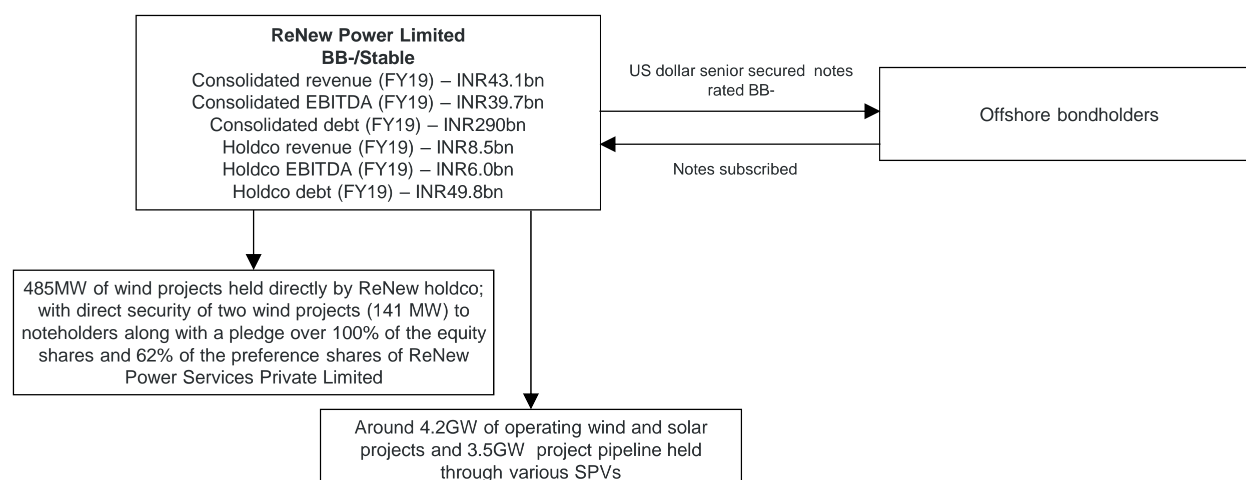
What Investors Want to Know: ReNew Power Limited

Fitch's Rating Approach for the Rating of 'BB-' on Holdco Issuance

Holdco Liquidity and Directly Held Projects Limit Subordination

Direct Holdco Issuance: Fitch Ratings has received a number of investor queries for understanding our rationale for the 'BB-' ratings assigned to the US senior secured dollar notes issued by India's ReNew Power Limited (BB-/Stable, ReNew). Investors have evinced strong interest in the key considerations as the notes are issued directly by the holding company (ReNew holdco) rather than a restricted group of operating assets as in other Indian renewable issuance.

Simplified Deal Structure Diagram



No Notching for Subordination: Fitch has not notched down the US dollar notes' rating, in light of our assessment of at least an average recovery for noteholders. In addition to 485 megawatt (MW) holdco assets, ReNew has around 3.0 gigawatts (GW) of operational capacity and 3.5GW of capacity under construction at operating subsidiaries outside its two restricted groups (Neerg Energy and ReNew RG II). We expect cash available to be upstreamed from unrestricted operating subsidiaries, along with cash flows generated from 485MW of wind power assets held at the ReNew holdco level, to be sufficient to cover holdco-level interest-service requirements by over 2.0x.

- Does Fitch look at ReNew's consolidated numbers or only the holco numbers for arriving at a bond rating?
- Does Fitch take into consideration the security for the bond in its rating?
- How does the bond structure compare with the ZEUS structure which the company was planning to use in May 2019?
- What is the rationale for the notes to be rated one notch higher than Neerg Energy's notes which have minimal construction risk ?
- Do Renew's debt covenants allow for further Restricted Groups (RGs) to be created? Do you also account for the possibility of more restricted cash flows in your rating?
- Is there any ability for the holdco to sell equity stakes in the operating companies?

Does Fitch Look at ReNew's Consolidated Numbers or Only the Holdco Numbers for Arriving at a Bond Rating?

Fitch has evaluated ReNew's financial profile at both the consolidated level and at the holdco level. In calculation of the consolidated credit metrics, Fitch has deconsolidated the EBITDA and debt of ReNew's two restricted groups – Neerg Energy and ReNew RG II – and included our expectations of cash available to be upstreamed from the two restricted groups to EBITDA. This was done as these two restricted groups have US dollar notes outstanding, and their covenants limit ReNew's access to cash generated by these restricted groups.

We do not expect any cash-upstreaming from Neerg, and ReNew RG II to upstream around INR800 million in the financial year ending March 2020 (FY20) and INR2.0 billion-2.5 billion annually in FY21 and FY22. We calculate ReNew's adjusted net debt/EBITDA to be around 5.5x and EBITDA/net interest cover at around 1.8x over the next three to four years.

In addition, Fitch has calculated the holdco-level EBITDA and debt-service requirements to assess the degree of structural subordination. Holdco EBITDA includes that from the 485MW of wind-power assets held directly, which is estimated at INR4.8 billion-5.0 billion a year, and cash dividends to be upstreamed from the operating assets held at various subsidiaries including that from ReNew RG II. Cash to be upstreamed from unrestricted capacities would vary year on year depending on the operating cash flows and servicing requirements of the project-level debt. However, we expect it to be in the range of INR9 billion-14 billion over the next three to four years.

We expect FYE20 net debt at the holdco to be around INR45 billion, including the proposed US dollar notes. EBITDA generated from projects at the holdco alone is sufficient to cover around 80% of the holdco's interest-servicing requirements. Including cash upstreaming from operating subsidiaries, we calculate holdco-level EBITDA/net interest cover to be above 2.0x over the next three to four years, which we believe is reasonably sufficient to limit structural subordination risk.

Does Fitch Take Into Consideration the Security for the Bonds in its Rating?

Based on Fitch's views on a less creditor-friendly regime in India, the bonds' rating does not benefit from security provided in the form of direct security of two projects with a combined capacity of 141MW, along with a pledge for over 100% of the equity shares and 62% of the preference shares of ReNew Power Services Private Limited. However, Fitch considers this to be credit positive from a bond-servicing perspective, as the two projects providing direct security would have no other debt and are likely to generate EBITDA which would be sufficient to cover 0.9x-1.0x of the annual interest expense of the notes, including the hedging costs.

How Does the Bond Structure Compare with the ZEUS Structure which the Company was Planning to Use in May 2019?

The bond structure is simpler, with direct issuance from ReNew holdco compared with the orphan SPV structure in the case of ZEUS – where an orphan were to use the proceeds of the bonds to subscribe to the rupee-denominated non-convertible debentures (NCDs) to be issued by ReNew holdco. The other key difference is in the terms of the security provided for the bond compared with rupee NCDs in the previous case, which were unsecured obligations of ReNew holdco. These aspects are positive from a noteholder's perspective. However, as mentioned in response to the question above, based on Fitch's views on a less creditor-friendly regime in India, these features do not benefit the bonds' rating, which are rated at the same level of 'BB-' – as was the case with ZEUS.

What is the Rationale for the Notes to be Rated One Notch Higher than Neerg Energy's Notes Which have Minimal Construction Risk?

ReNew holdco, while being the holding company for the group, holds 485MW of wind assets directly, of comparable scale to Neerg (606MW) and hence is not a pure holdco. Neerg's assets are more diversified, with 78% wind and 22% solar, although holdco's wind assets benefit from a better off-taker profile, with more than 50% of the off-take from Solar Energy Corporation of India Ltd. – which has a stronger credit profile than Neerg's counterparties which are mainly state 'discoms'.

In addition to holdco assets, ReNew has more than 3.0GW of operational capacity and 3.5GW of capacity under construction outside the two restricted groups (Neerg Energy and ReNew RG II). We believe the granular nature of projects diversified across geographies, resource type and counterparties reduces the volatility from resource variability and also from delays from any single counterparty. We expect these assets to generate and upstream cash to ReNew holdco after satisfying the asset-level borrowings.

We calculate holdco-level net interest cover of above 2x and net leverage of below 4x, and EBITDA generated from projects at the holdco alone is sufficient to cover around 80% of the holdco's interest-servicing requirements. These factors result in a one-notch higher rating than Neerg, whose net interest cover is likely to remain around 1.7x and net leverage around 4.7x.

Do Renew's Debt Covenants Allow for Further Restricted Groups (RGs) to be Created? Do You Also Account for the Possibility of More Restricted Cash Flows in Your Rating?

Covenants in the proposed bond do not prevent ReNew from creating new restricted groups in future. As ReNew holdco relies on cash upstreaming from unrestricted capacities for its debt servicing, any significant reduction in unrestricted capacities though formation of RGs could reduce the capacity of cash upstreaming subject to RG covenants. However, Fitch would treat this as an 'event risk', and will analyse the impact of new RG creation and its impact as and when it happens.

However, this risk is mitigated by the significant scale of unrestricted capacity at ReNew of around 7GW (including capacity under construction) versus 1.2GW of restricted capacity for the two existing RGs. Furthermore, in other rated Indian renewable transactions – at the time of the creation of RG – a portion of the proceeds from the notes were upstreamed to the parent as a one-off 'top-up', which in turn helps to reduce holdco-level debt and improves liquidity.

Is There any Ability for the Holdco to Sell Equity Stakes in the Operating Companies?

ReNew is allowed to sell the stake in operating companies through an asset sale/equity stake sale, subject to the conditions in the bond indenture which require ReNew to maintain at least 3.5GW of operating assets and also satisfying the debt incurrence-based covenants or to use the proceeds from asset sales for capex, debt reduction or acquisition in a similar line of business. In addition, any asset/equity sale would be subject to the conditions in the respective asset-level loan documents.

Related Research

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