

January 17, 2024

## Osmanabad Solar Energy Limited: [ICRA]A- (Stable) assigned

### Summary of rating action

| Instrument*                        | Current rated amount<br>(Rs. crore) | Rating action               |
|------------------------------------|-------------------------------------|-----------------------------|
| Long-term – Fund based – Term loan | 100.00                              | [ICRA]A- (Stable); assigned |
| <b>Total</b>                       | <b>100.00</b>                       |                             |

\*Instrument details are provided in Annexure-1

### Rationale

ICRA's rating on the bank loan facilities of Osmanabad Solar Energy Limited (OSEL) factors in the revenue visibility for its 20-MW (AC) solar power plant, on account of the long-term (25-year) power purchase agreement (PPA) with NTPC Vidyut Vyapar Nigam Limited (NVTN) at a fixed tariff of Rs. 9.27 per unit. The rating takes comfort from the satisfactory generation performance of the project over the last three years and higher generation expected post the recently completed DC capacity upsizing of the project. The company was acquired by Onward Solar Power Private Limited (OSPPL) in November 2022 and the new management completed the DC upsizing of the project capacity in October 2023, to 26.66 MWp from 21.1 MWp. Given the healthy tariff under the PPA and long debt tenure of 12 years and competitive interest rate, the debt coverage metrics for the project are expected to remain healthy. The counterparty credit risks for the company remain low, given the presence of a strong counterparty, NVTN. The collections from NVTN have been timely and monthly payments have been realised within seven days from the billing date over the last 12 months. However, the bills for June-September 2022 are yet to be realised due to an adjustment from NVTN for the bills pertaining to April-June 2022 and partly to July 2022. As informed by the management, there was an error in scheduling of power generated from the plant by state agencies during the period which resulted in NVTN not paying the bills for the period. The Western Regional Power Committee (WRPC) had proposed resolution on the matter which includes payment of Rs. 4.2 crore to OSEL; however, the management decided to appeal to CERC on the matter and expect to recover the full amount of Rs. ~7.4 crore.

The rating is, however, constrained due to the vulnerability of OSEL's cash flows and debt protection metrics to its generation performance. Any adverse variation in weather conditions and module performance may impact the PLF levels and consequently affect its cash flows, as the PPA tariff is single part and fixed in nature. Further, the rating remains constrained by the exposure of the company's debt coverage metrics to movement in interest rate on the external loans. Further, the company's debt terms have a cross-default clause, whereby any default by the guarantors (MPCL Industries Limited and OSPPL) will constitute as an event of default for OSEL and could lead to acceleration of its debt at the lender's discretion. However, given its favourable operational and financial profiles (healthy debt coverage metrics and strong counterparty – NVTN), if such a clause is exercised by the lender, the company is expected to refinance its debt within the available curing period, thereby mitigating the risk to a major extent.

The Stable outlook on the rating factors in the revenue visibility aided by the long-term PPA and satisfactory generation performance. The outlook is also supported by the timely receipt of payments from the off-taker.

### Key rating drivers and their description

#### Credit strengths

**Long-term PPA with a strong counterparty NVTN, offers revenue visibility** – The company has a 25-year PPA with NVTN for its entire capacity at a fixed tariff of Rs. 9.27 per unit. Hence, the offtake risks remain limited, providing revenue visibility. Also,

comfort is drawn from the presence of a strong offtaker in NVVN, with a track record of timely payments by the off-taker during the last three years, except the 4-month period in FY2023 for which payments are pending due to the power scheduling error and the company has appealed in CERC for recovery of these payments. The company also has receivables of Rs. ~19 crore from NVVN which pertains to the initial period post project commissioning, wherein NVVN demanded damages from the company under previous management, given the delay in project commissioning and did not pay for the bills raised. The matter had been under arbitration and is yet to be resolved. The financial profile of the company is not expected to be impacted in case of any adverse outcome of the litigation.

**Stable generation performance** – The generation performance of the company during FY2021-FY2023 was satisfactory and has improved compared to FY2019-FY2020, wherein the generation was lower due to inadequate O&M practices, as informed by the management. The generation was also higher by ~9% in 6M FY2024 compared to 6M FY2023. Further, after acquisition, the new management has taken steps to improve the plant efficiency, including the DC capacity upsizing, which was completed in October 2023, resulting in capacity of 26.66 MWp from 21.1 MWp. The overall generation levels post the upsizing are expected to improve, going forward.

**Comfortable debt coverage metrics** – OSEL's term loans from previous lenders were refinanced after the acquisition by OSPPL with a term loan of Rs. 76 crore for prepaying the previous lenders and a top-up debt of Rs. 24 crore availed by the company for funding of the DC capacity upsizing. The repayment tenure of the term loans is 12 years compared to residual PPA tenure of ~15 years. Given the healthy tariff under the PPA and long debt tenure of 12 years and competitive interest rate, the debt coverage metrics for the project are expected to be healthy.

### Credit challenges

**Single-asset operations; sensitivity of debt coverage metrics to energy generation** – OSEL is entirely dependent on power generation by the solar power project for its revenues and cash accruals, given the single-part nature of the tariff. As a result, any adverse variation in weather conditions and equipment performance may impact its generation and consequently its cash flows. The single location and single-asset nature of the company's operations amplifies this risk. Nonetheless, the recent track record of generation has been satisfactory for the company.

**Exposure to interest rate risk** – The capital structure of the company is leveraged and given the single-part nature of the fixed tariff in the PPA and floating interest rates, its profitability and debt coverage metrics remain exposed to any increase in interest rates.

**Regulatory risks of implementing scheduling and forecasting framework for solar sector** – The company's operations remain exposed to regulatory risks pertaining to the scheduling and forecasting requirements applicable for solar power projects, given the variable nature of solar power generation.

### Liquidity position: Adequate

The liquidity profile of the company is expected to be adequate, supported by healthy buffer in cash flow from operations and debt servicing obligations, with the company expected to generate fund flow from operations (post-interest payment) of ~Rs. 19 crore against debt repayment obligation of ~Rs. 8 crore in FY2025. Also, comfort is derived from the presence of a one-quarter debt service reserve equivalent to Rs. 2.67 crore, maintained in the form of a fixed deposit (FD). In addition, the company has unencumbered cash balances of Rs. 3.44 crore as on December 14, 2023.

### Rating sensitivities

**Positive factors** – The rating could be upgraded in case of significant improvement in generation performance above the appraised P-90 PLF estimate on a sustained basis, along with strengthening of liquidity position of the company.

**Negative factors** – The rating could be downgraded if the actual generation is significantly lower than P-90 PLF estimate on a sustained basis, weakening the debt coverage metrics. Further, the rating can be downgraded in case of significant delays in receiving payments from its offtaker, which will adversely impact the liquidity profile of the company.

## Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Solar Power Producers</a> |
| Parent/Group support            | Not applicable  |
| Consolidation/Standalone        | The rating is based on the standalone financial profile of the rated entity   |

## About the company

OSEL (formerly known as Essel MP Energy Limited) operates a 20-MW (AC) solar power plant in Osmanabad district of Maharashtra. The project was commissioned on August 6, 2013, and has a 25-year long-term Power Purchase Agreement (PPA) with NTPC Vidyut Vyapar Nigam Limited (NVVN) at a fixed tariff of Rs. 9.27 per unit. OSEL was earlier a subsidiary of Essel Infraprojects Limited (EIL) and was acquired by OSPPL in November 2022. OSPPL is a 100% subsidiary of Onward Solar Power Private Limited (OSPPL). The Onward Group owns and operates a portfolio of solar power projects aggregating 430 MW (AC capacity). OSPPL is a 100% subsidiary of MPCL Industries Limited (Ultimate parent), which is primarily engaged in base oil trading and refrigeration gas manufacturing.

## Key financial indicators

| OSEL Standalone  | FY2022 | FY2023 |
|--|--------|--------|
| Operating income (Rs. crore)                                   | 25.7   | 26.4   |
| PAT (Rs. crore)  | -1.3   | 3.9    |
| OPBDIT/OI (%)  | 87.8%  | 87.5%  |
| PAT/OI (%)   | -4.9%  | 14.7%  |
| Adjusted Total outside liabilities/Tangible net worth (times)* | -2.0   | -1.8   |
| Adjusted Total debt/OPBDIT (times)*                            | 3.4    | 3.3    |
| Interest coverage (times)                                      | 1.8    | 2.1    |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation \* adjusted for promoter debt/related party loans; these loans are subordinated to the bank debt availed*

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

| Instrument               | Type      | Current rating (FY2024)  |   |                  | Chronology of rating history for the past 3 years |                         |                         |
|--------------------------|-----------|--------------------------|---|------------------|---|-------------------------|-------------------------|
|                          |           | Amount rated (Rs. Crore) | Amount outstanding as on Sep 30, 2023 (Rs. Crore) | Date & rating    | Date & rating in FY2023                           | Date & rating in FY2022 | Date & rating in FY2021 |
|                          |           |                          |   |                  |   |                         |                         |
| 1 Fund based – Term Loan | Long-Term | 100.00                   | 96.4  | [ICRA]A-(Stable) | -   | -                       | -                       |

### Complexity level of the rated instruments

| Instrument                         | Complexity Indicator |
|------------------------------------|----------------------|
| Long term – Fund based – Term loan | Simple               |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

| ISIN | Instrument Name                           | Date of Issuance / Sanction | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|---|-----------------------------|-------------|----------|--------------------------|----------------------------|
| NA   | <b>Long Term – Fund Based – Term loan</b> | Jan 2023                    | -           | FY2035   | 100.00                   | [ICRA]A- (Stable)          |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis – Not applicable**

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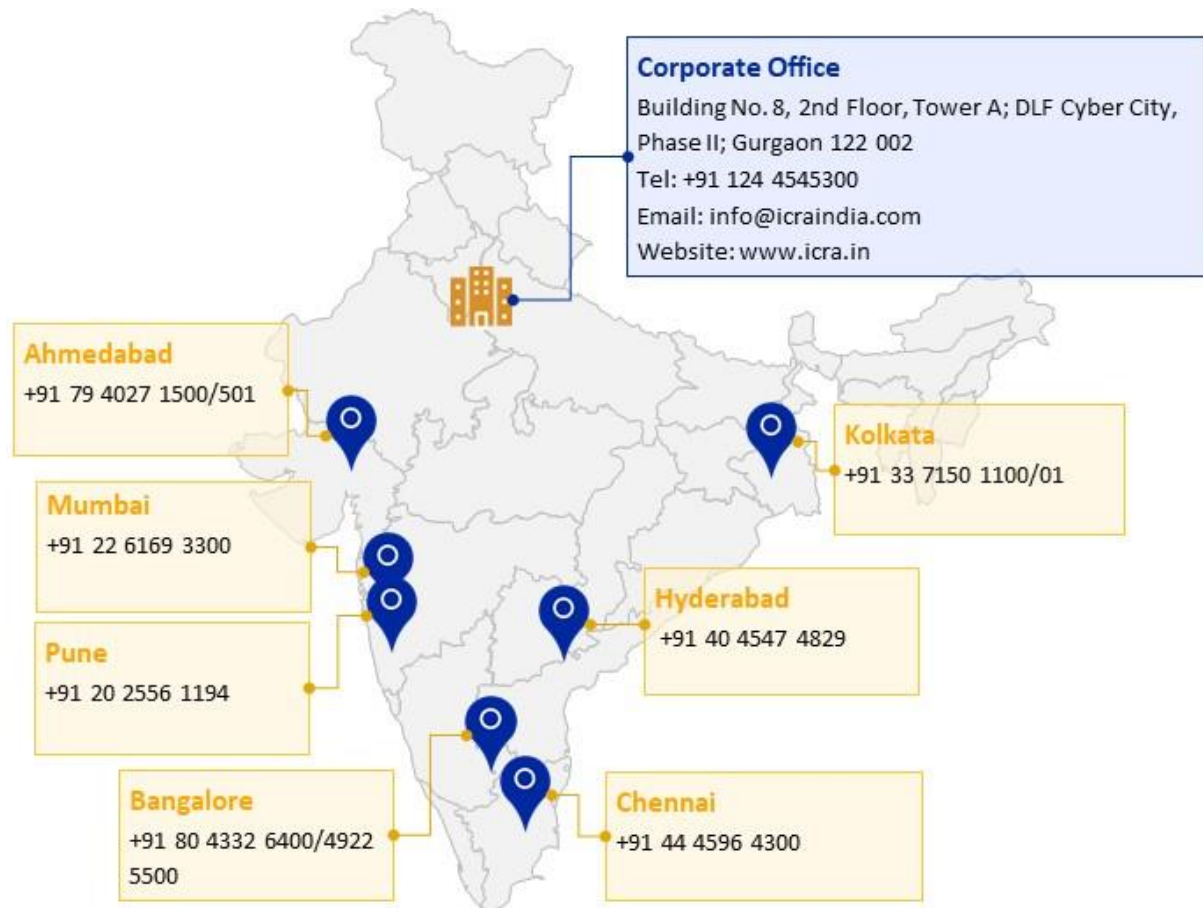
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