September 05, 2022

Fogo Energy Ventures Pvt. Ltd: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund based - Term Loan	51.70	[ICRA]A- (Stable); assigned
Long Term – Fund based – Unallocated	1.30	[ICRA]A- (Stable); assigned
Total	**53.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's assigned rating for Fogo Energy Ventures Private Limited (FEVPL) factors in its strong parent - Fourth Partner Energy Private Limited (FPEPL; rated [ICRA]A- (Stable)/[ICRA]A2+), which has an established track record in the solar power sector. FPEPL is backed by The RISE Fund (TPG) and Norfund – Norwegian Investment Fund for Developing Countries; together they have committed an equity capital of US$ 125 million to this platform.

The rating considers the limited demand risks for FEVPL's 19.3-MWp solar power project due to the long-term power purchase agreements (PPAs) with Tata Consultancy Services Limited (TCS) for 13 MWp and Kosmo One Business Park Private Limited (KOBPPL) for 6.3 MWp. Further, ICRA takes note of the comfortable credit profile of the counterparties - TCS {rated [ICRA]AAA (Stable) / [ICRA]A1+} and KOBPPL - and the competitive tariffs offered by FEVPL, which are at a discount to the state grid tariff. ICRA notes that the company's debt coverage metrics are expected to remain comfortable with a projected DSCR of over 1.2x over the debt repayment tenure supported by the long-term PPAs at reasonable tariffs, long tenure of project debt and competitive interest rate.

The rating is, however, constrained by the sensitivity of the tariffs to the grid tariff and open access charges in Tamil Nadu as the tariffs offer a fixed or minimum discount on the state grid tariffs. Nonetheless, the risk is partly mitigated as one of the PPAs provides a buffer to absorb these movements to a certain extent and there is an upward pressure on the retail tariffs offered by the state distribution utility (discom) in Tamil Nadu in the near term.

Further, the company's cash flows and debt protection metrics are sensitive to its generation performance, given the single part tariff under the PPA. Any adverse variation in weather conditions and module performance may impact the PLF levels and consequently the cash flows. This is amplified by the geographic concentration of the asset as the entire capacity is in Tamil Nadu. While there is a limited track record of generation as the project was commissioned in November 2021, the PLF has improved in recent months, post the initial phase of stabilisation.

The rating also factors in the risk of cash flow mismatch as the lock-in period for both the PPAs is less than the debt tenure. Nonetheless, comfort can be drawn from the competitive tariffs offered by the project, the track record of the sponsor in securing PPAs with large industrial and commercial customers and the notice period at the time of PPA termination to enable the company to replace the customers. ICRA also notes that FEVPL's debt coverage metrics remain exposed to the interest rate movement given the floating interest rates subject to regular resets and leveraged capital structure.

The Stable outlook reflects ICRA's opinion that the company would benefit from the long-term PPAs, the strength of the offtakers, improving generation performance and the benefits of being part of the Fourth Partner Energy Group.

Key rating drivers and their description

Credit strengths

Strong financial flexibility and operational strengths from parent – FEVPL is a wholly-owned subsidiary of FPEPL which has an established track record in the solar power sector. FPEPL is backed by The RISE fund (TPG) and Norfund with an equity commitment of ~Rs. 1,250 crore. The presence of strong sponsors provides strong financial flexibility to the Group in securing equity and debt funding.

Revenue visibility due to long-term PPAs - FEVPL has signed long-term PPAs with TCS for 13 MWp for 10 years and with KOBPPL for 6.3 MWp for 25 years, limiting the demand risks for the entire capacity.

Strong credit profile of customers – FEVPL has tied up PPAs with high credit quality customers – TCS {rated [ICRA]AAA (Stable) / [ICRA]A1+} and KOBPPL. This has resulted in timely payments since commissioning with the payments being received within a month of raising the invoice and this is expected to continue.

Competitive tariffs offered at a discount to grid tariff – The tariffs offered by the company are at a discount to the state grid tariff rates. Moreover, the power supplied by FEVPL would enable the customers to meet their renewable purchase obligations as well as their voluntary emission reduction targets.

Satisfactory debt coverage metrics – The company's debt coverage metrics are expected to remain comfortable with a projected DSCR of over 1.2x over the debt repayment tenure, supported by the long-term PPAs at reasonable tariffs, the long tenure of project debt and competitive interest rate.

Credit challenges

Sensitivity of tariffs to grid tariffs and open access charges in Tamil Nadu – The PPAs have been signed with the offtakers offering a fixed or minimum discount on the state grid tariffs adjusted for the open access charges, exposing the revenues to any movement in grid tariffs and variations in open access charges, including cross-subsidy surcharge and additional surcharge. ICRA notes that this risk is partly mitigated as one of the PPAs provides a buffer to absorb these movements to a certain extent and given the upward pressure on retail tariffs offered by the state discom in Tamil Nadu.

Sensitivity of debt metrics to energy generation – The debt metrics for solar power projects under FEVPL remain sensitive to the PLF levels, given the one-part tariff structure under the PPA. Hence any adverse variation in weather conditions and/or module performance may impact the PLF and consequently the cash flows. The geographic concentration of the asset amplifies the generation risk. Given the limited track record of operations, the demonstration of performance remains to be seen.

Risk of cash flow mismatch owing to lower lock-in period under PPAs in relation to debt tenure – The PPAs have a lock-in period of 10 years against the debt tenure of 15 years, leading to a risk of cash flow mismatch. Also, the termination payments under the PPAs do not cover the entire debt outstanding. Nonetheless, comfort can be drawn from the competitive tariffs offered by the company, the track record of the sponsor in securing PPAs with large industrial and commercial customers and the notice period available at the time of PPA termination to enable the company to replace the customers.

Exposure to interest rate movement –The company's debt coverage metrics remain exposed to the interest rate movement given the floating interest rates subject to regular resets and the leveraged capital structure with debt funding constituting 67% of the project cost**.**

Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate with the cash flows from operations along with the available cash balances and debt service reserve account (DSRA) sufficient to service the debt obligations. As on June 30, 2022, the outstanding cash balance was Rs. 1.24 crore and a DSRA equivalent to one quarter of debt servicing has been created to the extent of Rs. 2.36 crore.

Rating sensitivities

Positive factors – ICRA could upgrade FEVPL's rating if the credit profile of its parent, FPEPL, improves along with a demonstrated track record of satisfactory generation performance and timely receipt of payments from the offtakers.

Negative factors – The ratings could be downgraded if a significant underperformance in generation adversely impacts the cash accruals. A Specific credit metric that could lead to a rating downgrade includes the cumulative DSCR on the project debt falling below 1.15 times. Further, any significant delays in receiving payments from the offtakers adversely impacting the liquidity profile of the company would be a negative trigger. Also, any weakening of the credit profile of the parent, or any change in linkages/support philosophy between the parent and FEVPL would be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Energy Projects Implicit parent or group support
Parent/Group support	Parent/Group Company: Fourth Partner Energy Private Limited. The rating assigned to FEVPL factors in the high likelihood of its parent extending financial support to it because of close business linkages between them
Consolidation/Standalone	The rating is based on the standalone financial profile of the rated entity

About the company

FEVPL is an SPV of FPEPL, incorporated on July 24, 2019, to set up a 19.3 MWp (DC) solar power project in Thoothukudi district of Tamil Nadu. The project was commissioned on November 30, 2021 with long-term PPAs signed with two parties – Tata Consultancy Services Limited (TCS) and Kosmo One Business Park Private Limited (KOBPPL), for the entire capacity. The project was set up at a total cost of Rs. 76.83 crore, funded through debt-equity of 67:33. The O&M contract for the project is in place with FPEPL and the modules have been sourced from Renewsys and Vikram Solar.

Key financial indicators

FEVPL Standalone	FY2022^
Operating income (Rs. crore)	3.41
PAT (Rs. crore)	-0.91
OPBDIT/OI (%)	57.57%
PAT/OI (%)	-26.62%
Total outside liabilities/Tangible net worth (times)	NM
Total debt/OPBDIT (times)	NM
Interest coverage (times)	0.98

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ^ Provisional, NM – Not meaningful since the plant has been operational for only 4 months in FY2022

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on June 30, 2022 (Rs. crore)	Date & rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 05, 2022	-	-	-
1	**Term Loan**	Long-Term	51.70	49.02	**[ICRA]A- (Stable)**	-	-	-
2	**Unallocated**	Long-Term	1.30	-	**[ICRA]A- (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Unallocated	NA

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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	Dec 2021	-	Mar 2037	51.70	[ICRA]A- (Stable)
NA	**Unallocated**	-	-	-	1.30	[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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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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