September 26, 2022

Talf Solar India Private Limited: [ICRA]BB+(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	6.60	[ICRA]BB+(Stable); assigned
Non-Fund-based Working Capital Facilities	3.40	[ICRA]BB+(Stable); assigned
Total	**10.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating assigned takes into account the geographical diversification and low regulatory risk in the commissioned/ under-construction distributed solar capacity being developed by Talf Solar India Private Limited (TSIPL). The distributed capacity mitigates the impact of lower than design energy generation in a particular project over the portfolio coverage/ return metrics. Moreover, the Group has contracted power for 74% of its portfolio capacity under long term power purchase agreement (PPA) with a diversified customer base which mitigates counter-party credit risks for the portfolio. Given the attractive tariffs (blended tariff for commissioned projects stood at Rs 4.17 per unit and that for under-construction projects stood at Rs 6.29 per unit), ICRA expects debt coverage indicators to remain adequate subject to achieving design generation and O&M expenses remaining in line with estimates.

The ratings are however, constrained by limited track record of its commissioned portfolio with weighted average track record of the portfolio stood at ~1 year as on March 31, 2022. Execution and funding risk remain high for the residual under-construction (~8MWp) capacity with elevated module prices, financial closure yet to be achieved and equity yet to be brought in. Lack of contractual safeguards for project cash flows at SPV level is a key risk which moderates the liquidity position of the company. The ratings assigned are also constrained by the sensitivity of generation to solar-irradiation levels and the project coverage metrics remaining vulnerable to interest rate risk.

The Stable outlook on the [ICRA]BB+ rating reflects benefits of the long-term PPAs with various off-takers, an expected stable generation performance and receipt of payments from the offtakers in a timely manner.

Key rating drivers and their description

Credit strengths

Geographic diversification of projects – The commissioned projects (76 sites with aggregate 14.8 MW capacity) as well as under under-construction projects (4 sites with ~8 MW capacity) are spread across states in the country such as Delhi NCR, Uttarakhand, etc, which leads to geographical diversification and reduces the asset-concentration risk. Given the geographical diversification of the assets, it insulates against the counterparty credit risks upto some extent.

Low offtake risk and strong collection efficiency – The PPAs are signed with commercial and industrial customers (mainly the Delhi colleges/schools and hospitals) for ~ 46% of the project capacity. The termination/buyout clause in most of the PPAs, competitive tariff against the grid tariff rate and the highly diversified counterparties remains the mitigating factors. The payment from counterparties is typically received within 30 days from the date of billing. Given the attractive tariffs, the project level DSCR is expected to remain above 1.20x for the commissioned/ under-construction capacity subject to achieving design generation and O&M expenses remaining in line with estimates. The regulatory risk for the portfolio contracted with C&I customers remains low with ~43% of rooftop project capacity and balance with Uttarakhand state utility and being developed under VNM scheme as per which wheeling charge, banking charge, cross subsidy surcharge and any other charge(s), as decided by the Commission will not be levied during its useful life.

Credit challenges

Limited track record of the commissioned capacity – Out of the total 15-MWp installed capacity of the Group as on date, the capacity commissioned as on March 31, 2022 stood at ~ 9MWp. Weighted average track record of the portfolio stood at ~1 year as on March 31, 2022. ICRA notes that the performance of the commissioned capacity so far has been in line with P90 estimates, given the limited track record of the commissioned portfolio, demonstration of generation performance in line or above the P-90 levels on a sustained basis will remain a key monitorable.

Funding and execution risk of its under-construction projects – As against installed capacity of 15MWp, ~8MWp project capacity is under construction presently. ICRA notes that while these projects are expected to be commissioned by March 2023, the financial closure is yet to be achieved and equity capital is yet to be brought in. Further a portion of the required equity capital is contingent upon the occurrence of certain events/ achievement of milestones (such as realisation of EPC margins, accruals from its commissioned projects, expected subsidy receivables etc.); which exacerbates the risk of equity capital being infused in a timely manner or increased requirement of infusion of capital by promoters. The execution risk emanates from elevated module prices for contracted capacities of under-construction projects with defined PPA tariff.

Stretched liquidity position of the company - TSIPL's liquidity is stretched, driven by an inadequate back-up liquidity arrangement at the standalone level and is moderated by the lack of contractual ring-fencing of project cash flows/ presence of TRA mechanism in project debt financing at SPV level. While the free cash at a group level is ~Rs 3 crore (provisional) and undrawn working capital limits is Rs. 3 crores as on March 31, 2022, the same is expected to be utilized for part funding of under-construction project equity resulting in limited surplus remaining at standalone level. The un-encumbered cash and cash equivalent of the company remains at Rs. 0.33 crore as on March 31, 2022 and further is expected to remain low given the funding requirement in SPVs for completing their under-construction projects.

Vulnerability of cash flows to solar irradiation – Variability in solar irradiation may affect generation, which may impact the revenues and the cash flow of the projects as the revenues are directly linked to actual generation. The risk is mitigated to some extent by the geographically diversified asset base of the portfolio.

Exposure to interest rate risk – The tariffs for the projects are single part in nature, therefore coverage metrics remain exposed to interest rate risk as the interest rates are floating in nature.

Liquidity position: Stretched

TSIPL's liquidity is **stretched,** on account of inadequate back-up liquidity arrangements at the standalone level. The liquidity profile is moderated by the lack of contractual ring-fencing of project cash flows/ presence of TRA mechanism in project debt financing at SPV level. While the free cash at a group level is ~Rs 3 crore (provisional) and undrawn working capital limits is Rs. 3 crore as on March 31, 2022, the same is expected to be utilized for part funding of under-construction project equity resulting in limited surplus remaining at standalone level. The un-encumbered cash and cash equivalent of the company is Rs. 0.33 crore as on March 31, 2022.

Rating sensitivities

Positive factors – The rating may be revised upwards if the Group is able to show case track record of satisfactory operations with generation in line with P-90/design performance and timely collections of receivables or in case of timely infusion of equity capital and financial closure for under-construction capacity of ~8MWp.

Negative factors – Negative pressure on the rating could arise in the event of delay in commissioning of its under-construction projects resulting in cost-overrun, or delay in achieving financial closure and infusion of required equity in a timely manner. Rating could also be downgraded if PLFs for the projects remain below P90 estimates on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of all its SPVs (as mentioned in Annexure), given their close operational and financial linkages.

About the company

Talf Solar India Private Limited (TSIPL) is the holding company for Talf Group of companies. Incorporated in 2017, it is involved in development and operations of both rooftop and ground mount solar power projects and has an installed capacity base of 15 MWp (1.1 MWp at holding company level) presently with another 15 MWp under construction. The flagship company is promoted by Mr Saurabh Rao (70.2% stake in aggregate) who is a first-generation entrepreneur with extensive experience in financial services including financing of infrastructure projects.

Key financial indicators (audited)

TSIPL Consolidated	FY2020 (Audited)	FY2021 (Audited)
Operating income (Rs. crore)	0.3	8.6
PAT (Rs. Crore)	-0.5	0.1
OPBDIT/OI (%)	-53.4%	9.2%
PAT/OI (%)	-142.6%	1.3%
Total outside liabilities/Tangible net worth (times)	0.9	1.8
Total debt/OPBDIT (times)	14.3	10.3
Interest coverage (times)	20.5	3.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Note: Amount in Rs. crore; All calculations are as per ICRA Research
Source: Annual Reports and ICRA Research

TSIPL Standalone	FY2021 (Audited)	FY2022 (Audited)
Operating income (Rs. crore)	8.2	25.9
PAT (Rs. Crore)	0.5	1.8
OPBDITA/OI (%)	6.9%	9.6%
PAT/OI (%)	6.1%	6.9%
Total outside liabilities/Tangible net worth (times)	0.2	1.0
Total debt/OPBDITA (times)	1.8	0.8
Interest coverage (times)	18.9	28.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Note: Amount in Rs. crore; All calculations are as per ICRA Research
Source: Annual Reports and ICRA Research

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 March 31, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					September 26, 2022	**-**	**-**	**-**
1	Fund based Cash Credit	Long-term	6.60	-	**[ICRA]BB+ (Stable)**	-	-	-
2	Non-Fund based Bank Guarantee	Long-term	3.40	-	**[ICRA]BB+ (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Cash Credit	Simple
Non-fund-based Bank Guarantee	Very 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: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund based Cash Credit – sanctioned	-	-	-	0.30	[ICRA]BB+(Stable)
NA	Fund based Cash Credit – proposed	-	-	-	6.30	[ICRA]BB+(Stable)
NA	Non-Fund based Bank Guarantee – sanctioned	-	-	-	2.70	[ICRA]BB+(Stable)
NA	Non-Fund based Bank Guarantee – proposed	-	-	-	0.70	[ICRA]BB+(Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis:

Company Name	TSIPL Ownership	Consolidation Approach
Talf Solar India Private Limited	100.00% (rated entity)	Full Consolidation
G.V. Energy Solutions Private Limited	100%	Full Consolidation
Talf ASR Solar Urja Private Limited	49%*	Full Consolidation
Arun Kumar Agarwal Solar Private Limited	49%*	Full Consolidation
SKAG Solar Urja Private Limited	49%*	Full Consolidation
Talf Energy India Private Limited	100%	Full Consolidation
Talf SAC Solar Urja Private Limited	100%	Full Consolidation
Talf Renewables Private Limited	100%	Full Consolidation
Talf Saur Urja Private Limited	100%	Full Consolidation
Talf Solar Projects Private Limited	100%	Full Consolidation

***Since the management control and voting rights are held with TSIPL's promoters, ICRA has taken a consolidated view of these entities while assigning the ratings.*

Source: *Company*

Note: *ICRA has taken a consolidated view of the parent (TSIPL), and its SPV's while assigning the ratings.*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

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