December 09, 2022

FPEL Urja Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based - Term loan	69.39	[ICRA]A- (Stable); assigned
Long term – Fund based – Unallocated	0.61	[ICRA]A- (Stable); assigned
Total	70.00	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's assigned rating for FPEL Urja Private Limited (FUPL) 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 renewable energy sector with an operating portfolio of ~600 MWp. FPEPL is backed by the RISE Fund (TPG) and Norfund – Norwegian Investment Fund for Developing Countries; together they have infused an equity capital of Rs. 1247 crore in this platform.

The rating considers the limited demand risks for FUPL's 26.03-MWp solar power project due to the long-term power purchase agreement (PPA; 25-year) with Ashok Iron Works Private Limited (AIWPL) for the entire capacity under the captive mode. Further, ICRA takes note of the satisfactory credit profile of the counterparty and the competitive tariffs offered by FUPL, which are at a significant discount to the state grid tariff. ICRA notes that the company's debt coverage metrics are expected to remain adequate with a projected DSCR of over 1.2x over the debt repayment tenure, supported by the long-term PPA at a reasonable tariff and the long tenure of project debt.

The rating is, however, constrained by the sensitivity of the company's cash flows and debt protection metrics 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 at a single location in Karnataka. Given the limited track record of operations following the commissioning in July 2022, the demonstration of generation performance in line or above the appraised P-90 estimate remains a key credit monitorable.

The rating also factors in the risk of cash flow mismatch as the lock-in period under the PPA at 10 years is less than the debt tenure of 15.5 years. 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 available at the time of PPA termination to enable the company to replace the customer.

ICRA also notes that FUPL's debt coverage metrics remain exposed to the interest rate movement as the floating interest rates are subject to regular resets and leveraged capital structure. The rating also factors in the regulatory risks associated with forecasting & scheduling regulations, regulations for captive projects and open access charges. While the open access charges are to be paid by the customer under the PPA, any significant increase in these charges would impact the competitiveness of the tariff offered under the PPA.

The Stable outlook assigned to the long-term rating factors in the steady cash flow visibility, aided by the long-term PPA and timely collections expected from the customer along with 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 by virtue of parentage – FUPL is a 74.0% subsidiary of FPEPL which has an established track record in the renewable energy sector with an operating portfolio of ~600 MWp. FPEPL is backed by the RISE Fund (TPG) and Norfund with an equity commitment of ~Rs. 1,247 crore, which has been entirely infused. The presence of strong sponsors provides strong financial flexibility to the Group in securing equity and debt funding. FPEPL is expected to support FUPL in case of any cash flow mismatch.

Revenue visibility due to long-term PPA - FUPL has signed long-term PPA with AIWPL for 25 years for the entire capacity at a fixed tariff under the captive mode, thereby limiting demand and tariff risks for the entire capacity.

Satisfactory credit profile of the customer – FUPL has tied up PPA with AIWPL, which has a satisfactory credit profile. This has resulted in timely payments since commissioning with payments being received within 15 days of raising the invoice and this is expected to continue.

Competitive tariffs offered at a discount to the grid tariff – The tariffs offered by the company are at a significant discount to the state grid tariff rates. Moreover, the power supplied by FUPL would enable the customer to meet its renewable purchase obligation.

Satisfactory debt coverage metrics – The debt coverage metrics for the company are expected to remain adequate with a projected cumulative DSCR of over 1.2x over the debt repayment tenure supported by the long-term PPAs at reasonable tariff and long tenure of project debt. However, the DSCR is expected be modest in FY2023 considering the stabilisation period and delays in commissioning from the earlier envisaged timeline.

Credit challenges

Sensitivity of debt metrics to energy generation – The debt metrics for solar power projects under FUPL remains sensitive to 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 PPA in relation to debt tenure – The PPA has a lock-in period of 10 years against the debt repayment tenure of 15.5 years, which could lead to a risk of cash flow mismatch. Also, the termination payments under the PPA do not cover the entire debt outstanding. Nonetheless, comfort can be drawn from the competitive tariff 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 capital structure of the company is leveraged, reflected in the debt-funded capex deployed to set up the project. Therefore, the company's debt coverage metrics remain exposed to the interest rate movement, given the floating interest rates.

Regulatory risks – The company remains exposed to the regulatory challenges of implementing the scheduling and forecasting framework for solar power projects in Karnataka. This is expected to be mitigated through an agreement with a scheduling and forecasting agency, which bears this risk. Also, the company remains exposed to regulations related to captive power projects and the adverse variation in open access charges, which could impact the competitiveness of the tariff offered.

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 DSRA sufficient to service the debt obligations. As on September 30, 2022, the outstanding cash balances was Rs. 4.58 crore including DSRA equivalent to one quarter of debt servicing.

Rating sensitivities

Positive factors – ICRA could upgrade FUPL's rating in case of demonstrated track record of generation performance in line or above the P-90 PLF estimate on a sustainable basis while receiving timely payments from the offtakers, leading to healthy credit metrics. Also, the rating could improve if the credit profile of the parent, Fourth Partner Energy Private Limited, improves.

Negative factors – The rating could be downgraded in case of a significant underperformance in generation adversely impacting the debt coverage metrics. Specific credit metrics that could lead to a rating downgrade include cumulative DSCR on project debt falling below 1.15 times. Further, any significant delays in receiving payments from the offtaker 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 FUPL 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 FUPL factors in the high likelihood of its parent extending financial support to it because of the close business linkages between them
Consolidation/Standalone	The rating is based on the standalone financial profile of the rated entity

About the company

FUPL is an SPV of FPEPL, incorporated on July 21, 2021, to set up a 26.03-MWp (DC) solar power project in the Vijayapur district of Karnataka. The project was commissioned on July 18, 2022 with a long-term PPA signed with Ashok Iron Works Private Limited for the entire capacity. As required under the group captive regulations, the customer has subscribed to the shareholding of the company to the extent of 26.0%. The project was set up at a total cost of Rs. 115.99 crore, funded through debt-promoter contribution of 1.5:1. The O&M contract for the project is in place with FPEPL and the modules have been sourced from Jinko Solar.

Key financial indicators (audited)

	FY2021*	FY2022*
Operating income (Rs. crore)	NA	NA
PAT (Rs. crore)	NA	NA
OPBDIT/OI (%)	NA	NA
PAT/OI (%)	NA	NA
Total outside liabilities/Tangible net worth (times)	NA	NA
Total debt/OPBDIT (times)	NA	NA
Interest coverage (times)	NA	NA

Source: Company data, ICRA Research PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

**Not applicable as the company was in project phase*

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 Sep 30, 2022 (Rs. crore)	Date & rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 09, 2022	-	-	-
1	**Term loan**	Long Term	69.39	69.39	**[ICRA]A- (Stable)**	-	-	-
5	**Unallocated**	Long term	0.61	-	**[ICRA]A- (Stable)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loan	Simple
Unallocated	Not applicable

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan**	Dec 2021	-	Mar 2038	69.39	[ICRA]A- (Stable)
NA	**Unallocated**	-	-	-	0.61	[ICRA]A- (Stable)

Source: *Company data*

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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About ICRA Limited:

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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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