

April 23, 2024

Lalganj Power Pvt. Ltd: Rating downgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based term loan	237.99	231.06	[ICRA]BBB+ (Stable); downgraded from [ICRA]A- (Stable)
Unallocated	42.01	6.71	[ICRA]BBB+ (Stable); downgraded from [ICRA]A- (Stable)
Total	280.00	237.77	

*Instrument details are provided in Annexure-1

Rationale

The rating action for Lalganj Power Private Limited (LPPL) is based on the lower-than-anticipated generation performance (PLF) in FY2023 and FY2024 and the increased expenditure (including one time plant repair expenses), leading to a moderation in the debt coverage metrics.

The company's PLF was 14.58% in FY2023 and 14.11% in FY2024 compared to P-90 estimate. In FY2023, the generation performance was impacted by initial stabilisation issues at the plant and lower-than-expected solar irradiation levels. In FY2024, the performance was affected by unfavourable weather conditions, including floods, which led to water logging at the site and affected the transmission infrastructure. The company has strengthened its plant infrastructure by undertaking remedial expenditure and filed a claim (Including loss of profit) for ~Rs. 13.5 crore, of which ~ Rs. 3.5 crore has been received, and the balance amount is expected to be received in the next 2-3 months.

Nevertheless, the rating continues to factor in the strong parentage of 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 ~810 MWp as of August 2023. FPEPL is backed by The RISE Fund (TPG) and Norfund, the Norwegian Investment Fund for Developing Countries; together they have infused an aggregate equity capital of ~Rs. 1,597 crore in this platform.

The rating considers the company's operational nature of the 88.06-MWp solar power project in the Saharanpur district of Uttar Pradesh. The project started supplying power to customers in April 2022 and was declared fully commissioned in October 2022. Further, the rating factors in the limited demand and receivable risks due to the presence of 25-year long-term power purchase agreements (PPAs) for 85.24-MWp capacity at fixed tariffs under the group captive mode with high credit quality customers at competitive rates. The remaining capacity is also in the process of being signed with one of the existing customers at the same tariff. The weighted average tariff rate offered by the company is Rs. 3.36 per unit, which is at a significant discount to the state grid tariff rates. The tie-up of PPAs with reputed customers is expected to result in timely receipt of payments.

The rating is, however, constrained by the moderation in debt coverage metrics with the cumulative DSCR being 1.14x over the debt tenure owing to higher recurring operating expenses. The ratings are further constrained by the sensitivity of generation to solar irradiation levels as the revenues are linked to the actual units generated and exported, in view of the single-part tariff structure in the PPAs. This constraint is amplified by the geographic concentration of the asset. The demonstration of generation by LPPL in line or above the appraised estimate remains a key rating monitorable.

The rating also factors in the risk of cash flow mismatch as the PPAs have a lock-in period of 10-25 years (average lock-in period of ~11 years), while the debt repayment is spread across 16 years. Nonetheless, comfort can be drawn from the highly competitive tariffs offered by the company to its customers against the HT industrial grid tariff and the track record of the sponsor in securing PPAs with large industrial and commercial customers.

The company is also exposed to interest rate risks, given the leveraged capital structure, fixed tariffs under the PPAs and the floating nature of the interest rates, subject to regular resets. Further, the company's operations remain exposed to the

regulatory risks pertaining to the scheduling and forecasting requirements of solar power projects, adverse changes in group captive norms and revision in open access charges.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that LPPL would benefit from the presence of long-term PPAs with reputed customers and the track record of the Group in developing and operating solar power projects.

Key rating drivers and their description

Credit strengths

Strong financial flexibility and operational strengths by virtue of parentage – LPPL 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 aggregate equity infusion of ~Rs. 1,597 crore. The presence of strong sponsors provides strong financial flexibility to the Group in securing equity and debt funding.

Revenue visibility from long-term PPAs – LPPL has signed long-term PPAs (25-year) for 85.24-MWp capacity at fixed tariffs with reputed industrial customers under the group captive mode, providing revenue visibility and limiting the demand as well as pricing risks. The customers have subscribed to the equity capital of LPPL, as required under the group captive regulations. The remaining capacity of ~2.76 MWp is expected to be consumed by the existing customers at the same tariff.

Strong credit profile of customers – LPPL has tied up PPAs with high credit quality customers like UltraTech Cement Limited, Heidelberg Cement India Limited and Shriram Pistons and Rings Limited. This is expected to result in timely receipt of payments, as demonstrated by the brief track record of receiving payments within 30-60 days of raising the invoice.

Credit challenges

Debt metrics of solar projects sensitive to PLF levels; moderation in debt coverage metrics – The key factors that impact the operations of a solar plant are solar irradiation levels, losses in PV systems due to temperature and climatic conditions, inverter efficiency and module degradation due to ageing. Given the one-part structure under the PPAs, the debt metrics of the company remain exposed to the generation level. The risk is amplified by the geographic concentration of the asset. The generation performance since commissioning has remained below the P-90 PLF estimate, which has led to a moderation in the debt coverage metrics with the cumulative DSCR being 1.14x over the debt tenure. The demonstration of generation performance in line or above the appraised P-90 estimate remains a key rating monitorable for the company.

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 ranging from 10-25 years with an average lock-in period of ~11 years. This could lead to a risk of cash flow mismatch as the debt repayment is spread across 16 years. Also, the termination payments under the PPAs do not cover the entire debt outstanding. Nonetheless, comfort can be drawn from the significant discount offered by the company to its customers against the HT industrial grid tariff, 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 a customer.

Exposed to interest rate risks – The interest rates on the term loans availed by the company for its projects are floating and subject to regular resets. Given the fixed nature of the tariffs under the PPAs and the leveraged capital structure, the company's debt coverage metrics are exposed to the movements in interest rates.

Regulatory risks – The company's operations are exposed to regulatory risks pertaining to the scheduling and forecasting requirements and banking policies of solar power projects. Also, the company remains exposed to adverse changes in regulations related to captive power projects and any adverse variation in open access charges, which could impact the competitiveness of the tariff offered.

Liquidity position: Adequate

The liquidity of the company is expected to remain adequate because of the stable cash flow from operations, supported by the long-term PPAs at fixed rates for its solar power project and expectations of timely receipt of payments from the customers, given their strong credit profiles. As on March 31, 2024 the company had a two-quarter DSRA of Rs. 24.13 crore and cash balance of Rs. 3.75 crore against a debt obligation of ~Rs. 32 crore for the next 12 months.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the actual generation level is in line or higher than the expected P-90 estimate on a sustained basis, leading to healthy debt coverage metrics for the company. Further, an improvement in the credit profile of its parent could lead to an upgrade.

Negative factors – LPPL’s rating can be downgraded if the actual generation performance remains lower than the estimated P-90 level on a sustained basis, or if there are delays in payments from the customers, impacting its liquidity profile. Specific credit metrics for a downgrade include the cumulative DSCR on the project debt falling below 1.10 times. Further, weakening of linkages with the parent (FPEPL) or weakening of the credit profile of the parent would be the other negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar
Parent/Group support	Parent/Group Company: Fourth Partner Energy Private Limited. The rating assigned to LPPL 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 statements of the rated entity

About the company

Lalganj Power Private Limited (LPPL), incorporated in 2018, is a special purpose vehicle (SPV) promoted by Fourth Partner Energy Private Limited (FPEPL). LPPL has set up an 88.06-MW (DC capacity) solar power project in Jewala & Behada village, Saharanpur district of Uttar Pradesh. The project construction was fully commissioned in October 2022. The company has tied up long-term power purchase agreements (PPAs) with industrial customers having high credit quality under the group captive model. As required under the group captive regulations, the customers have subscribed to the shareholding of the company in proportion to their procurement from the project.

Key financial indicators: Not applicable/meaningful as the project has commenced operations in FY2023

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Feb 29, 2024 (Rs. crore)	Date & rating	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
								Apr 23, 2024
1	Term loan	231.06	220.74	[ICRA]BBB+ (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	
2	Unallocated	6.71	-	[ICRA]BBB+ (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – 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: [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	Term loan	Sep 2021	-	Sep 2039	231.06	[ICRA]BBB+ (Stable)
NA	Unallocated	-	-	-	6.71	[ICRA]BBB+ (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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