

October 21, 2024

SAEL Solar P5 Private Limited: [ICRA]BBB+(Stable) assigned

Summary of rating action

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|----------------------------------|-------------------------------------|-------------------------------|
| Long-term fund-based – Term loan | 1794.00 | [ICRA]BBB+ (Stable); assigned |
| Total | 1794.00 | |

*Instrument details are provided in Annexure-I

Rationale

The assigned rating factors in the high revenue visibility and low offtake risk for the 500-MWdc/400 MWac solar power project of SAEL Solar P5 Private Limited (SSP5) because of the long-term (25 years) power purchase agreement (PPA) with Gujarat Urja Vikas Nigam Ltd (GUVNL; rated [ICRA]AA-/Stable/[ICRA]A1+) for the entire capacity at a fixed tariff of Rs. 2.7 per unit. The rating draws comfort from the presence of a strong counterparty like GUVNL and the payment security mechanism under the PPA, with a provision for letter of credit equal to average one-month billing. These factors, along with the superior tariff competitiveness of the project, mitigate the counterparty credit risk for the company.

The rating also factors in the expected managerial and financial support from the parent – SAEL Industries Limited (SIL) - in case of any requirements. SIL is promoted by the Awla family and has received investments from Norwegian Investment Fund and US Development Finance Corporation Fund. It has a diversified renewable portfolio consisting of solar and waste-to-energy power projects. As of September 2024, SIL through its various subsidiaries has an operational portfolio of 439 MWdc (362 MW solar and 77 MW waste-to-energy projects) and under-construction portfolio of 4180 MWdc (4090 MW solar and 90 MW waste-to-energy projects) which is expected to be operational in phases by FY2027.

Further, the rating positively considers the low funding risk for the project as the entire debt funding (Rs. 1794.0 crore) has been tied up with a long maturity profile and with 100% promoter contribution (Rs. 722.0 crore) infused till date. Post commissioning, the company's debt coverage metrics are expected to be adequate with the cumulative debt service coverage ratio (DSCR) at ~1.20x over the debt tenure, supported by the long-term PPA, the long tenure of the debt and a competitive interest rate.

The rating is, however, constrained by the moderate execution risks associated with the project, given that solar module installation and evacuation infrastructure is still pending. However, ICRA takes comfort from the fact that the entire land has been taken on lease from Gujarat State Electricity Corporation Limited (GSECL) at the Khavda Solar Park, Kutch, Gujarat and the solar module procurement is also complete. The project is expected to be commissioned by May 2025. The company's revenues and cash flows would remain sensitive to the variation in weather conditions and seasonality, post commissioning, because of the single-part fixed tariff under the PPA. Additionally, the company remains exposed to asset concentration risk, as the entire capacity is located at a single site in Gujarat. Therefore, the ability of the project to achieve the design P-90 PLF, post commissioning, on a sustained basis remains crucial from a credit perspective.

Further, the project credit metrics would remain exposed to the movement in interest rates, given the fixed tariff under the PPA, a leveraged capital structure with the project cost being funded through debt to equity of 72:28 and a floating interest rate. Also, the company remains exposed to the regulatory challenges of implementing the scheduling and forecasting framework for the solar power sector.

The Stable outlook assigned to the long-term rating of the company factors in the expected timely commissioning of the project without any cost overruns, supported by the long-term PPA with a strong counterparty, i.e., GUVNL, thereby providing revenue visibility, post commissioning.

Key rating drivers and their description

Credit strengths

Experienced parent with a demonstrated track record in developing and operating renewable assets – SSP5 is a 100% subsidiary of SIL. SIL is promoted by the Awla family and has received investments from Norwegian Investment Fund and US Development Finance Corporation Fund. The company has a qualified and experienced management team with a track record in developing and operating renewable power projects across the country. As of September 2024, SIL through its various subsidiaries has an operational portfolio of 439 MWdc (362 MW solar and 77 MW waste-to-energy projects) and under-construction portfolio of 4180 MWdc (4090 MW solar and 90 MW waste-to-energy projects) which is expected to be operational in phases by FY2027.

Revenue visibility with presence of long term PPA with GUVNL at competitive tariff rate – SSP5 has signed a long-term (25 years) power purchase agreement (PPA) with GUVNL for the entire capacity at a fixed tariff of Rs. 2.70 per unit, providing high revenue visibility and ensuring low offtake risk for the 400- MWac solar power project. The tariff offered by the project remains highly competitive in relation to the average power purchase cost of GUVNL.

Low counterparty risk - The rating draws comfort from the presence of a strong counterparty like GUVNL and the payment security mechanism under the PPA, with a provision for letter of credit equal to average one-month billing. Further, the additional provisions in the PPA related to compensation in case of grid curtailment or backdown and the termination liability provide comfort. These factors, along with the superior tariff competitiveness of the project, mitigate the counterparty credit risk for the company.

Adequate debt coverage metrics and liquidity profile - SSP5's debt coverage metrics are expected to be adequate with the cumulative DSCR estimated at ~1.2 over the debt tenure, supported by the availability of a long-term PPA, the long tenure of the debt and competitive interest rates. The liquidity profile of the company is expected to be supported by the presence of a two-quarter debt service reserve over the tenure of the term loan, post commissioning. Additionally, SIL is expected to extend funding support in case of any cash flow mismatch.

Credit challenges

Moderate execution risks - SSP5 remains exposed to moderate execution risks, given that solar module installation and evacuation infrastructure is still pending. However, ICRA takes comfort from the fact that 100% of the land has been taken on lease from GSECL at the Khavda Solar Park, Kutch, Gujarat and the solar module procurement is also complete. The company is responsible for connecting the solar power plant to the internal pooling substation by cables. GSECL will be responsible for the development of the internal pooling substations and the associated transmission lines up to the Central Transmission Utility of India Limited (CTUIL) station. Hence, timely completion of the evacuation infrastructure remains important as the project is expected to be commissioned by May 2025.

Debt metrics of solar projects sensitive to PLF levels - The company's revenues and cash flows would remain sensitive to the variation in weather conditions and seasonality, post commissioning, because of the single-part fixed tariff under the PPA. Any adverse variation in weather conditions and/or module performance may impact the power generation and consequently the cash flows. The geographic concentration of the asset amplifies the generation risk. Therefore, the ability of the project to achieve the design P-90 PLF on a sustained basis remains crucial.

Exposed to interest rate risks - The capital structure of the company is leveraged, evident from the debt-funded capex deployed for setting up the project. Therefore, the debt coverage metrics remain exposed to the interest rate movement, given the fixed tariff under the PPA.

Regulatory risks - The company's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for renewable energy projects, given the variable nature of solar power generation.

Liquidity position: Adequate

The liquidity position of SSP5 is supported by the infusion of equity/promoter contribution and the debt tie-up for the project. The entire promoter contribution of Rs. 722.0 crore had been infused in the company. Also, the company has drawn ~38% of the sanctioned term debt as on August 1, 2024, with the balance ~62% available to meet the pending capital cost. Further, the parent is expected to bring in additional funds in case of any cost overrun. Post commissioning, the liquidity of the company is expected to be supported by the presence of a two-quarter debt service reserve, with one quarter being funded upfront. Also, the company is expected to generate adequate cash flow from operations against an annual debt repayment obligation of ~Rs. 27 crore in FY2026.

Rating sensitivities

Positive factors – ICRA could upgrade SSP5’s rating if the project achieves timely commissioning without any cost overruns, along with the demonstration of generation performance in line or above the P-90 estimates, post commissioning, resulting in comfortable debt coverage metrics. Further, ICRA could upgrade SSP5’s rating if the credit profile of the parent improves.

Negative factors - The rating could be downgraded if there are significant delays in commissioning the project, resulting in cost overruns, or if the generation performance remains below the P-90 level, post commissioning, adversely impacting the debt coverage metrics. A specific credit metric for downgrade is the cumulative DSCR falling below 1.15 times on a sustained basis. The rating could also be revised downwards if the credit profile of the parent weakens.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology Power - Solar |
| Parent/Group support | Parent Company: SAEL Industries Limited ICRA expects SSP5’s parent, SIL, to be willing to extend financial support to SSP5, should there be a need |
| Consolidation/Standalone | The rating is based on the standalone financial profile of the company |

About the company

SSP5 is a wholly-owned subsidiary of SAEL Industries Limited. The company is developing a 400 MW (AC)/500-MW (DC) solar power project at Khavda Solar Park, Bhuj, in the Kutch district of Gujarat and has signed a 25-year PPA at Rs. 2.70/unit with GUVNL for power offtake. The project is expected to be commissioned by May 2025

Key financial indicators (audited) - Not meaningful as project is under construction

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Current (FY2025) | | | Chronology of rating history for the past 3 years | | | | | |
|---------------------------------|------------------|-------------------------|---------------------|---|--------|--------|--------|--------|--------|
| | Type | Amount rated (Rs crore) | October 21, 2024 | FY2024 | | FY2023 | | FY2022 | |
| | | | | Date | Rating | Date | Rating | Date | Rating |
| Long term fund based -Term loan | Long term | 1794.00 | [ICRA]BBB+ (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 | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|-----------------|------------------|-------------|----------|--------------------------|----------------------------|
| NA | Term loan | FY2025 | NA | FY2039 | 1794.00 | [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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