

December 17, 2024

FA Power Renewables Hindupur Private Limited : [ICRA]BB(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	52.25	[ICRA]BB(Stable); assigned
Total	52.25	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating for FA Power Renewables Hindupur Private Limited (FAPRHPL) factors in the limited demand and tariff risks for its 20-MWac solar project due to the presence of long-term (25 years) power purchase agreements (PPA) with industrial customers at a fixed tariff under the captive mode. Further, the tariff offered by the company is at a discount to the state grid tariff rate, resulting in cost savings for the customers.

The rating is, however, constrained by the risks associated with the timely completion of the pending construction work and the receipt of approval for long-term open access. Nonetheless, comfort is drawn from the availability of the required land and the advance progress made in construction work with module installation and transmission line complete for a part capacity of 10 MW. Further, the entire debt funding (Rs. 52.25 crore) for the project has been tied up with a long maturity profile and a significant portion of promoter contribution has been infused till date. The commencement of operation for 10 MW is expected by January 2025 and for the entire capacity of 20 MW from March 2025. The completion of the pending work and the receipt of open access approvals remain the key monitorables for the company. Additionally, the company remains exposed to asset concentration risk as the entire capacity is located at a single site in Andhra Pradesh.

Post commissioning, the company's cash flows and debt protection metrics would remain sensitive to its generation performance, given the single-part tariff under the PPAs. Any adverse variation in weather condition and equipment performance can impact the generation levels and consequently the cash flows. The demonstration of generation performance in line or above the appraised P-90 PLF levels remains another key credit monitorable. Also, given the modest credit profiles of the counterparties, timely collections from them remain important, post commissioning.

ICRA notes that the debt coverage metrics remain exposed to the interest rate movement as the floating interest rates are subject to regular resets. ICRA also notes that the termination payments under the PPA during the lock-in period would not cover for the entire debt outstanding. Nonetheless, comfort can be drawn from the competitive tariffs offered by the company to its customers against the grid tariff. Further, the company's operations remain exposed to the regulatory risks associated with forecasting & scheduling regulations, the norms for captive projects and open access charges.

The Stable outlook assigned to the long-term rating factors in the expected timely commissioning of the project without any cost overruns, supported by the long-term PPAs, thereby providing revenue visibility, post commissioning.

Key rating drivers and their description

Credit strengths

Revenue visibility from long-term PPAs at a competitive tariff - FAPRHPL has signed long-term PPAs with industrial customers covering the entire capacity. The PPA tenor for the project is 25 years, sealed at a competitive tariff with a lock-in period of 15 years, thereby limiting the demand and tariff risks.

Competitive tariff at a discount to grid tariff- The PPA tariff offered by the company is at a discount to the state grid tariff rates, resulting in cost savings for the customers.

Credit challenges

Project execution risk - The solar power plant under FAPRHPL is exposed to project-related risks as it has not yet commenced operations. However, the project is at an advanced stage of completion with commercial operations for 10 MW expected by January 2025 and the entire capacity of 20 MW by March 2025. Going forward, a timely commissioning of the entire project capacity and stabilisation of the operations post commissioning remain the key monitorable.

Single-asset operations; sensitivity of debt metrics to energy generation - FAPRHPL is entirely dependent on power generation by the solar power project for its revenues and cash accruals, given the single-part nature of the tariff. As a result, any adverse variation in weather conditions and module performance may impact its generation and consequently its cash flows, post commissioning. The single location and single-asset nature of the company’s operations amplifies this risk.

Exposure to interest rate risks- The company’s debt coverage metrics remain exposed to any movement in interest rate as the floating interest rates are subject to regular resets, and a leveraged capital structure.

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

The company’s liquidity profile is expected to remain stretched due to the pending promoter contribution required to commission the project and the pending DSRA creation. Further, a timely commissioning of the project remains critical as the principal repayment on the term loan is expected to start from April 2025.

Rating sensitivities

Positive factors – ICRA could upgrade the company’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.

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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power-Solar
Parent/Group support	Not Applicable
Consolidation/Standalone	To arrive at the rating, ICRA has considered the standalone financials of the company

About the company

FAPRHPL is a special purpose vehicle (SPV) promoted by FA Power Renewables Private Limited. The company is developing a 20-MW (AC) solar power project at Neelakantapuram, Andhra Pradesh, and has signed a 25-year PPA with industrial customers for power offtake. The entire project is expected to be commissioned by March 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						
				FY2024		FY2023		FY2022		
				Date	Rating	Date	Rating	Date	Rating	
Term loan - Fund based	Long Term	52.25	December 17, 2024	[ICRA]BB (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 – Fund based	July 2024	NA	FY2039	52.25	[ICRA]BB(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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