January 15, 2025

VSV Offsite Private Limited: Rating reaffirmed ; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT – Fund-based – Term loan	4.20	4.20	[ICRA]A- (Positive); reaffirmed; outlook revised to Positive from Stable
Total	**4.20**	**4.20**	

**Instrument details are provided in Annexure-I*

Rationale

The change in the outlook on the long-term rating assigned to VSV Offsite Private Limited (VSV) to Positive from Stable reflects ICRA's opinion that the cash flows from the solar project will remain healthy, going forward, driven by a sustained generation performance in line with the P-90 level and a timely receipt of payments from the creditworthy offtakers.

The rating reaffirmation derives comfort from the cash pooling mechanism available with the fellow group subsidiaries, FPEL MAHA 2 Private Limited {FPEL MAHA 2, rated [ICRA]A-(Positive)} and FPEL Stellar Energy Private Limited {FPEL Stellar, rated [ICRA]A-(Positive)}, wherein any shortfall in debt servicing in one company can be met through the cash surplus available with the other companies prior to the due date of debt servicing.

The rating also considers the satisfactory generation performance in FY2024 and 8M FY2025 for the solar power projects operating under the three SPVs (cumulative capacity of 16.56 MW). Further, comfort is drawn from the limited demand risks due to the presence of a 25-year long-term power purchase agreement (PPA) at a fixed tariff with a creditworthy offtaker under the group captive mode which is expected to result in timely receipt of payments, as demonstrated so far.

Also, the tariff offered is highly competitive, being at a significant discount to the grid tariff rates. ICRA notes that the company is a subsidiary of Fourth Partner Energy Private Limited (FPEL), which has a track record of providing support to its subsidiaries in case of any requirements.

The rating is, however, 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 PPA. This constraint is amplified by the geographic concentration of the asset. The ability of the company to demonstrate generation in line or above the design PLF levels on a sustained basis remains important.

The rating also factors in the risk of cash flow mismatch as the PPA has a lock-in period of 10-15 years, while the debt repayment is spread across ~18.5 years. Nonetheless, comfort can be drawn from the highly competitive tariff 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 commercial and industrial (C&I) customers.

The company is also exposed to interest rate risks, given the leveraged capital structure and floating interest rates that are subject to regular resets. Further, the company's operations remain exposed to the regulatory risks associated with forecasting & scheduling regulations, norms for captive projects and open access charges. Any significant increase in the open access charges or imposition of new charges will be borne by the offtaker and would impact the savings of the customer.

Key rating drivers and their description

Credit strengths

Revenue visibility from long-term PPAs –Long-term PPAs (25 years) have been signed for all the three projects at a fixed tariff under the group captive mode, providing revenue visibility and limiting the demand as well as pricing risks. The customers have also subscribed to the equity capital of the respective projects, as required under the group captive regulations.

Satisfactory credit profile of customers – The PPAs are signed with commercial and industrial customers with satisfactory credit profiles. This is expected to result in timely receipt of payments, as demonstrated in the past.

Highly competitive tariff – The tariff rate offered by the company is at a significant discount to the state grid tariff rates. Moreover, the power supplied by pool companies would enable the customers to meet their renewable purchase obligations as well as their sustainability goals.

Credit challenges

Debt metrics of solar projects sensitive to PLF levels –The debt coverage metrics of the company remain exposed to the generation level, given the one-part 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. The ability of the company to demonstrate generation in line or above the design PLF levels on a sustained basis remains important.

Risk of cash flow mismatch owing to lower lock-in period in PPA in relation to debt tenure – The PPA has a lock-in period of 10-15 years, lower than the debt repayment tenure of 18.5 years, which could lead to a risk of cash flow mismatch. Also, the termination payment under the PPA does not cover the entire debt outstanding. Nonetheless, comfort can be drawn from the significant discount offered by the company to its customer 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 pool companies to replace the customer.

Exposed to interest rate risks – The interest rate on the term loan availed by the company for its projects are floating and subject to regular resets. The debt coverage metrics are exposed to movements in interest rates, given the fixed nature of the tariff under the PPA and a leveraged capital structure.

Regulatory risks – The company's operations are exposed to regulatory risks pertaining to the scheduling and forecasting requirements of solar power projects 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 is expected to be adequate, aided by positive cash flow from operations. The steady cash flow will be supported by the long-term PPA at a fixed rate for the solar power project and expectation of timely receipt of payments from the customer, given its satisfactory credit profile. The liquidity is further supported by a debt service reserve account (DSRA) equivalent to two quarter's debt servicing. The cash balances, including DSRA of Rs. 0.11 crore, stood at Rs. 0.26 crore as of December 2024.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the actual generation level is in line or higher than the P-90 estimate on a sustained basis and if the payments from the offtakers are timely, leading to an improvement in the pool's credit metrics.

Negative factors – The rating can be downgraded if the actual generation performance is lower than the 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 downgrade include the cumulative DSCR on the pool debt falling below 1.20 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VSV Offsite Private Limited, FPEL MAHA 2 Private Limited and FPEL Stellar Energy Private Limited

About the company

VSV is a subsidiary of Fourth Partner Energy Private Limited (FPEPL), wherein FPEPL holds a 73.13% shareholding, while the remaining 26.87% stake is held by the offtaker. VSV owns and operates a 1.5-MWp solar power project at Katol tehsil in the Nagpur district in Maharashtra. The project was fully commissioned on August 11, 2022. The company has tied up a 25-year long-term power purchase agreement (PPA) with a C&I customer under the captive mode. As required under group captive regulations, the customer has subscribed to the shareholding of the company.

About the companies in the cash pooling structure

Under the cash pooling portfolio, there are three SPVs – VSV Offsite Private Limited, FPEL MAHA 2 Private Limited and FPEL Stellar Energy Private Limited. The combined portfolio includes solar projects with a capacity of ~16.56 MW in Maharashtra, India. The companies have signed PPAs with the various reputed commercial and industrial customers.

Key financial indicators (audited)

Consolidated for 3 SPVs*	FY2023	FY2024
Operating income	6.7	8.4
PAT	-1.7	-7.1
OPBDIT/OI	71.5%	76.0%
PAT/OI	-25.7%	-83.9%
Total outside liabilities/Tangible net worth (times)	6.7	34.9
Total debt/OPBDIT (times)	6.5	6.5
Interest coverage (times)	0.9	1.0

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; * Consolidated by ICRA*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)					Chronology of rating history for the past 3 years					
	FY2025					FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Jan 15, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long term - Term loan - Fund based	Long term	4.20	[ICRA]A- (Positive)	27-JUN-2024	[ICRA]A- (Stable)	-	-	27-MAR-2023	[ICRA]A- (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 / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan**	September 2022	-	FY2042	4.20	[ICRA]A- (Positive)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
FPEL Stellar Energy Private Limited	-	**Full Consolidation**
FPEL MAHA 2 Private Limited	-	**Full Consolidation**
VSV Offsite Private Limited	-	**Full Consolidation**

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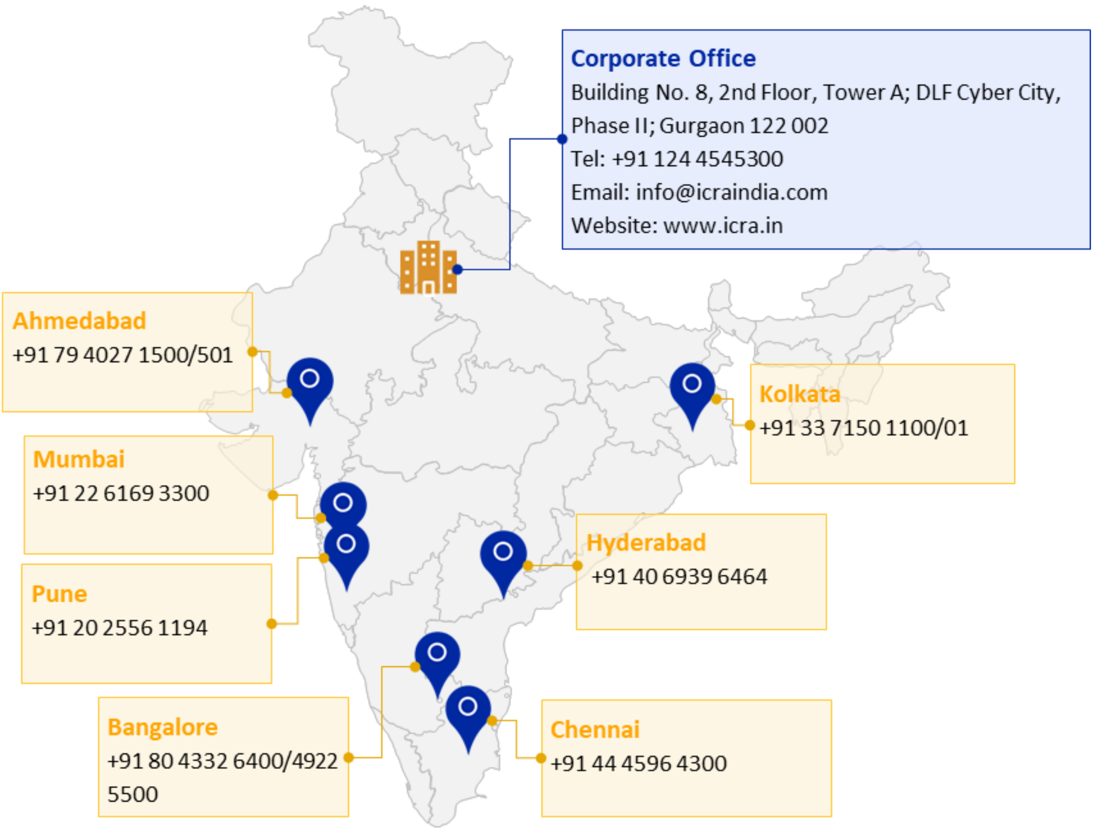

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