April 23, 2021

Suprasanna Solaire Energy Private Limited: Rating upgraded to [ICRA]A- (Stable); removed from watch with developing implications and Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	112.00	112.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ &; removed from watch with developing implications and stable outlook assigned
Total	**112.00**	**112.00**	

**Instrument details are provided in Annexure-1*

Rationale

The resolution of the watch[1] on the rating assigned to Suprasanna Solaire Energy Private Limited (SSEPL) factors in the completion of the 49% stake divestment in SSEPL to Sekura Energy Limited (SEL), a portfolio company of Edelweiss Infrastructure Yield Plus (EIYP) in March 2021 by Engie group entity, Solairedirect Energy India Private Limited (SEIPL). The balance 51% shareholding of the company remains with SEIPL. SEL is expected to increase its stake in SSEPL to 74% in the near term.

The rating upgrade factors in the increase in the cash debt service reserve account (DSRA) by SSEPL to four quarters of debt servicing from two quarters earlier. This along with the availability of undrawn working capital lines provide a healthy liquidity buffer equivalent to six quarters of debt servicing. Further, the rating factors in the satisfactory operating track record of the 20-MW solar photovoltaic (PV)-based project of SSEPL. The project PLF has remained higher than P-90 estimate since commissioning in January 2017. The generation level has improved to 21.31% in 11M FY2021 from 21.08% in FY2020. The demand risk of the project remains limited because of the presence of long-term power purchase agreement (PPA) of 25 years with Southern Power Distribution Company of Telangana Limited (TSSPDCL). The rating also factors in the company's operating expertise from association with France-based utility major Engie. The operations & maintenance (O&M) of the plant would continue to be serviced by Engie group entity, Solairedirect India LLP. The rating also takes note of the experience as well as the management quality of the new promoter group (SEL / EIYP), which has large investments in sectors such as power transmission, renewables, roads and highways etc. Moreover, ICRA takes note of the company's healthy the debt coverage metrics with cumulative DSCR on the project debt estimated to remain above 1.25 times, supported by the healthy operating performance and the long maturity of the project debt.

The rating, however, is constrained by the exposure to counter party credit risk pertaining to the sole off-taker, TSSPDCL, as evident from the substantial delays in receiving payments in the past. ICRA notes that the overdue receivables position of the company has improved to around seven months, as TSSPDCL cleared dues of four months (with the last bill pertaining to generation of July 2020) in March 2021 using the funds received from the Power Finance Corporation (PFC)/ Rural Electrification Corporation (REC) as a part of the Government of India (GoI's) liquidity infusion scheme. Nonetheless, the exposure to counterparty credit risk continues and timely collection of payments from TSSPDCL on a sustained basis will be a key monitorable. The project is also exposed to the risk of grid curtailments, given that the PPA tariff of Rs.6.59 /unit is higher than the competitively-bid tariff rates for sourcing of solar energy as well as the average power purchase cost of the off-taker utility. Nonetheless, the company has not faced any grid availability issues from TSSPDCL till date. Further, the rating is constrained by the vulnerability of cash flows to weather conditions and module performance, as the revenues are linked to actual units generated and exported, considering the single part and fixed nature of the tariff under the PPA. However, the

[1] ICRA had earlier placed the rating of SSEPL on watch with developing implications, following the announcement of Engie's strategic partnership with Edelweiss Infrastructure Yield Plus for divestment of 74% stake in 12 solar assets in January 2020

variance in cash flows due to variation in solar irradiance level remains relatively low for solar PV-based projects compared to other renewable source-based projects. The rating also factors the geographic-concentration risk as SSEPL's solar asset is at a single location. The ratings also take note of the warranty cover on the performance of PV modules from Original Equipment Manufacturer (OEM) suppliers as well as a third-party insurance cover to mitigate the risk of warranty not being honoured by OEM suppliers. However, the extent to which the warranty and the insurance term are honoured remains to be seen in the long run. Further, the debt coverage metrics of SSEPL remain exposed to the interest rate movement, given the fixed tariff under the PPA. Moreover, ICRA also notes that the company's operations remain exposed to the regulatory challenge arising from the implementation of scheduling and forecasting framework, given the limited experience in scheduling and forecasting for the industry players in India and the variable nature of solar energy generation.

The Stable outlook on the long-term rating for SSEPL reflects ICRA's expectation that SSEPL's operating performance would remain healthy and the company's overall liquidity buffer for servicing the debt obligations would remain adequate in the near to medium term.

Key rating drivers and their description

Credit strengths

Healthy operational track record since commissioning with performance above P-90 estimates – The 20-MW (AC) / 24-MW (DC) solar power plant has a satisfactory track record since fully commissioning in January 2017. The project PLF over the past four years remained higher than the P-90 generation estimate of 20.71%.

Low demand risk because of long-term PPA with TSSPDCL – The demand risk for the project remains limited because of the long-term PPA of 25 years with TSSPDCL at a tariff of Rs. 6.59/unit.

Comfortable debt coverage metrics and healthy liquidity buffer – The debt coverage metrics of the project are expected to remain comfortable supported by the long tenure of project debt, the healthy operating performance and attractive tariff rates. The cumulative DSCR on the project debt is estimated to remain above 1.25 times over the debt repayment tenure. Further, the presence of DSRA equivalent to four quarters of debt obligations along with unutilised working capital facility of Rs.7.89 crore also provides comfort from the credit perspective.

Operational expertise from association with France-based Engie Group – The rating factors in the company's operating expertise from association with France-based utility major Engie. The operations & maintenance (O&M) of the plant would continue to be serviced by the Engie group entity, Solairedirect India LLP.

Credit challenges

Exposure to counterparty credit risk – The company's operations remain exposed to the counterparty credit risk of TSSPDCL, as it is the sole off taker. The credit profile of TSSPDCL remains weak owing to inadequate tariffs in relation to its cost of supply and high subsidy dependence. SSEPL was earlier facing delays of 10-12 months in receipt of payments from TSSPDCL. However, payments till generation of July 2020 were cleared by TSSPDCL on March 25, 2021, reducing the overdue receivable position to around seven months. The company's receivables stand at Rs.14.17 crore as on March 31, 2021. While receivable position has improved with receipt of payments under liquidity scheme, it continues to remain high. Nonetheless, the liquidity position of the company is supported by the presence of four quarters of DSRA and undrawn working capital facility. Timely collection of payments from TSSPDCL on a sustained basis will be a key monitorable from the credit perspective.

Weak cost competitiveness of PPA tariff – SSEPL remains exposed to the risk of grid curtailment by TSSPDCL, given the relatively high PPA tariff (Rs.6.59 / unit) against the average power purchase cost of the state distribution utility and the recent competitively bid tariff rates for sourcing solar energy.

Variance in cash flows due to changes in solar irradiance – The key factors that may impact the operations of the solar plant are solar radiation levels, losses in PV systems due to temperature and climatic conditions, design parameters of the plant, inverter efficiency and module degradation due to ageing. Given the single-part tariff structure, any under-performance in generation would impact the cash accruals and, in turn, the debt coverage metrics. However, the variance in solar irradiance levels has historically been much lower than the variance in other sources of renewable energy, such as wind and hydro-power projects.

Exposure to risk associated with single asset, amplified by geographical concentration of plant in one location – The risk of variability in cash flows is amplified by the geographical concentration of the plant.

Exposure to interest rate risk – The debt coverage metrics of SSEPL remain exposed to interest rate movement, given the single part and fixed tariff under the PPA.

Challenges associated with implementation of forecasting and scheduling regulations – The regulatory challenges from the proposed implementation of scheduling and forecasting framework for solar power projects in Telangana pose a risk, given the limited experience in scheduling and forecasting for the industry players in India and the variable nature of solar energy generation.

Liquidity position: Adequate

The liquidity position of the company remains adequate supported by the presence of DSRA equivalent to four quarters of debt servicing and unutilised fund based working capital limits of Rs.7.89 crore (~2 quarters of debt servicing) as of March 2021.

Rating sensitivities

Positive factors – Specific credit metrics that could lead to an upgrade of SSEPL's rating include sustained improvement in collection pattern from Telangana state discom, along with continuation of the healthy generation performance above the appraised estimates.

Negative factors – Negative pressure on SSEPL's rating may arise in case (a) there is any material underperformance in generation from the current level leading to weakening of annual DSCR on project debt to less than 1.20 times or (b) accumulation of receivables from the discom adversely affecting the liquidity position

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity

About the company

SSEPL was incorporated to set-up a 20 MW (AC) / 24 MW (DC) grid connected solar PV project at Medak district in Telangana won through competitive bidding under the State Solar Policy. The company has signed a PPA with TSSPDCL at Rs.6.59/unit for the entire capacity. The project was entirely commissioned in January 2017. SSEPL was promoted by a France-based utility major Engie through Solairedirect Energy India Private Limited (SEIPL). As on date, Engie has completed the divestment of 49% of SSEPL's shareholding to Sekura Energy Limited, a portfolio company of Edelweiss Infrastructure Yield Plus (EIYP) Fund in March 2021. The 51% shareholding of the company remains with SEIPL.

Key financial indicators (audited)*

SSEPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	25.42	24.48
PAT (Rs. crore)	0.84	-0.89
OPBDITA/OI (%)	91.27%	89.86%
PAT/OI (%)	3.32%	-3.65%
Total Outside Liabilities/Tangible Net Worth (times)	16.15	16.69
Total Debt/OPBDITA (times)	6.79	6.58
Interest Coverage (times)	1.52	1.42

**Ratios are as per ICRA's computation; PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation*
Promoter's contribution in the form of unsecured loans (subordinated to the external debt) is included in Total Debt and Total Outside Liabilities
Interest coverage includes interest expenses factoring in the interest on unsecured loans

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2020 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Apr 23, 2021	Jul 31, 2020	Jan 31, 2020	Jan 21, 2019
1	Term Loans	Long term	112.00	92.69	[ICRA]A- (Stable)	[ICRA]BBB+ &	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	September 2015	-	March 2031	112.00	[ICRA]A- (Stable)

Source: *Suprasanna Solaire Energy Private Limited*

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

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