

August 25, 2021

Solar Energy Corporation of India Ltd: Long-term rating upgraded and short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	350.0	350.01	[ICRA]AAA(Stable) revised from [ICRA]AA+(Positive)
Non-fund Based Limits	475.0	649.99	[ICRA]AAA(Stable) revised from [ICRA]AA+(Positive) / [ICRA]A1+ reaffirmed
Unallocated	175.0	0.0	-
Total	1000.0	1000.0	

*Instrument details are provided in Annexure-1

Rationale

The rating revision factors in the demonstrated ability of Solar Energy Corporation of India Ltd. (SECI) to invoke the tripartite agreement (TPA) in realising the overdues from state-owned discoms in Andhra Pradesh and Karnataka, along with an improvement in the available balance of the payment security fund (PSF). As SECI is one of the beneficiaries of the TPA signed between the Central Government, state governments and the Reserve Bank of India (RBI), the implementation of TPA sets a strong deterrent for other state-owned discoms to honour their power supply agreement (PSA) tariff obligations to the company in a timely manner. ICRA favourably notes the incremental power sale agreements (PSAs) of ~4.6 GW signed by SECI since December 2020 and announcement of Rs. 1,000-crore equity infusion by the Finance Minister in the budget session in February 2021.

The rating continues to draw comfort from the company's strong parentage [100% owned by the Government of India (GoI)] and its strategic role in promoting the renewable energy sector in India, which is a thrust area of the Government. ICRA favourably considers the fact that SECI, which signs power purchase agreements (PPAs) with developers, enters into back-to-back PSAs with discoms, mitigating any risks related to demand, execution or operations. ICRA also positively factors in the trend exhibited by most of the discoms in opening the requisite letters of credit (LCs) as payment security in favour of SECI, post notification of the LC requirement in August 2019 by the Ministry of Power (MoP), GoI. Further, the improved tariff competitiveness of both wind and solar energy is a positive from the discom's perspective, given that the weighted average PSA tariff for the projects with aggregate capacity of 45 GW remains at Rs. 3.0 per unit, which is much lower than the average power purchase cost (APPC) for most discoms. The rating is also supported by the company's low risk and high margin fee-based income stream, wherein it gets a fixed percentage of the funds disbursed either for viability gap funding (VGF) or Central Financial Assistance (CFA)-based schemes of the GoI and/or receives success fee on signing of PPA with developers. ICRA notes the satisfactory performance of SECI's own plants. Moreover, ICRA continues to factor in the company's strong financial profile as reflected by an increasing scale of operations, healthy cash accruals, debt-free capital structure and strong debt protection indicators.

Nevertheless, the company remains exposed to counterparty credit exposure with respect to the state-owned discoms, most of which have weak financial health. The financial position of the state-owned distribution utilities in many states remains weak, given the lower-than-expected reduction in aggregate technical and commercial (AT&C) loss level, tariff inadequacy and insufficient subsidy support from their respective state governments. ICRA further notes that the currently available PSF is only restricted to capacity awarded till Phase II – Batch IV under NSM. SECI has requested for an additional PSF of Rs. 500 crore from the Ministry of New and Renewable Energy (MNRE) and the timely availability of the same remains important. This apart, the company expects the PSF to be partially funded through upfront contribution (as per the amended bidding guidelines dated October 2019) from the winning developers for the awarded capacity under inter-state transmission system (ISTS)

tranches. SECI has requested for an approval from the MNRE and the Power Ministry to club the PSF for all the schemes which is at an advanced stage of approval. Finally, ICRA notes that the company intends to set up various utility scale renewable projects over the long term on its own balance sheet, depending upon the receipt of Government approvals and PPA tie-up. With respect to the same, the expected equity infusion from the GoI in the near term and timeliness of the same would remain important. This would, however, expose the company to execution-related risks (time and cost overruns).

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that SECI will continue to benefit from the strong policy focus of the Government on the renewable energy sector and beneficiary under TPA mechanism. Nonetheless, the progress over the receipt of payments from the key discoms, adequacy of PSF for the capacity awarded and tariff payment behaviour by discoms remain the key monitorables.

Key rating drivers and their description

Credit strengths

Strengths by virtue of sovereign parentage as SECI is 100% owned by GoI – SECI is under the administrative control of the MNRE, GoI and was set up on September 20, 2011, under the Companies Act, 1956 as an implementation and facilitation institution dedicated to the solar energy sector. It is the nodal agency for implementing the National Solar Mission (NSM or JNNSM) on behalf of the GoI. Policy focus from the GoI remains strong in the renewable energy sector and in that context, SECI also remains strategically important for the Government in fulfilling its renewable energy sector initiatives/targets.

SECI included in list of CPSU beneficiaries for TPA – Since October 2016, the company has been included as a beneficiary in the TPA, which is signed between the Central Government, state governments and the RBI. The TPA, has currently been signed by all but two states/UTs. Further, the invocation of TPA by SECI was done by in FY2020-21 against Andhra Pradesh discoms and one of the discoms in Karnataka, for recovery of a significant portion of the past overdues. SECI, being a beneficiary of TPA, acts as a key deterrent for the discoms to honour their PSAs. Under the TPA, CPSU can request the GoI, which in turn can further instruct the RBI to debit the amount due from the state government account held with it and credit the same amount to the account of the GoI/CPSU.

SECI as nodal agency is an intermediary – For its power trading business, SECI is an intermediary that has entered into PPAs with developers as well as PSAs with offtakers, i.e. state-owned distribution utilities. It is entitled to a trading margin of Rs. 0.07/unit subject to LC opening by it, as also notified by the CERC. By virtue of the PPAs signed only after signing of PSAs for the contracted capacity, it is largely insulated from any market risk and execution risk. In the event of any delays from the PSA counterparties/state discom, the payment security measures available in PSA such as availability of LC, escrow arrangement and power supply regulation for third-party sale of power provide the mitigating factors to a large extent. Further, the availability of compensation in case of grid back-down/grid unavailability as well as termination penalty payable by the state discoms in the event of default by discoms under PSAs provide comfort for the PPAs signed by SECI under ISTS tranches, based on the amended bidding guidelines.

Presence of PSF in place for NSM Phase II for aggregate commissioned capacity of ~5 GW – Of the Rs. 1,500 crore requested by SECI for PSF, the MNRE has sanctioned and released Rs. 500 crore for the capacity to be set up under NSM to cover for the payment delays by discoms. The PSF corpus has, however, increased over time as penalties recovered (encashment of PBG and LD) from developers along with interest income, which have been built-in into the fund. The size of the PSF stood at Rs. 1,200 crore and the total available fund balance in PSF remained at Rs. 806 crore as of June 2021 end.

Although the PSF provides liquidity cushion, it may be noted that its coverage currently does not include any other programme, except NSM (Phase II: Batch I, III and IV). The company has sought an approval from the Ministry regarding utilisation of the existing PSF in other schemes and an additional PSF of Rs. 500 crore. This apart, SECI expects the PSF to be partially funded through upfront contribution (as per the amended bidding guidelines dated October 2019) from the winning developers for the awarded capacity under ISTS tranches.

Improved tariff competitiveness and availability of one-month LCs for most of the power – An improved tariff competitiveness of both wind and solar energy is a positive from the discom's perspective, given that the weighted average PSA tariff for the company's entire capacity of 45 GW is about Rs.3.0/unit, which is much lower than the APPC, which remains

well above Rs. 4/unit for most discoms across the states. The MoP had issued guidelines, making it mandatory for discoms to open and maintain adequate LCs as the PSM under PPAs. Similarly, it is mandatory for SECI to open LCs for developers. At the end of June 2021, the company had issued LCs of ~Rs. 559 crore to various developers and received LCs of ~Rs. 394 crore from various state discoms.

Comfortable financial profile – The company has a comfortable financial profile as reflected by its increasing scale of operations, healthy cash accruals, debt-free capital structure and strong debt protection indicators. Moreover, its healthy cash balances have resulted in a comfortable liquidity position.

Credit challenges

Exposure to counterparty credit risk due to weak financial position of most distribution utilities – ICRA takes into account the high counterparty credit risks arising from exposure to state-owned discoms, most of which are in weak financial health. The same previously resulted in large delays from state discoms of Andhra Pradesh and Karnataka. Overall, the financial position of the state-owned distribution utilities in many states has remained weak because of lower-than-expected reduction in aggregate technical and commercial loss (AT&C) level, tariff inadequacy and inadequate subsidy support. Nonetheless, the counterparty credit risk is mitigated largely due to a) superior competitiveness of PSA tariff, b) payment security mechanism available in PSA and c) high level of diversification in counterparty profile. Further, benefit of TPA acts as a deterrent for the state-owned discoms.

Unavailability of PSF (backed by budgetary support) for new schemes – At present, the PSF is available only for the capacities tendered under NSM Phase II- Batch I, III and IV. The company does not have funds available for the capacities auctioned under SBG tenders and will have to either use its internal funds or take external borrowings to meet the shortfall, if any. ICRA also notes that, SECI has requested for an approval from MNRE and Power Ministry to club the PSF for all the schemes which is at an advanced stage of approval. Moreover, as per the amendments done by the MNRE in the solar bidding guidelines in October 2019, developers will have to deposit Rs. 5 lakh per MW on commissioning of assets, which would be utilised as a PSF by SECI. However, the same is valid for solar tenders floated under SBG from Tranche V onwards. All wind ISTS auctions under SBG and solar ISTS auctions (conducted before October 2019), i.e., up to Tranche V, do not have the benefit of any PSF at present.

Execution risks for underlying projects in development stage – At present, SECI is operating 21 MW of projects on its own balance sheet. Moreover, the company has obtained approval for various other utility scale renewable projects having a significant capacity, which are currently in early stages of discussion/implementation. Once the company starts progress on these projects, it would be exposed to execution risks related to setting up a greenfield project. It has also begun executing a 100-MW solar project with battery storage in Chhattisgarh. The project is envisaged to be funded in a debt-equity ratio of 80:20 and 50% of the project cost is expected to be funded by the World Bank.

Liquidity position: Strong

SECI's liquidity profile is **strong** as reflected by availability of surplus funds, including free cash balances and cushion available in PSF. Over and above this, it has encumbered cash balances for providing grants/subsidies/VGF and PGDs are earmarked separately, which ensures availability of adequate funds. The company's total cash balance as of FY2021 end remained at Rs. 1,592 crore. Additionally, it has unutilised fund-based working capital limits of ~Rs. 350 crore as on July 2021 end. The company also has LCs available from discoms, which can be encashed to improve liquidity. Moreover, SECI is a party to the tripartite agreement, which can be invoked by it in case of delays by a state government discom. Its future cash flows are expected to remain adequate to meet the internal requirements and ICRA does not envisage a cash flow mismatch for it. Further, ICRA takes comfort from the fact that SECI is a 100% GoI entity and is strategic for the Government's plan to install renewable energy capacity in the country. ICRA expects the support from the Government for SECI to be forthcoming in case of any requirement.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – The rating could be downgraded in case of delays in receipt of pending overdues beyond the next six months and continuation of payment delays from the counterparty discoms thereafter. Moreover, any material increase in the leveraging on the books of the company to meet funding requirements or change in promoter profile or any change in form/extent of policy support from the MNRE, GoI may trigger a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent/Group Company: Government of India/MNRE The support from the parent group is explicit as evident from the periodic equity infusions, availability of payment security fund and SECI's inclusion in the tripartite agreement; further, SECI is strategically important to GoI, given the strong policy focus by the GoI in augmenting renewable capacity in the country
Consolidation/Standalone	The rating is based on the company's standalone financials

About the company

Solar Energy Corporation of India Ltd. (SECI) is under the administrative control of the MNRE, GoI and was set up in 2011, under the Companies Act, 2013 (erstwhile Companies Act, 1956) as an implementation and facilitation institution dedicated to the renewable energy sector.

- SECI is the implementing agency for many of the GoI's schemes, such as the commissioned 680-MW grid-connected solar PV project under Phase II Batch I of JNNSM, 2,000-MW Phase II Batch III and 5,000-MW Phase II Batch IV, wind and solar power projects connected to ISTS, wind solar hybrid projects, manufacturing-linked solar programme, rooftop solar PV programme, solar parks, CPSU scheme, canal top/bank scheme, solarisation of Indo-Pak border, etc.
- SECI acts as an offtaker of power under Phase II Batch I/III/IV and wind/solar ISTS tenders (except the first wind ISTS tender where PTC India Ltd is the offtaker) and subsequently sells it to state discoms under long-term PSAs.
- SECI owns a 10-MW solar power plant in Jodhpur, which was commissioned in March 2016 and sells solar power to NTPC Vidyut Vyapar Nigam Ltd under a 25-year PPA at a fixed tariff. It has also set up a 1-MW solar rooftop project at different locations in Andaman and Nicobar island and sells the power to Andaman and Nicobar Administration at a tariff of Rs. 4.64/unit. This project was set up in FY2018. It also operates a 10-MW solar plant, wherein the offtaker is DRDO.
- SECI undertakes project management and consultancy-based projects for CPSUs/Government entities looking to set up solar power projects.
- SECI has entered into a number of 50:50 JVs with various state agencies for the development of solar power parks.

Key financial indicators (standalone) (audited)

SECI Standalone	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	3235	4626	5443
PAT (Rs. crore)	129.4	178.9	177.7
OPBDIT/OI (%)	5.5%	4.5%	4.2%
PAT/OI (%)	4.0%	3.9%	3.3%
Total Outside Liabilities/Tangible Net Worth (times)	4.50	5.13	3.55
Total Debt/OPBDIT (times)	0.00	0.00	0.00
Interest Coverage (times)	4.50	5.13	3.55

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount Rated (Rs. crore)	Current Rating (FY2022)		Chronology of Rating History for the past 3 years					
			Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in August 25, 2021	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
					January 22, 2021	April 30, 2020	January 29, 2020	June 27, 2019	February 04, 2019	
1	Unallocated	Long term	0.0	-	-	[ICRA]AA+ (Positive)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Positive)/ [ICRA]A1+	[ICRA]AA+ (Positive)/ [ICRA]A1+
2	Non-Fund Based Limits	Long/ Short Term	649.99	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AA+ (Positive)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	-	-
3	Cash Credit	Long Term	350.01	-	[ICRA]AAA (Stable)	[ICRA]AA+ (Positive)	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-Fund Based Limits	Very Simple
Cash Credit	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, is available on ICRA's 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	Non-Fund Based Limits	NA	-	-	649.99	[ICRA]AAA (Stable)/ [ICRA]A1+
NA	Cash Credit	NA	-	-	350.01	[ICRA]AAA (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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