October 05, 2021 (Revised)

Solaire Urja Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	89.0	[ICRA]A (Stable) assigned
Working Capital Limits	8.67	[ICRA]A (Stable) assigned
Total	**97.67**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's assigned rating for Solaire Urja Private Limited (SUPL) favourably factors in the satisfactory generation performance of its 25-MW solar power plant (DC) in Punjab with the plant load factor (PLF) consistently remaining above the P-90 estimate for more than five years. ICRA factors in the presence of long-term power purchase agreement (PPA) for the entire capacity of SUPL with Punjab State Power Corporation Limited (PSPCL) at a fixed tariff of Rs. 6.88 per unit. Moreover, the payments from PSPCL are being consistently realised within 90 days from the date of invoice. Further, the rating draws comfort from the company's healthy debt coverage metrics, supported by a reduction in interest rates by ~300 bps and increase in door-to-door tenor of the project debt by about four years, post refinancing of its long-term debt recently. While the project leverage remains high because of the capital-intensive nature of operations, the debt coverage metrics are expected to be healthy with the cumulative debt service coverage ratio (DSCR) on the external debt (estimated) remaining above 1.6 times over the debt tenure. Additionally, ICRA notes that the servicing of the sponsor debt remains sub-ordinated to the external debt. The rating draws comfort from the presence of a strong sponsor, Sekura Energy Limited (SEL), which is operating more than 800 MW of renewable energy capacities in India at present.

The rating, however, is constrained by the vulnerability of SUPL's cash flows to weather conditions and module performance, as the revenues are linked to actual units generated and exported, considering the single part tariff under the PPA. Further, the geographical concentration of the full capacity at one location amplifies the risk. The rating is constrained by the counterparty credit risk, arising from the exposure to a single buyer, namely PSPCL, which has a modest financial profile. Further, solar power projects including SUPL, which have relatively higher tariff than the average power purchase cost of the state distribution utilities, may remain exposed to the risk of grid curtailment in future as seen in few other states, though the same has remained absent so far in Punjab. This apart, the company's debt coverage metrics are vulnerable to the interest rate movement, given the fixed tariff under the PPA. The rating factors in the regulatory challenge associated with the implementation of forecasting and scheduling mechanism for solar power projects in Punjab, considering the variable nature of solar energy generation. However, the risk is less prominent for solar power project as compared to wind power projects.

The Stable outlook assigned to the company factors in the presence of a long-term PPA with PSPCL, timely payments by the offtaker and the strong financial flexibility by virtue of being promoted by The Sekura Group.

Key rating drivers and their description

Credit strengths

Revenue visibility on account of long-term PPA with PSPCL – SUPL has low offtake risks owing to the presence of a long-term (25-year) PPA at a tariff of Rs. 6.88 per unit for the entire duration of the project, i.e., till April 2041. The long-term PPAs provide revenue visibility for the company.

Satisfactory operational performance with a track record – The 25-MW capacity was commissioned in April 2016 and has a generation track record of more than five years. During this time, the plant has consistently operated at a PLF above the P-90 estimate of 16.4%.

Strong financial flexibility on account of being promoted by Sekura Group – SUPL's sponsor, SEL, is 100% owned by Edelweiss Infrastructure Yield Plus fund (EIYP) fund, whose investment manager is Edelweiss Alternative Asset Advisors (EAAA). EIYP is a Securities and Exchange Board of India registered category-1 alternative investment fund trust with a capital commitment from a group of domestic and global investors. EIYP has investments in power transmission, roads and renewables with a strong management and technical team. The total assets under management by EAAA was over Rs. 300 billion as of March 2021 end. The asset selection approach of EIYP incorporates a strong filtering criterion to invest in high quality operating assets with low risk for cash yield and stable predictable returns. The EIYP fund is professionally managed with the operating team comprising strong sectorial experts.

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

Comfortable debt coverage metrics – The debt coverage metrics of the project are expected to remain comfortable supported by the long tenure of project debt and satisfactory operating performance. The company has undergone refinancing, which led to a decline in the interest rates by ~300 bps. As a result, the cumulative DSCR on the project debt is estimated to remain above 1.6 times over the debt repayment tenure. Further, the presence of DSRA, equivalent to two quarters of debt obligations, also provides comfort from the credit perspective.

Credit challenges

Moderate counterparty credit risk owing to exposure to state utility in Punjab – As PSPCL offtakes the entire quantum of the power generated, the company remains exposed to the state utility's credit risk profile, which is moderate. Any significant delay in payments by the counterparty will stretch its receivable cycle and, in turn, adversely impact the overall liquidity profile. However, ICRA takes comfort from the payment track record of the discom, which has consistently averaged at less three months since commissioning of the said project. The payment pattern will remain a key monitorable going forward as well.

Vulnerability of cash flows to variation in weather conditions – As tariffs are one part in nature, the company may book lesser revenues in the event of non-generation of power due to variation in weather conditions and/or equipment quality. This, in turn, would affect its cash flows and debt servicing ability. The geographical concentration of the asset amplifies the generation risk. Nonetheless, comfort is derived from the sourcing of PV modules from Tier-I suppliers and presence of an experienced O&M contractor.

Leveraged capital structure and exposure to interest rate risk – The company's capital structure remains leveraged due to the largely debt-funded nature of the project. Also, given the single-part nature of the fixed tariff in the PPA and floating interest rates, SUPL's profitability remains exposed to variation in interest rates.

Regulatory risks associated with implementation of scheduling and forecasting framework for solar sector – The company's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for renewable energy projects, given the limited experience of developers in operating in Indian conditions.

Liquidity position: Adequate

As on September 22, 2021, the company reported cumulative cash balances of ~Rs. 21 crore, which included two quarters' DSRA. Additionally, the SPV has Rs. 8.7-crore working capital limits, which are completely unutilised. It has a liquidity cushion of ~Rs. 30 crore as on date as against the annual external debt obligation of ~Rs. 12-13 crore. Going forward, ICRA expects the collection performance to remain satisfactory in line with the existing trends, as PSPCL has been making the payments within three months of invoice submission. The liquidity profile is expected to remain **adequate.** The internal cash flows from the project are likely to remain sufficient to meet the debt servicing obligations.

Rating sensitivities

Positive factors – ICRA could upgrade SUPL's rating in case of continuous demonstration of actual generation level in line or above the P-90 estimate leading to healthy cash accruals and reduction in leverage level.

Negative factors – The rating could be downgraded in case of significant underperformance in generation, adversely impacting the cash accruals. Additionally, the cumulative DSCR on project debt falling below 1.30 times, or any significant delays in receiving payments from the offtaker affecting SUPL's liquidity profile may trigger a rating downgrade.

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 profile of the company.

About the company

SUPL is operating a 25.0-MW (DC) solar power capacity in Punjab. The project was commissioned in April 2016. The company has signed 25-year PPA for its entire capacity with PSPCL at a fixed tariff of Rs. 6.88 per unit for the entire tenor of the PPA. SUPL was initially promoted by the Engie Group through its arm Solaire Direct India and subsequently the majority shareholding (74%) was acquired by the Sekura Group, a portfolio company of the Edelweiss Group.

Key financial indicators (audited)

NREPL Standalone	FY2019	FY2020	FY2021 (Provisional)
Operating Income (Rs. crore)	24.7	25.2	26.0
PAT (Rs. crore)	1.4	2.9	2.0
OPBDIT/OI (%)	90.9%	90.1%	85.6%
PAT/OI (%)	5.7%	11.7%	7.9%
Total Outside Liabilities/Tangible Net Worth (times)	6.01	5.19	4.33
Total Debt/OPBDIT (times)	5.41	5.14	4.96
Interest Coverage (times)	1.59	1.64	1.55

**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	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					October 5, 2021	-	-	-
1	Term Loan	Long-term	89.0	79.0*	**[ICRA]A (Stable)**	-	-	-
2	Working Capital Limits	Long-term	8.67	-	**[ICRA]A (Stable)**	-	-	-

**Rs. 10 crore is yet to be disbursed*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loan	Simple
Working Capital Limits	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/Lender's Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
L&T Finance Limited	Term Loan	FY2022	-	FY2036	89.0	[ICRA]A (Stable)
L&T Finance Limited	Working Capital Limits	-	-	-	8.67	[ICRA]A (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not applicable

Corrigendum

Details of lenders have been updated in Annexure 1

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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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