

April 26, 2022

Zerach Renewables Energy Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	19.88	[ICRA]A- (CE) (Stable); assigned
Total	19.88	

Rating without explicit credit enhancement	[ICRA]BBB+
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*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The assigned rating is based on the consolidation of 18 special purpose vehicles (SPVs) of the Cleantech Solar Group. The 18 SPVs under a co-obligor structure are – Zerach Renewables Energy Private Limited (ZREPL), CSE Solar Sunpark Maharashtra Private Limited, CSE Solar Sunpark Tamil Nadu Private Limited, Sunspring Solar Private Limited, CSE Solar Parks Satna Private Limited, Sunstrength Renewables Private Limited, Greenzest Sunpark Private Limited, Sunbarn Renewables Private Limited, Sorion Solar Private Limited, Strongsun Renewables Private Limited, CSE Dakshina Solar Private Limited, Fairsun Solar Private Limited, Flaresun Solar Private Limited, CSE Deccan Solar Private Limited, Flamesun Solar Private Limited, Sunsole Renewables Private Limited, Sunstreet Solar Private Limited and Sunstrength Solar Private Limited. These 18 SPVs are jointly responsible for servicing the debt, wherein any shortfall in meeting the debt obligation by any one of the SPVs shall be met through surplus cash flows from the other SPVs in the structure.

The assigned rating favourably factors in the long-term power purchase agreements (PPAs) for the solar power portfolio of 236.5 MW under the 18 SPVs with industrial customers at largely fixed tariffs under the captive mode, thereby limiting the demand and pricing risks. The tariffs offered under the PPAs are highly competitive in relation to the grid tariffs for these customers and these PPAs would enable these customers to meet their sustainability goals. Further, the rating draws comfort from the strong credit profile of these customers, which is expected to lead to timely realisation of payments for the SPVs. ICRA also takes note of the diversified solar power portfolio under the 18 SPVs of the co-obligor structure spread largely across Maharashtra, Tamil Nadu and Madhya Pradesh, partly insulating against variation in generation. The debt coverage metrics for the co-obligor pool are expected to remain adequate, supported by long-term PPAs, the long tenure of the debt and competitive interest rates. Further, a debt service reserve (DSRA) equivalent to two quarters of debt servicing funded from the project cost would support the liquidity profile of the pool.

The rating also factors in the benefits of the Cleantech Solar Group's experience in developing and operating solar power projects for commercial and industrial customers in India and South-East Asia along with the presence of strong shareholders like Shell. A consortium led by Keppel Corporation, a diversified conglomerate based out of Singapore, is acquiring a 51% stake in the ultimate holding company of the Group, Cleantech Renewable Assets Pte Limited (CRA). The balance 49% will continue to be held by Shell. CRA in turns holds 50% in Cleantech Solar Asia Pte Limited (CSA), with the balance 50% held by a fund managed by Climate Fund Managers. CSA is the holding company for the solar assets across India and South-East Asia. CSA holds the open access solar projects in India through Cleantech India OA Pte Limited (CIOA). The Keppel consortium proposes to increase its stake in CSA, going forward. ICRA would continue to monitor these developments.

However, the rating is constrained by the vulnerability of the cash flows and debt coverage metrics of the solar power projects to their generation performance, given the single part tariff under the PPA. Any adverse variation in weather conditions or inability to ensure adequate O&M practices for the solar assets would impact generation and consequently the cash flows. Given the limited track record of the portfolio, demonstration of generation performance in line or above the appraised estimate remains a key monitorable. Also, given that 13% of the portfolio is energised & awaiting commissioning and 42% of the portfolio capacity is under-construction, the commissioning and stabilisation of these assets in a timely manner remains important.

The rating also takes note of the risk of cash flow mismatch owing to the lower lock-in period under the PPAs in relation to the debt tenure for some of the portfolio SPVs. Moreover, the termination payments under the PPAs do not cover for the entire debt outstanding. Nonetheless, comfort can be drawn from the competitive tariffs offered by the SPVs and the Group's track record in securing PPAs with large industrial and commercial customers. Further, the open-access based capacity in the portfolio remains exposed to the regulatory risks of implementing the forecasting & scheduling regulations and revision in the regulations for captive projects and open access charges. While the open access charges are to be paid by the customers under the PPAs, any significant increase in these charges would impact the competitiveness of the tariffs.

The Stable outlook on the [ICRA]A- (CE) rating reflects the co-obligor portfolio's benefit through a steady revenue visibility, aided by the diversity of the assets having long-term PPAs as well as timely cash collections expected from the offtakers.

Adequacy of credit enhancement

The rating of the instrument is credit enhanced, based on the presence of a co-borrower arrangement among the 18 SPVs. Each of the SPVs under the co-obligor structure have separate trust and retention accounts (TRA), including DSRA, and each SPV will act as a co-obligor to the other's borrowing. In case of a shortfall in an SPV for servicing debt, the TRA account bank shall use the surplus cash available in the other SPV TRA accounts to meet the required debt servicing or to fund any shortfall in the DSRA. The SPVs have a well-defined cash flow waterfall mechanism defined in the TRA agreement, with payments to shareholders including dividends or payments on promoter debt subordinated to payments to project lenders and subject to meeting the restricted payment conditions.

Salient covenants of the rated facility

- *Door to door tenure of the facility is 16.5 years*
- *Financial covenants: Minimum DSCR of 1.15x*
- *DSRA equivalent to peak two quarters of debt servicing. Additionally, there is a provision to build an inverter replacement reserve within 10 years from COD of each project on a cumulative basis*
- *Cross default linkages among the obligors*

Key rating drivers and their description

Credit strengths

Diversified asset portfolio under the co-obligor structure - The solar power projects under the 18 SPVs of the co-obligor portfolio (29 projects) of the Cleantech Solar Group with an aggregate capacity of 236.5 MW are spread across multiple locations in Maharashtra, Tamil Nadu and Madhya Pradesh, leading to geographical diversification and partly insulating against the PLF variations. Also, a diversified customer profile provides comfort against counterparty credit risks.

Low offtake risk due to long-term PPAs with C&I customers at highly competitive tariffs - The solar portfolio has tied up long-term PPAs with commercial and industrial (C&I) customers under the captive mode at largely fixed tariffs, limiting the demand and pricing risks. The PPAs include a provision for termination payments which cover for a certain portion of the debt under the SPVs. Further, comfort is drawn from the competitive tariffs offered by the projects to the C&I customers against the grid tariff rates. Moreover, these PPAs would enable the customers to meet their renewable purchase obligations.

Strong credit profile of customers – The SPVs have tied up PPAs with high credit quality customers like Apollo Tyres Limited, Exide Industries Limited ([ICRA]AAA (Stable)/[ICRA]A1+), Britannia Industries Limited ([ICRA]AAA (Stable)/[ICRA]A1+), Eicher Motors Limited ([ICRA]AAA (Stable)/[ICRA]A1+), Minda Industries Limited ([ICRA]AA+ (Stable)/[ICRA]A1+), Siemens Limited, Prism Johnson Limited and TDK India Private Limited. This is expected to result in timely receipt of payments.

Strength derived from being part of Cleantech Solar Group – The SPVs under the co-obligor structure, including ZREPL, are part of the Cleantech Solar Group, which is backed by Shell. A consortium led by Keppel Corporation is acquiring a 51% stake in the ultimate holding company of the Group, CRA, while the balance 49% will continue to be held by Shell. CRA in turns holds 50% in CSA with the balance 50% held by a fund managed by Climate Fund Managers. The Keppel consortium proposes to increase its stake in CSA, going forward. The platform benefits from a diversified portfolio of ~590 MW across seven countries in South Asia and the presence of strong shareholders, who are focused on growing their renewable energy portfolio.

Adequate debt coverage metrics and comfortable liquidity profile – The debt coverage metrics for the co-obligor structure are expected to be adequate, supported by PPAs at attractive rates, the long tenure of the debt and competitive interest rates. Also, the liquidity profile of the structure is supported by a DSRA equivalent to two quarters, created upfront from the project cost.

Credit challenges

Vulnerability of cash flows to solar radiation – The single-part tariff under the PPA makes the revenues and cash flows of the solar power projects vulnerable to actual generation, which in turn is exposed to the variability in solar radiation. While comfort is drawn from the geographically diversified asset base of the portfolio, the limited track record of these projects remains a challenge. Going forward, the demonstration of generation performance in line or above the appraised estimate remains a key monitorable.

Execution risks for the residual capacity under construction – Of the 236.5-MW portfolio, 45% of the capacity is commissioned and another 13% is energised, leaving the balance 42% under-construction. While the required land, evacuation approvals, equipment and funding are in place, the commissioning and stabilisation of these assets on time remains important from a credit perspective. Any delays in commissioning would impact the cash flow generation and debt coverage metrics for the pool.

Risk of cash flow mismatch owing to lower lock-in period under PPAs in relation to debt tenure - The PPAs have a lock-in period ranging from 10-25 years with the capacity weighted average lock-in period of ~19 years. The company's inability to continue the PPAs beyond the lock-in period or tie up PPAs with new customers could lead to a risk of cash flow mismatch for debt servicing. Also, the termination payments under the PPAs do not cover for the entire debt outstanding. Nonetheless, comfort can be drawn from the significant discount offered by the company to its customers against the grid tariffs and the track record of the sponsor in securing PPAs with large industrial and commercial customers.

Exposed to interest rate risk –The company's debt coverage metrics are exposed to the movements in interest rates due to the fixed nature of the tariffs under the PPAs, the leveraged capital structure and the floating interest rates.

Regulatory risks - The company's operations remain exposed to regulatory risks pertaining to the scheduling and forecasting requirements applicable for solar power projects. However, the risk of variation is relatively low for solar power projects compared to wind power projects. Also, the projects are exposed to any revision in the policies for captive projects and regulations for open access charges, which could impact the competitiveness of the tariff.

Liquidity position

For the [ICRA]A- (CE) Rating: Adequate

The consolidated liquidity position of the 18 SPVs in the co-obligor arrangement is expected to be adequate, with sufficient buffer between cash flows from operations and the debt repayment obligation. Moreover, the portfolio is supported by a two-quarter DSRA and timely payments from counterparties for the capacities commissioned.

For the [ICRA]BBB+ Rating: Adequate

The liquidity position of ZREPL is expected to be adequate, with sufficient buffer between cash flows from operations and debt repayment obligation. Moreover, a two-quarter DSRA and timely payments from the customer is expected to support the liquidity profile. The company had cash and liquid investments of Rs. 4.39 crore as on February 28, 2022, including DSRA of 2.1 crore.

Rating sensitivities

Positive factors: ICRA could upgrade the rating if the entire portfolio under the co-obligor portfolio is commissioned within the scheduled timelines along with the demonstration of generation performance in line or above the appraised estimates, leading to healthy credit metrics

Negative factors: Negative pressure on the rating could arise if there are significant delays in commissioning the under-construction capacity of the pool, impacting the cash flows. Further, rating could be downgraded if the generation performance of the co-obligor portfolio remains below the appraised estimate, adversely impacting the debt coverage metrics with the cumulative DSCR for the pool falling below 1.20 times. Also, delay in payments from counterparties adversely impacting the liquidity profile of the pool is another negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Rating Approach - Explicit third-party support
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of the 18 SPVs, which are all enlisted in Annexure-2.

About the company

Zerach Renewables Energy Private Limited (ZREPL) is a subsidiary of CIOA, Singapore, wherein CIOA holds a 72.44% stake and the remaining 27.56% is held by the sole offtaker, TDK India Private Limited. The main holding company of the platform is CSA, which is held by CRA and Climate Fund Managers in the ratio of 50:50. In December 2021, the Keppel consortium announced the acquisition of a 51% stake of CRA, held by Cleantech Energy Corporation Pte Limited. The balance 49% stake would continue to be held by Shell. Further, the Keppel consortium has proposed to acquire the 50% stake held by Climate Fund Managers in CSA, which will increase the stake of the Keppel consortium in CSA to 75.5% from 25.5%.

ZREPL, along with the other 17 SPVs of the Cleantech Solar Group, has entered into a common loan arrangement for project financing of ground-mounted solar PV projects with an aggregate capacity of 236.5 MW. ZREPL owns and operates a 7-MW (DC Capacity) solar power project in the Beed district of Maharashtra. The company has signed a 25-year long-term PPA with TDK India Private Limited. As required under the group captive regulations, the customer has subscribed to the shareholding of the company. An overview of the balance 17 SPVs under the co-obligor structure is provided below:

- CSE Solar Parks Satna Private Limited has operational capacity of 30.24 MW, with the entire capacity commissioned by April 30, 2021. The projects have a 25-year long-term PPA with Prism Johnson Limited.

- Sunspring Solar Private Limited has an operational capacity of 4.48 MW, fully commissioned by July 9, 2021. The projects have a 25-year long-term PPA with Prism Johnson Limited.
- CSE Solar Sunpark Maharashtra Private Limited has an under-construction project of 16.10 MW, which is expected to be commissioned by May 31, 2022. The project has a 25-year PPA with Exide Industries Limited. The company also operates a 21.00-MW solar project under another co-obligor arrangement, commissioned on July 01, 2020 and supplies power to Exide Industries Limited.
- CSE Solar Sunpark Tamil Nadu Private Limited has an under-construction project of 7.00 MW, which is expected to be commissioned by June 15, 2022. The project has signed a 25-year long-term PPA with Exide Industries Limited. The company also operates a 31.50-MW solar project under another co-obligor arrangement, commissioned on July 01, 2020 and is supplying power to Exide Industries Limited.
- Sunstrength Renewables Private Limited has an operational capacity of 8.4 MW, commissioned on April 01, 2021. The project has a 12-year PPA with SKF India Limited.
- Greenzest Sunpark Private Limited has an under-construction capacity of 36.50 MW, which is expected to be commissioned by July 1, 2022. The project has a 20-year long-term PPA with Bekaert Industries Private Limited.
- Sunbarn Renewables Private Limited has an operational capacity of 24.50 MW, commissioned by September 04, 2021. The project has signed a 25-year PPA with Mahindra CIE Automotive Limited.
- Sorion Solar Private Limited has an operational capacity of 5.60 MW, commissioned on April 1, 2021. The project has a 25-year PPA with Galaxy Surfactants Limited.
- Strongsun Renewables Private Limited has 8.54 MW solar power project with commissioning on March 31, 2022. This project has a 15-year long-term PPA with Minda Industries Limited.
- CSE Dakshina Solar Private Limited has an operational capacity of 5.30 MW, commissioned on February 2, 2022. The project has a 15-year PPA with Minda Industries Limited.
- Fairsun Solar Private Limited has an operational capacity of 8.00 MW, commissioned on February 1, 2022. The project has a 25-year PPA with Britannia Industries Limited.
- Flaresun Solar Private Limited has an under-construction project of 3.08 MW, which is expected to be commissioned in April 2022. The project has a 15-year long-term PPA with Kellogg India Private Limited.
- CSE Deccan Solar Private Limited has an under-construction project of 30.0 MW, which is expected to be commissioned by May 31, 2022. The project has a 25-year long-term PPA with Apollo Tyres Limited.
- Flamesun Solar Private Limited has an operational capacity of 13.00 MW, commissioned on February 1, 2022. The project has a 16-year long-term PPA with Eicher Motors Limited.
- Sunsole Renewables Private Limited has an under-construction project of 4.10 MW, which is expected to be commissioned by July 1, 2022. The project has a 15-year long-term PPA with Siemens Limited.
- Sunstreet Solar Private Limited has an under-construction project of 18.70 MW, which is expected to be commissioned by May 15, 2022. The project has an 11-year long-term PPA with Saint Gobain India Private Limited.
- Sunstrength Solar Private Limited has an under-construction capacity of 6.00 MW, which is expected to be commissioned in April 2022. The project has a 20-year long-term PPA with Bekaert Mukand Wire Industries Private Limited.

Key financial indicators (ZREPL)

ZREPL Standalone	CY2021 (Provisional)
Operating Income (Rs. crore)	2.7
PAT (Rs. crore)	0.1
OPBDIT/OI (%)	81.4%
PAT/OI (%)	4.7%
Total Outside Liabilities/Tangible Net Worth (times)	2.5
Total Debt/OPBDIT (times)	9.4
Interest Coverage (times)	1.7

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 (FY2023)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Feb 28, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 26, 2022	-	-	-
1	Term Loan	Long-term	19.88	17.70	[ICRA]A- (CE) (Stable)	-	-	-

&= Under watch with developing implications

Complexity level of the rated instrument

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 analyzing 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	Term Loan	Nov 2021	8.75%	FY2037	19.88	[ICRA]A- (CE) (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	CIOA Ownership	Consolidation Approach
Zerach Renewables Energy Private Limited	72.44% (rated entity)	Full Consolidation
Sunspring Solar Private Limited	73.00%	Full Consolidation
CSE Solar Sunpark Maharashtra Private Limited	72.81%	Full Consolidation
CSE Solar Sunpark Tamil Nadu Private Limited	72.81%	Full Consolidation
CSE Solar Parks Satna Private Limited	72.04%	Full Consolidation
Sunstrength Renewables Private Limited	73.26%	Full Consolidation
Greenzest Sunpark Private Limited	73.87%	Full Consolidation
Sunbarn Renewables Private Limited	73.84%	Full Consolidation
Sorion Solar Private Limited	71.51%	Full Consolidation
Strongsun Renewables Private Limited	71.89%	Full Consolidation
CSE Dakshina Solar Private Limited	72.29%	Full Consolidation
Fairsun Solar Private Limited	73.67%	Full Consolidation
Flaresun Solar Private Limited	73.83%	Full Consolidation
CSE Deccan Solar Private Limited	72.80%	Full Consolidation
Flamesun Solar Private Limited	71.12%	Full Consolidation
Sunsole Renewables Private Limited	99.99%	Full Consolidation
Sunstreet Solar Private Limited	72.63%	Full Consolidation
Sunstrength Solar Private Limited	72.45%	Full Consolidation

Note: ICRA has taken a consolidated view of the companies mentioned in the table above based on the co-obligor arrangement

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