December 02, 2022

Omega Solar Projects Private Limited: [ICRA]A- (Stable) rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	47.96	[ICRA]A- (Stable) assigned
Total	47.96	

**Instrument details are provided in Annexure-I*

Rationale

The rating of Omega Solar Projects Private Limited (OSPPL) is based on an assessment of its standalone performance while taking into account the benefit it draws by virtue of being one of the four[1] Special Purpose Vehicles (SPVs) among whom surplus cash flows could be exchanged.

The assigned rating factors in extensive experience of the promoters in the solar energy assets, revenue visibility with a long-term Power Purchase Agreement (PPA) with Punjab State Power Corporation Limited (PSPCL) and a tariff of Rs. 8.74/KWhr, and healthy debt coverage metrics supported by the recent refinancing of the term loans.

The ratings are however constrained by the vulnerability of the cash flows to irradiance, moderation in operational performance in FY2022 owing to inverter failure and moderate credit risk profile of the counterparty. OSPPL's power generation prior had remained stable prior to FY2022 given the healthy plant and grid availability. However the performance was impacted in FY2022 due to inverter failure which is are still to be replaced. Thus the generation performance will remain vulnerable to inverter performance as well as irradiance levels which remain an uncontrollable factor. Since OSPPL's plant is located in the state of Punjab where irradiance can get impacted during winter months due to fog and pollution caused by stubble burning, the impact of irradiance will remain a key monitorable. Additionally, the company has a PPA with PSPCL which has a moderate credit risk profile. While the payments from PSPCL have remained timely the credit profile of the entity continues to remain largely dependent on subsidy inflow from the Government of Punjab and thus the credit profile remains modest and a key constraining factor for OSPPL's rating.

The outlook on the rating is Stable as ICRA expects the cash flows for the company to remain stable in light of healthy operating performance and a long term PPA with PSPCL which coupled with recent refinancing at highly competitive rates and elongated tenor will keep the credit profile stable.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter in solar energy assets - OSPPL is a 100% subsidiary of NextPower III (NP-III), which is a part of NextEnergy Capital (NEC). NEC is a London-based fund which manages solar investments on behalf of some of the largest pension funds in the world. NEC, through NP-III, has acquired the company from SUN Clean Technology Investments Limited in November 2020 and has adequate experience in operating solar projects. NP-III is a fund which has recently raised USD 896

[1] The four SPVs are Belgaum Renewable Energy Private Limited (BREPL, rated [ICRA]A- (Stable)), Omega Solar Projects Private Limited (OSPPL, rated [ICRA]A- (Stable)), Samyama Jyothi Solar Energy Private Limited (SJSEPL, rated [ICRA]A(Stable)), and Sadipali Solar Private Limited (SSPL, rated [ICRA]A (Stable). These four SPVs are wholly-owned by NextPower III Singapore Holdco Pte Limited (NPIII).

million against its initial target of USD 750 million and has a global presence in the US, Spain, Portugal, Chile, Poland, Italy and India with an aggregate installed capacity of ~400 MW.

Revenue visibility owing to the long term PPA signed with PSPCL at fixed tariff with moderate tail period beyond debt tenure- SJSEPL has a 25-year PPA with PSPCL at a fixed tariff of Rs. 8.74/KWhr. The PPA provides long term visibility to cash flows of the company. Given that the residual tenor of the PPA (~18 years) exceeds the current tenor of the loan i.e. 16 years, the existence of tail period provides comfort in terms of ability to refinance its debt if required.

Healthy coverage ratios driven by competitive cost of borrowing and elongated tenor of debt - The company refinanced the debt obligations on its books in June 2022 at highly competitive interest rates and elongated tenor. As a result, the ability to service debt has improved significantly. With the reduction in the interest rate the debt servicing capability of OSPPL has improved significantly. Given the stable cash flows and the recent refinancing, ICRA expects the company's cumulative DSCR to remain >1.60x over the loan tenor. Additionally, the company will maintain a balance equivalent of debt servicing (principal and interest) for two upcoming quarters in a Debt Servicing Reserve Account (DSRA) in the form of fixed deposits which will provide comfort in terms of debt servicing.

Credit challenges

Cash flows vulnerable to irradiance levels given the dependence on a single asset- OSPPL is entirely dependent on power generation from the solar power project for its revenues and cash accruals. Given the single-part nature of the tariff, the company may lose revenues and profits in case of reduced generation of power due to variability in solar irradiance. This is also reflected in achieving lower generation by OSPPL in FY2022 due to lower solar irradiance witnessed in few months along with the inverter failure incident. The single location and single-asset nature of its operations exacerbate this risk.

Moderate credit risk profile of the counterparty-OSPPL's has PPA with PSPCL for a period of 25 years. The collections from PSPCL have remained timely so far. However, the overall credit profile of PSPCL remains weak and highly dependent on the subsidy inflow from the Government of Punjab (GoP). Thus, the modest credit profile of the counterparty will continue to constrain OSPPL's rating.

Liquidity position: Adequate

The liquidity position of OSPPL remains adequate indicated by Rs. 5.91 crore of unencumbered cash and a DSRA of Rs. 4.2 crore maintained in the form of fixed deposits as on September 30, 2022. Going forward the cash generation is expected to remain adequate to meet the debt servicing requirements of the company with generation expected to remain inline with P90 levels.

Rating sensitivities

Positive factors – ICRA can upgrade OSPPL's rating in a scenario of the improvement in the credit profile of the counterparty leading to moderation in the counterparty risk.

Negative factors – Pressure on the company's rating could arise from the deterioration in DSCR below 1.15 times on a sustained basis and/or sustained elongation in receivables. The moderation in the credit profile of the counterparty will remain a key rating sensitivity for OSPPL's rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Rating Approach-Implicit support from Parent or Group Rating Approach-Consolidation
Parent/Group support	ICRA has consolidated the financials of the four SPVs BREPL, OSPPL, SJSEPL, and SSPL to arrive at the notional group rating which has been used to notch-up the individual SPV ratings factoring in implicit support from the group given the expected fungibility of surplus cash among the SPVs.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of OSPPL.

About the company

Omega Solar Projects Private Limited (OSPPL) is a special purpose vehicle that operates a 10MWac solar project in Sangatpura, Punjab, India since March 2015. The special purpose vehicle was acquired by NextEnergy Capital (NEC) through its susidiary, NextPower III Singapore Holdco Pte. Ltd. in November 2020 (the holding company is a direct subsidiary of NextPower III LP, a UK based LP.), from earlier investors, SUN Clean Technology Investments Limited (a Joint Venture of Jersey (56%) ORIX Corporation, Japan (44%)) in November 2020. NEC is a private equity firm with assets under management of USD3.2 billion. The project is being managed by Wise Energy Asset Management (a subsidiary of NEC). Wise Energy manages 1,300 plants with an overall capacity of 2.2GW in renewable assets.

Key financial indicators (audited)

SJSEPL Standalone	FY2021	FY2022
Operating income	12.3	12.1015
PAT	-4.3	0.3173
OPBDIT/OI	84.1%	78.4%
PAT/OI	-35.2%	2.6%
Total outside liabilities/Tangible net worth (times)	-179.4	7260.9
Total debt/OPBDIT (times)	4.9	5.1
Interest coverage (times)	2.0	1.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					2-Dec-22	-	-	-
1	**Term loans**	Long term	47.96	46.33	**[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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	June 2022	NA	June 2036	47.96	[ICRA]A- (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis-NA

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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.

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