January 06, 2023

Shivalakha Solar Energy Private Limited (formerly Solar Semiconductor Power Company (India) Pvt. Ltd.): Rating downgraded

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term – Fund based - Term loan	112.13	75.36	[ICRA]B+ (Stable); downgraded from [ICRA]BB- (Stable)
Total	**112.13**	**75.36**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's rating action on Shivalakha Solar Energy Private Limited (SSEPL) factors in the deterioration in the generation performance of its 20-MW solar power plant in FY2022 and 8M FY2023 over the corresponding period of the previous year, leading to weak debt coverage metrics with the debt service coverage ratio (DSCR) remaining well below one. The generation performance has remained subdued over the past few years owing to various factors, including inverter breakdowns, degradation in performance of photovoltaic (PV) modules and adverse weather conditions. As the cash flows generated from the company's operations were inadequate, SSEPL remained dependent on funding support from Group companies and the available liquidity to service its debt repayment obligations. Over the near to medium term, the debt metrics are expected to remain weak unless the company achieves a significant improvement in generation performance.

The rating also continues to remain constrained by the sensitivity of the debt metrics to power generation and in turn to the weather conditions because of the one-part tariff under the PPA. Further, the single location and single asset operations increases this risk. The rating also factors in the regulatory challenges associated with the implementation of forecasting and scheduling mechanism for solar power projects in Gujarat.

Further, ICRA notes that the sponsor funding for the project is through a mix of equity, preference shares, optionally convertible debentures (OCDs) and inter-corporate deposits (ICDs). However, the servicing of the sponsor debt remains subordinated to the project debt. ICRA also takes note of the weak financial performance of the holding company, NSL Renewable Power Private Limited (NRPPL), and the cash flow pressure at the Group level, mainly due to the delay in the execution of the hydro power portfolio and the operational issues in certain wind power projects.

The rating, however, favourably factors in the low offtake risks owing to the presence of a long-term power purchase agreement (PPA) (25-year) with Gujarat Urja Vikas Nigam Limited (GUVNL; rated [ICRA]AA- (Stable) / [ICRA]A1+) at a fixed tariff of Rs. 9.98 per unit for the first 12 years and Rs. 7.00 per unit for the remaining 13 years. Further, the rating derives comfort from the strong credit profile of the counterparty, evident from the timely payment realisation. ICRA also takes note of the presence of a debt service reserve account (DSRA), equivalent to two quarters' interest and principal payments, and the support extended by the Group companies in the past to bridge the cash flow shortfall of SSEPL.

The Stable outlook on the rating assigned to SSEPL factors in the limited offtake and tariff risks given the presence of long-term PPA with GUVNL, low counterparty credit risk and the availability of a two-quarter DSRA.

Key rating drivers and their description

Credit strengths

Long-term PPA mitigates offtake and tariff risks – The company has a 25-year PPA with GUVNL for its entire capacity at a fixed tariff of Rs. 9.98 per unit for the first 12 years and Rs. 7 per unit for the next 13 years. Hence, the offtake and tariff-related risks remain limited.

Strong offtaker lowers counterparty credit risk - The counterparty credit risk for SSEPL is low because of the presence of a strong offtaker, GUVNL, which is rated at [ICRA]AA- (Stable)/ [ICRA]A1+. Timely realisation of monthly payments from GUVNL and the presence of cash DSRA equivalent to the ensuing two quarters' principal and interest payment support the company's liquidity profile.

Credit challenges

Sub-optimal generation over past five years because of inverter-related issues and module degradation - The generation performance of the company continues to be weak, with reported PLF of 12.78% in FY2022 compared with 14.11% in FY2021 and 14.17% in FY2020 and much lower than the average PLF of over 15.0% reported till FY2019. The performance was impacted till FY2020 owing to inverter issue and module degradation. While the inverter-related issues were resolved in FY2021, the PLF remains subdued owing to lower-than-expected solar radiation and module degradation. Further, the generation in 8M FY2023 is lower on a YoY basis; hence, improvement in the generation remains a key rating sensitivity factor for SSEPL.

Single-asset operations; sensitivity of debt metrics to energy generation - SSEPL is entirely dependent on power generation by the solar power project for its revenues and cash accruals, given the single-part nature of the tariff. As a result, any adverse variation in weather conditions and equipment performance may impact its PLF and consequently its cash flows. The single location and single asset nature of the company's operations amplifies this risk.

Weak financial profile of holding company; cash flow pressure at Group level – The financial performance of NRPPL in the last few years has been impacted by the delay in the execution of hydropower projects and the associated funding risks, as well as by the operational issues in certain wind power projects. The Group has been able to divest one such hydro project, while the divesting process is underway for the second project.

Challenges associated with implementation of forecasting and scheduling regulations – The company remains exposed to the regulatory challenges pertaining to the implementation of the scheduling and forecasting framework for solar power projects in Gujarat.

Liquidity position: Stretched

The liquidity position of the company is stretched, given the inadequacy of the cash flows from operations in relation to the debt servicing obligations because of the weak generation performance of its solar power project. As a result, the company has remained dependent on the funding support from Group companies to bridge the gap. The liquidity position, however, remains supported by the presence of a two-quarter DSRA and timely realisation of payments from the offtaker.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company demonstrates a sustained improvement in the generation level, which would improve its debt protection metrics. Specific credit metrics that could lead to an upgrade include DSCR of more than 1.0 times on a sustained basis.

Negative factors – Pressure on SSEPL's rating would arise in case of a further deterioration in generation, which would weaken the overall financial risk profile. Any delays in realising the payments from GUVNL impacting the company's cash flows and liquidity would be another negative trigger.

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 rated entity

About the company

SSEPL, incorporated in August 2010, operates a 20-MW solar power plant at Shivalakha village in the Kutch district of Gujarat. The project was commissioned in phases, with the first 10.08 MW commissioned in April 2012 and the remaining capacity commissioned in June 2012. SSEPL was a joint venture between NRPPL and Solar Semiconductor Private Ltd (SSPL). NRPPL gradually increased its stake and became the 100% shareholder in June 2017. The project was developed using poly-crystalline modules based on a thin-film technology from Sunwell Solar Corporation (Taiwan). The operations and maintenance of the project is being carried out by Mahindra Susten Private Limited since May 2019.

Key financial indicators

SSEPL Standalone	FY2021	FY2022
Operating income (Rs. crore)	23.4	21.1
PAT (Rs. crore)	-17.3	-2.9
OPBDIT/OI (%)	82.2%	84.7%
PAT/OI (%)	-73.7%	-13.8%
Total outside liabilities/Tangible net worth (times)*	-4.2	-3.6
Total debt/OPBDIT (times)*	8.7	8.8
Interest coverage (times)*	1.3	1.6

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

**The leverage and coverage ratios include promoter contribution in the form of subordinated debt*

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		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 23, 2022 (Rs. crore)	Date & rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 06, 2023	Nov 30, 2021	Sept 15, 2020	Sept 09, 2019
1	**Term loan**	Long Term	75.36	75.36	**[ICRA]B+ (Stable)**	**[ICRA]BB- (Stable)**	**[ICRA]BB (Negative)**	**[ICRA]BB (Negative)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
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 / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	Nov 2015	-	Mar 2031	75.36	[ICRA]B+ (Stable)

Source: Company

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

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About ICRA Limited:

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