

April 06, 2023

Green Infra Solar Energy Limited: Rating upgraded to [ICRA]AA (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	60.00	60.00	[ICRA]AA (Stable); upgraded from [ICRA]AA-(Stable)
Total	60.00	60.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade for Green Infra Solar Energy Limited (GISEL) factors in the improvement in the credit profile of its parent, Sembcorp Green Infra Limited (SGIL; being merged into Green Infra Wind Energy Limited ([ICRA]AA+ (Stable) / [ICRA]A1+), supported by an improved asset diversity, comfortable debt coverage metrics and improvement in the credit profile of the ultimate parent, Sembcorp Industries Limited (SCI) [49% held by Temasek Holdings (Private) Limited; rated Aaa (Stable) by Moody's].

The rating continues to draw comfort from the presence of a long-term power purchase agreement (PPA; 25 years) with Gujarat Urja Vikas Nigam Limited (GUVNL) for the 10-MW solar power project of GISEL, mitigating the demand and pricing risk. Moreover, GISEL's counterparty credit risk is low because of the healthy financial profile of the offtaker, GUVNL ([ICRA]AA-(Stable) / [ICRA]A1+), reflected in the timely realisation of payments. ICRA also draws comfort from the satisfactory generation track of the solar project since commissioning. Further, ICRA takes note of the relatively low leverage level of GISEL with the debt/OPBDITA expected to remain below 1.0x in FY2023, and comfortable debt coverage metrics with the debt service coverage ratio (DSCR) expected to stay over 1.3x, going forward. Also, the fixed interest rate on the long-term debt for a period of five years from 2019 and the presence of a debt service reserve account (DSRA) equivalent to one quarter debt servicing provide comfort from a credit perspective.

However, the rating is constrained by risks typical to all solar power projects, including vulnerability to weather conditions, given that the revenues are linked to the actual units generated and exported. Moreover, the generation risk for the 10-MW project is amplified by the company's single-asset dependence. While the generation performance witnessed a dip in FY2022 over FY2021, it recovered in 9M FY2023 over 9M FY2022. Solar power projects, including GISEL, having relatively high tariff than the average power purchase cost of the state distribution utilities, are exposed to the risk of grid curtailment as seen in a few other states. However, there has been no such instance for this project so far. The rating also factors in the regulatory challenge of implementing the forecasting and scheduling mechanism for wind and solar power projects in Gujarat, given the variable nature of solar power generation. However, ICRA notes that this risk is less prominent for solar power projects compared to wind power projects.

The Stable outlook on the [ICRA]AA rating for GISEL factors in the revenue stability offered by the long-term PPA with a strong counterparty, a satisfactory operating track record and a strong parentage.

Key rating drivers and their description

Credit strengths

Strong parentage from being a part of Sembcorp Group - GISEL is a subsidiary of SGIL, the renewable energy holding company of the Sembcorp Group in India. The credit profile of the Group is supported by a diversified asset profile, comfortable debt

coverage metrics and the presence of a strong parent in the form of SCI. The Group has an overall renewable portfolio of 3.0 GW in India, with 2.25 GW under operations and the balance under development. SGIL is being reverse merged into GIWEL, which will make GIWEL the holding company of the Group in India.

Long-term PPA with GUVNL for 25 years at fixed tariff; healthy financial profile of offtaker - The company has a long-term PPA with GUVNL for 25 years from the COD (November 2011) at a fixed tariff of Rs. 15.00/kWh for the first 12 years from COD and Rs. 5.00/kWh for the remaining 13 years, mitigating demand and pricing risks. Moreover, the counterparty credit risks are limited by a financially strong offtaker - GUVNL (rated [ICRA]AA- (Stable)/[ICRA]A1+) - leading to timely realisation of payments.

Satisfactory operating track record of solar power project - The 10-MW solar power capacity under GISEL has reported satisfactory operating performance since commissioning in November 2011. In line with the degradation of PV modules typical of solar power projects, the generation by GISEL's solar project has declined over the years.

Comfortable leverage and debt coverage metrics - The company's leverage level has improved with total debt to OPBDITA at 1.34x in FY2022, which will further reduce to less than 1.0x in FY2023. Also, the coverage metrics are comfortable, aided by satisfactory operating performance and reduced debt levels. The interest rate on the long-term debt availed by GISEL is fixed for a period of five years from the date of disbursement in 2019. Also, a large portion of the debt is scheduled to be repaid by FY2024, in line with the expiry of the Rs. 15 per unit tariff under the PPA.

Credit challenges

Operating risks from exposure to weather conditions and geographic concentration - The generation by the solar power project and in turn the cash flows of the company are susceptible to weather conditions and the performance of PV modules, given the one-part tariff structure in the PPA with GUVNL. This risk is amplified by the geographic concentration of the asset. While the PLF witnessed a dip in FY2022 over FY2021, it has recovered in 9M FY2023 over 9M FY2022.

Relatively high tariff exposes project to grid curtailment risk - Given the relatively high PPA tariff for the project, the company's operations may remain exposed to the risk of grid curtailment in the future as seen in a few other states. However, there has been no such instance so far. While GUVNL had tried to renegotiate the tariff with solar developers in the past, the orders issued by Gujarat Electricity Regulatory Commission (GERC) and the Appellate Tribunal for Electricity (APTEL) have been in favour of the developers.

Regulatory challenges of implementing scheduling and forecasting framework - The regulatory challenges of implementing scheduling and forecasting framework for wind and solar power projects in Gujarat pose a risk, given the variable nature of solar energy generation. However, the risk is less prominent for solar power projects compared to wind power projects.

Liquidity position: Strong

The liquidity profile of the company is likely to remain strong with the cash flows from operations expected to be healthy at Rs. 11-12 crore in relation to the annual debt repayment of Rs. 8.1 crore in FY2024. Also, the liquidity is supported by DSRA equivalent to one quarter of debt servicing. The company had cash and liquid investments of Rs. 6.86 crore as on February 15, 2023, including DSRA.

Rating sensitivities

Positive factors – ICRA could upgrade GISEL's rating in case of an improvement in the credit profile of its parent, SGIL.

Negative factors – Pressure on GISEL's rating could arise in case of delays in payments from GUVNL which will adversely impact the liquidity position of the company. Also, any under-performance in generation by the solar power project weakening the cumulative DSCR on the project debt to less than 1.3 times would be a negative trigger. Also, deterioration in the credit profile of SGIL or weakening of linkages with Sembcorp Group would be another negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Implicit support from parent or group
Parent/Group support	Parent/Group Company: Sembcorp Green Infra Limited/Sembcorp Group. The support from the parent group is implicit and ICRA expects the group to support the company in case of cash flow mismatches, if any
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity

About the company

GISEL operates a 10-MW solar power project in the Mervadar village of Upleta taluka in the Rajkot district of Gujarat. The project was commissioned in November 2011 and has been supplying power to GUVNL under a 25-year PPA. The modules for the project were sourced from First Solar and the O&M for the project is undertaken by Juwi India Renewable Energies Pvt. Ltd. The solar power plant was set up at a total cost of Rs. 122.9 crore. GISEL is a 100% subsidiary of SGIL, the renewable holding company of the Sembcorp Group in India.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income	23.32	22.15
PAT	6.80	7.59
OPBDIT/OI	83.8%	79.5%
PAT/OI	29.1%	34.3%
Total outside liabilities/Tangible net worth (times)	0.67	0.44
Total debt/OPBDIT (times)	1.77	1.34
Interest coverage (times)	4.84	5.92

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Jan 02, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Apr 06, 2023	Apr 07, 2022	-	Mar 23, 2021
1 Term loans	Long term	60.00	14.83	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	-	[ICRA]AA- (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	August 2019	9.6%	FY2027	60.0	[ICRA]AA (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 – Not Applicable

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Branches



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