

September 01, 2023

Sun Photo Voltaic Energy India Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based Term loan	329.44	314.69	[ICRA]A (Stable); reaffirmed
Total	329.44	314.69	

*Instrument details are provided in Annexure-1

Rationale

ICRA's rating for Sun Photo Voltaic Energy India Private Limited (SPVEIPL, the company) continues to factor in the presence of a long-term power purchase agreement (PPA) with Bangalore Electricity Supply Company Limited (BESCOM) [rated [ICRA]BBB+ (Stable)] for its 78-MW wind power project. The PPA is at a fixed tariff of Rs. 4.5 per unit for 20 years, thus limiting the demand and pricing risks. While the generation by SPVEIPL's wind power project declined by 1.2% in FY2023 from FY2022, it remained adequate in relation to the debt servicing requirements of the company with the debt service coverage ratio (DSCR) at 1.23 times for FY2023. The generation performance of the company has improved in 4M FY2024 over 4M FY2023, which if sustained for the full year, would improve the debt coverage metrics for the company in FY2024. However, the average PLF since commissioning remains below the P-90 estimate, thereby adversely impacting the returns for the project. Going forward, the ability of the company to improve its generation performance remains a key monitorable for an improvement in its credit profile.

ICRA also takes note of the improvement in realisation period for the payments from BESCOM. The payments were being delayed by BESCOM during large part of FY2022 and H1 FY2023. However, on the back of the implementation of Late Payment Surcharge (LPS) rules by the Government of India, BESCOM has been clearing payments in a timely manner over the past eight months. The rating also factors in the company's managerial and technical strengths from being a part of the Acciona Group. Corporacion Acciona Energias Renovables S.A. (CAER) is the holding company of the Acciona Energia Group and is one of the leading renewable energy (RE) companies globally, with an installed RE capacity of 12.3 GW across 18 countries. The credit profile of CAER is supported by a diversified RE portfolio, long-term contracts driving majority of its revenues and comfortable credit metrics.

Further, the presence of a long-term operations and maintenance (O&M) contract with Acciona Energy India Private Limited (AEIPL) for 10 years, with guarantee for minimum machine availability, limits the company's operating risks. The long repayment tenure of the project debt, competitive interest rate and the conservative funding structure are expected to lead to comfortable debt coverage metrics for SPVEIPL, with estimated cumulative DSCR of 1.3 times over the debt tenure. The rating also factors in the comfortable liquidity position of the company, supported by two-quarter DSRA.

The rating is, however, constrained by the vulnerability of the project's cash flows to the seasonality and possible variance in wind power density across the years, given the single-part tariff under the PPA. Further, the fixed tariff of the project exposes the company to variations in interest rates on project debt. Nonetheless, the interest rate being fixed for a period of five years for majority of the debt would limit this risk in the near to medium term.

This apart, the rating factors in the exposure to a single counterparty - BESCOM. While the payments have been timely since November 2022, delays in payments have been observed during large part of FY2022 and H1 FY2023, owing to challenges faced by BESCOM in recovering its receivables. Timely realisation of payments from BESCOM remains a monitorable for the credit profile of the company. ICRA also notes that the company has created a fixed deposit of Rs. 16 crore as a security to the lenders, as project land parcel of two acres could not be mortgaged with the lenders due to an ongoing issue with the land aggregator. The additional cash security is expected to be released by the lenders post the resolution of the land issue.

The rating also factors in the regulatory challenges arising from the scheduling and forecasting framework for wind power projects in Karnataka, given the variable nature of wind energy generation. Nonetheless, the company has demonstrated a satisfactory track record so far by keeping the extent of deviation relatively low. ICRA takes note that a part of the promoter funding is in the form of euro-denominated debt, with annual interest and repayment obligations. Nonetheless, the servicing of the promoter debt is sub-ordinated to project debt and is subject to the availability of surplus cash in the distribution account.

The Stable outlook on the long-term rating of SPVEIPL reflects the high revenue visibility, given the long-term PPA with BESCO at a fixed tariff, established generation track record and the company's comfortable liquidity profile.

Key rating drivers and their description

Credit strengths

Long-term PPA with BESCO for 20 years at a fixed tariff – The company's PPA with BESCO for 20 years at an approved feed-in tariff of Rs. 4.5 per unit for the entire capacity mitigates the demand and pricing risks. The company is also registered for a generation-based incentive (GBI) of 50 paise per unit for the 60-MW capacity with Indian Renewable Energy Development Agency (IREDA), which would augment the cash flows.

Strengths arising from being part of Acciona Group – The Group has significant experience in developing and operating renewable power projects across the globe, with an aggregate operational capacity of 12.3 GW. The Group has a diversified portfolio across 18 countries with long-term contracts driving majority of the revenues and comfortable credit metrics. The Group is expected to support SPVEIPL, in case of any cash flow mismatches, as observed in the past.

Comfortable debt coverage metrics expected over the debt tenure – The company's debt coverage metrics are expected to be comfortable with the projected cumulative DSCR of 1.3 times over the debt repayment tenure, supported by the long-term PPA at reasonable tariffs providing revenue visibility and the long tenure of the project debt.

Long-term O&M contract with AEIPL with pricing fixed for 10 years for service fee – The company signed a long-term O&M contract with AEIPL, with a guarantee for minimum machine availability of the WTGs. The service fee under the contract is fixed for the first 10 years of operations. In case of any shortfall in machine availability, AEIPL is liable to pay liquidated damages, subject to the agreed limits in the contract.

Credit challenges

Sensitivity of debt metrics to energy generation – The generation by the wind farm and consequently the cash flows of the project are susceptible to seasonality and variations in wind power density, given the one-part tariff structure in the PPA with BESCO. This risk is amplified by the geographic concentration of the asset. The performance of the wind power asset was slightly weaker in FY2023 compared to FY2022. The generation over the last three years was adversely impacted by weak wind seasons as observed across other wind power projects. The average PLF since commissioning is also lower compared to the P-90 estimate for the project. Nonetheless, the generation has remained adequate in relation to the debt servicing obligations. Moreover, the generation performance has improved in 4M FY2024 compared to 4M FY2023.

Counterparty credit risk associated with exposure to single offtaker – The counterparty risk for the company arises from its exposure to a single entity - BESCO. The credit profile of BESCO is dependent on the timely pass-through of cost variations to customers and timely collections. The payments from BESCO were timely till FY2021; however, the collection period increased in FY2022 and H1 FY2023 owing to the financial challenges faced by BESCO. Nonetheless, payments from the discom have been timely for the bills raised since November 2022, following the implementation of LPS rules. This remains a key monitorable for the company, going forward.

Sensitivity to interest rate movements – The debt coverage metrics would remain sensitive to the interest rate movement, given the fixed nature of the tariff under the long-term PPA with BESCOM and the leveraged capital structure. Nonetheless, ICRA notes that the interest rate is fixed for five years for a large portion of its debt.

Regulatory challenges arising from implementation of scheduling and forecasting framework in Karnataka – The regulatory challenges of implementing the scheduling and forecasting framework for wind power projects in Karnataka pose a risk, given the variable nature of wind energy generation. However, the risk is mitigated to some extent by the presence of an experienced team and a satisfactory track record demonstrated so far, in keeping the extent of the deviation relatively low.

Liquidity position: Strong

The liquidity position of SPVEIPL is expected to remain strong, supported by healthy buffer between cash flows from operations and debt servicing requirements, along with the presence of a DSRA equivalent to two-quarter interest and principal obligations. The company is expected to generate cash flow from operations of over Rs. 35 crore in FY2024 against debt repayment obligation of Rs. 22.7 crore. The DSRA is in the form of fixed deposits of Rs. 10 crore and a bank guarantee of Rs. 18.4 crore as on July 19, 2023. This apart, the company had free cash and bank balances of ~Rs. 11 crore and O&M reserve of ~Rs. 3 crore as on July 19, 2023. The available cash balances and DSRA would cover for nine months of debt servicing for the company.

Rating sensitivities

Positive factors – ICRA could upgrade SPVEIPL’s rating, if it achieves a generation performance higher than the historical average along with timely payments from the offtaker, leading to an improvement in the credit metrics. Also, the rating could be upgraded if the credit profile of its parent Group, led by CAER, improves.

Negative factors – Pressure on SPVEIPL’s rating could arise, in case of any delays in realising payments from BESCOM, adversely impacting its liquidity position. Further, any under-performance in generation by the wind power project adversely impacting the debt coverage metrics and liquidity position of SPVEIPL would be a negative trigger. A specific credit metric for downgrade is the cumulative DSCR falling below 1.25 times. Also, the rating could be downgraded if the credit profile of its parent Group, led by CAER, deteriorates.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Wind Power Producers
Parent/Group support	The rating for SPVEIPL considers the implicit benefit of being a part of the Acciona Energia Group, led by CAER. ICRA expects the Group to extend financial support to SPVEIPL, should such a need arise.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

SPVEIPL, promoted by the Spain-based Acciona Group, is operating a 78-MW wind power plant at Bannur in the Bijapur district of Karnataka. The project was commissioned in two phases, with 60 MW being commissioned by March 31, 2017, and the remaining 18 MW commissioned by September 30, 2017. The project was set up at a cost of about Rs. 770 crore and funded through a debt of Rs. 399 crore (against the appraised debt of Rs. 454 crore), equity of Rs. 164 crore, sponsor debt of 15 million euros and reimbursement from Group entities for the development of common evacuation infrastructure. The WTGs for the project were supplied by Acciona Windpower India Private Limited (Nordex – Acciona company), while the operations and maintenance are managed by AEIPL.

Key financial indicators

SPVEIPL Standalone	FY2022	FY2023 [^]
Operating income (Rs. crore)	89.37	85.37
PAT (Rs. crore)	0.75	-4.85
OPBDIT/OI	74.81%	75.87%
PAT/OI	0.84%	-5.68%
Total outside liabilities/Tangible net worth (times)*	4.52	4.71
Total debt/OPBDIT (times)*	6.85	6.93
Interest coverage (times)	1.42	1.56

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; [^]provisional and unaudited

*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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. Crore)	Amount outstanding as on May 31, 2023 (Rs. Crore)	Date & rating	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Sept 1, 2023	Jul 28, 2022	Jul 27, 2021	Nov 09, 2020	Jul 03, 2020
Long Term-1 Fund Based-Term loan	Long-Term	314.69	314.69	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (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 / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term-Fund Based-Term loan	April 2018	-	June 2035	314.69	[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

Not Applicable

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