September 28, 2023

Solar Energy Corporation of India Ltd: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash credit (LT)	350.01	350.01	[ICRA]AAA (Stable); reaffirmed
Non-fund based limits (LT/ST)	1149.99	1149.99	[ICRA]AAA (Stable) /[ICRA]A1+; reaffirmed
Long-term unallocated	-	600.00	[ICRA]AAA (Stable); assigned
Total	**1500.00**	**2100.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA's rating reaffirmation draws comfort from the strong parentage of Solar Energy Corporation of India Ltd (SECI) with 100% ownership by the Government of India (GoI) and its strategic role in promoting the renewable energy sector in India, which is a thrust area of the Government. ICRA favourably considers the fact that SECI, which signs power purchase agreements (PPAs) with developers, enters into back-to-back power sale agreements (PSAs) with state distribution utilities (discoms) on similar terms, mitigating the risks related to demand, execution and operations. Further, the superior tariff competitiveness of the wind and solar energy projects tied up through SECI is a positive from the discoms' perspective, given that the weighted average tariff for projects with an aggregate capacity of 56+ GW awarded by SECI remains at Rs. 2.8 per unit, much lower than the average power purchase cost (APPC) of the discoms.

Further, the ratings continue to factor in the demonstrated ability of SECI to invoke the tripartite agreement (TPA) to realise the overdues from the state-owned discoms of Andhra Pradesh and Karnataka. As SECI is one of the beneficiaries of the TPA signed among the Central Government, the state governments and the Reserve Bank of India (RBI), the implementation of TPA sets a strong deterrent for state-owned discoms to honour their PSA tariff commitments in a timely manner. This is reflected in the healthy collection efficiency achieved by SECI over the last three years ended FY2023. ICRA favourably takes note of the company's strong financial profile, reflected in an increasing scale of operations, healthy return metrics and a favourable capital structure with very low debt dependence. This is further strengthened by an equity infusion of Rs. 1,000 crore in March 2022 by the GoI, which would be used to fund the working capital requirements and the proposed capex on its books.

Nevertheless, the company remains exposed to counterparty credit risks as most of the state-owned discoms have weak financial health, given their higher-than-approved aggregate technical and commercial (AT&C) losses, tariff inadequacy and lack of timely subsidy support from the respective state governments. ICRA further notes that the available payment security fund (PSF) is only restricted to the capacity awarded till Phase II – Batch I, Batch III and Batch IV under the National Solar Mission (NSM). The company expects the PSF to be partially funded through upfront contribution, as per the amended bidding guidelines dated October 2019, from the winning developers for the capacity awarded post this amendment under the inter-state transmission system (ISTS) tranches. The SECI has requested for an approval from the GoI to make the funds in PSF available for usage across the schemes, which is under consideration.

ICRA notes that the company intends to set up various renewable projects on its own balance sheet, depending on the receipt of Government approvals and PPA tie-ups. Currently, the company is constructing a 100-MW solar power project with a battery storage capacity of 120 MWh project in Chhattisgarh. This apart, the company proposes to set up a 100-MW floating solar project in Jharkhand and a 1,200-MW solar power capacity under the CPSU scheme. Of the 1200-MW under the CPSU scheme, the company has so far signed PPAs for 500 MW, while PPAs for the balance capacity are pending. The overall capital cost for these projects is estimated to be Rs. 7,300 crore, which would be funded through a mix of debt, grant, viability gap funding and internal accruals. The progress on the capex would be linked with the signing of PPAs and progress in land acquisition. This would expose the company to execution risks as well as increase its leverage level. Nonetheless, comfort can be drawn from the limited gestation period for these projects, tie-up of firm PPAs for these projects and as the debt coverage metrics are expected to remain strong for the company. Also, the company is expected remain net debt negative over the near to medium term, given the presence of large cash balances and liquid investments.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that SECI will continue to benefit from the strong policy focus of the Government on the renewable energy sector, availability of the TPA mechanism, the growing scale of operations and a strong liquidity profile.

Key rating drivers and their description

Credit strengths

Sovereign parentage –SECI is under the administrative control of the Ministry of New & Renewable Energy (MNRE), GoI, as an implementation and facilitation institution dedicated to the renewable energy sector. The GoI has a strong policy focus for the renewable energy sector and in that context, SECI remains strategically important for the Government to fulfil its renewable energy sector initiatives/targets.

SECI included in list of CPSU beneficiaries for TPA benefit – Since October 2016, the company has been included as a beneficiary in the TPA, which is signed among the Central Government, the state governments and the RBI. The TPA has currently been signed by all but two states/Union Territories (UTs). The TPA was invoked by SECI in FY2021 and FY2022 against the Andhra Pradesh discoms and HESCOM for the recovery of past dues. The inclusion of SECI as a beneficiary of the TPA, acts as a key deterrent for the discoms to honour their PSAs. Under the TPA, Central power sector utilities can request the GoI, which in turn can further instruct the RBI to debit the amount due from the state government account held with it and credit the same amount to the account of the GoI/CPSU.

SECI as nodal agency is an intermediary – For its power trading business, SECI is an intermediary that has entered into PPAs with developers as well as PSAs with offtakers, i.e. state-owned distribution utilities. It is entitled to a trading margin of Rs. 0.07/unit, subject to the opening of letter of credit (LC) as payment security, as also notified by the CERC. As the PPAs are signed only after the signing of the PSAs for the contracted capacity, it is largely insulated from market and execution risks. In the event of delays from PSA counterparties/state discoms, the payment security measures available in the PSA such as the availability of LC, TPA and power supply regulation for third-party sale of power provide the mitigating factors to a large extent. Further, the availability of compensation in case of grid back-down/grid unavailability as well as termination penalty payable by the state discoms in the event of default by discoms under PSAs provide comfort for the PPAs signed by SECI under ISTS tranches, based on the amended bidding guidelines.

Superior tariff competitiveness favourable for ultimate offtakers; availability of LCs another positive – The superior tariff competitiveness offered by majority of the wind and solar power projects bid by SECI is a positive from the discoms' perspective, given that the weighted average tariff for the company for a capacity of 56+ GW is about Rs.2.8/unit, which is well below the APPC of the state discoms. Further, the MoP had issued guidelines, making it mandatory for discoms to open and maintain adequate LCs as a payment security mechanism under the PPAs. Similarly, it is mandatory for SECI to open LCs for developers.

Payment security fund for projects under NSM Phase II – The availability of a payment security fund (PSF) for projects awarded under NSM Phase II provides comfort. The PSF was funded through budgetary support from the GoI, penalties recovered from developers and interest income. The cushion in the PSF has improved over the past 12 months. However, it may be noted that the PSF does not cover other schemes, except NSM (Phase II Batch I, III and IV). The company is seeking an approval from the GoI regarding the utilisation of the PSF across schemes and an additional PSF of Rs. 500 crore, which is yet to be approved.

This apart, SECI expects the PSF to be partially funded through upfront contribution, as per the amended bidding guidelines dated October 2019, from the winning developers for the awarded capacity under ISTS tranches post this amendment.

Comfortable financial profile – The company has a comfortable financial profile, reflected in its increasing scale of operations, healthy return metrics, very low debt dependence and strong debt protection indicators. While the planned debt-funded capex would increase the leverage level of the company, the capital structure and debt coverage metrics are expected to remain comfortable. Moreover, its healthy cash balances have resulted in a strong liquidity position. The equity infusion of Rs. 1,000 crore by the Government of India in March 2022 has strengthened the company's net worth and liquidity.

Credit challenges

Exposure to counterparty credit risk due to weak financial position of most distribution utilities – ICRA takes into account the high counterparty credit risks arising from exposure to state-owned discoms, most of which have weak financial health. This had earlier resulted in huge payment delays from the state discoms of Andhra Pradesh and Karnataka. Overall, the financial position of the state-owned distribution utilities in many states has remained weak because of the higher-than-approved AT&C losses, tariff inadequacy and lack of timely subsidy support. Nonetheless, the counterparty credit risk is mitigated largely due to a) superior competitiveness of PSA tariff, b) payment security mechanism in the PSA and c) high level of diversification in counterparty profile. Further, the TPA acts as a deterrent for the payment delays by the state-owned discoms. This is reflected in the healthy collection efficiency achieved by SECI over the past three years and the largely stable debtor days.

Unavailability of PSF (backed by budgetary support) for new schemes – At present, the PSF is available only for the capacities tendered under NSM Phase II- Batch I, III and IV. The company does not have funds for capacities auctioned under standard biding guidelines (SBG) and will have to either use its internal funds or take external borrowings to meet the shortfall, if any. However, as per the amendments by the MNRE in the solar bidding guidelines in October 2019, developers will have to deposit Rs. 5 lakh per MW, which would be utilised as PSF by SECI. However, the same is applicable for the solar tenders floated under SBG from Tranche 5, wind Tranche-VIII and hybrid Tranche-III onwards. Nonetheless, comfort can be drawn from the equity infusion of Rs. 1,000 crore from the GoI in Mar'22, which has strengthened the liquidity profile of the company.

Execution risks for underlying projects in development stage – The company has obtained approvals to set up utility scale renewable power projects having significant capacity, which are under various stages of development. Currently, the company is constructing a 100-MW solar power project with a 120-MWh battery storage capacity in Chhattisgarh. Further, it is developing a 100-MW floating solar project in Jharkhand and a 1,200-MW solar power capacity under the CPSU scheme. This would expose the company to execution risks and increase its leverage levels. The progress on these projects and its impact on the company's leverage level and liquidity would remain a key monitorable.

Liquidity position – Strong

SECI's liquidity profile is strong, supported by expectations of healthy cash flow from operations and availability of surplus funds, including large free cash balances and cushion available in PSF. The total cash balances and liquid investments of the company stood at Rs. 2,998 crore as on March 31, 2023. This included free cash balance of Rs. 1,457.56 crore and liquid investments of Rs. 864.82 crore pertaining to PSF, performance guarantee deposit (PGD) and payment security deposit (PSD). The balance funds are largely earmarked for PSF. The company also has LCs available from discoms, which can be encashed to support liquidity in case of delays in receiving payments. Moreover, SECI is a party to the TPA, which can be invoked by it in case of prolonged delays in payment by a state government discom.

Rating sensitivities

Positive factors - Not applicable

Negative factors - The ratings could be downgraded in case of significant delays in the receipt of payments from the discoms, leading to an adverse impact on the liquidity profile of SECI. Moreover, a material increase in leverage on the books of the company adversely impacting SECI's debt coverage metrics could lead to a downgrade. Also, change in the promoter profile or any change in policy support from the MNRE, GoI, may trigger a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent/Group Company: Government of India SECI is strategically important to GoI, given the latter's strong policy focus on augmenting renewable energy capacity in the country. SECI has received support from GoI in the form of periodic equity infusion, payment security fund and SECI's inclusion in the tripartite agreement for recovery of payments from state discoms
Consolidation/Standalone	Standalone

About the company

Solar Energy Corporation of India Ltd (SECI) is under the administrative control of the MNRE, GoI, and was set up in 2011 as an implementation and facilitation institution dedicated to the renewable energy sector.

- SECI is the implementing agency for many of the GoI's schemes, such as the commissioned 680-MW grid-connected solar PV project under Phase II Batch I of JNNSM, 2,155-MW Phase II Batch III and 2,670-MW Phase II Batch IV, wind and solar power projects connected to ISTS, wind solar hybrid projects, manufacturing-linked solar programme, storage schemes, rooftop solar PV programme, solar parks, CPSU scheme, canal top/bank scheme, solarisation of Indo-Pak border, etc.

- SECI acts as an offtaker of power under Phase II Batch I/III/IV and wind/solar ISTS/Hybrid tenders (except the first wind ISTS tender where PTC India Ltd is the offtaker) and subsequently sells it to state discoms under long-term PSAs

- SECI owns a 10-MW solar power plant in Jodhpur, which was commissioned in March 2016 and sells solar power to NTPC Vidyut Vyapar Nigam Ltd under a 25-year PPA at a fixed tariff. It has also set up a 1-MW solar rooftop project at different locations in Andaman and Nicobar islands and sells the power to Andaman and Nicobar Administration at a tariff of Rs. 4.64/unit. This project was set up in FY2018. It also operates a 10-MW solar plant, wherein the offtaker is DRDO.

- SECI undertakes project management and consultancy-based projects for CPSUs/Government entities looking to set up solar power projects.

- SECI has entered into a number of 50:50 JVs with various state agencies for the development of solar power parks.

Key financial indicators

Audited (Standalone)	FY2022 (Audited)	FY2023 (Provisional)
Operating Income (Rs. crore)	7284.9	10795.1
PAT (Rs. crore)	240.3	315.7
OPBDITA/OI (%)	4.33%	3.52%
PAT/OI (%)	3.30%	2.92%
Total Outside Liabilities/Tangible Net Worth (times)	1.93	2.15
Total Debt/OPBDITA (times)	0.01	0.01
Interest Coverage (times)	77.21	46.60

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

Source: Company data, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Jun 30, 2023 (Rs. crore)	Date & rating in	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Sep 28, 2023	Jul 19, 2022	Aug 25, 2021	Jan 22, 2021	Apr 30, 2020
1	**Unallocated**	Long term	-	-	-	-	-	[ICRA]AA+ (Positive)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
2	**Non-fund based limits**	Long/ Short Term	1149.99	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AA+ (Positive)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
3	**Cash credit**	Long Term	350.01	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Positive)	-
4	**Unallocated**	Long Term	600.00	-	[ICRA]AAA (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Non-fund based limits	Very Simple
Unallocated	Not applicable

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Non-fund based limits**	NA	-	-	1149.99	[ICRA]AAA (Stable)/ [ICRA]A1+
NA	**Cash credit**	NA	-	-	350.01	[ICRA]AAA (Stable)
NA	**Unallocated**	NA	-	-	600.00	[ICRA]AAA (Stable)

Source: *Company data*

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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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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