October 27, 2023

Cleantech Solar 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	254.89	254.89	[ICRA]A (Stable); reaffirmed
Total	**254.89**	**254.89**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Cleantech Solar Energy (India) Private Limited (CSEIPL) factors in the strengths arising from the company's parentage as it is a part of the Cleantech Solar Group, which has reputed sponsors like Keppel Corporation and Shell Plc, along with an experienced management, established track record in developing and operating solar power projects and a diversified solar project portfolio of over 850 MW across South-East Asia tied up with large commercial & industrial customers.

The rating favourably factors in the limited demand risk for CSEIPL's rooftop project portfolio due to the long-term power purchase agreements (PPAs) signed with reputed commercial and industrial (C&I) customers for its entire capacity. The tenures of these PPAs vary from 12 to 25 years across projects, with a capacity weighted average tenure of over 20 years against the debt repayment tenure of 15 years. Moreover, the PPAs have been tied up at highly competitive tariffs in relation to the grid tariffs for these consumers. Further, ICRA draws comfort from a diversified customer base across various sectors, including fast moving consumer goods (FMCG), IT services, auto components, food products, beverages and building materials. The credit profile of the customers remains comfortable, leading to timely realisation of payments, as demonstrated so far. ICRA also takes note of the fully operational diversified asset base spread over 47 locations across 12 states.

ICRA notes that the company's debt coverage metrics are expected to be comfortable with a projected cumulative debt service coverage ratio (DSCR) of over 1.4x over the debt repayment tenure, supported by the long-term PPAs, long tenure of the project debt and competitive interest rates. Moreover, the company is using the surplus cash flows to prepay the debt under the cash sweep mechanism, thereby leading to healthy debt coverage metrics, going forward.

However, the rating is constrained by the vulnerability of CSEIPL's cash flows and debt coverage metrics to the generation performance of its solar portfolio, given the single-part tariffs under the PPAs. Any adverse variation in weather conditions or equipment performance or inability to ensure adequate O&M practices for the solar assets would impact generation and consequently the cash flows. While the generation risk is partially mitigated by the geographic diversity of the assets spread across 12 states, ensuring effective O&M of the small-sized solar assets at multiple locations remains important. The performance of the assets under CSEIPL has remained below the P-90 estimate so far. While the PLF has improved in 8M CY2023, achieving generation performance in line or above the appraised estimate on a sustained basis remains a key monitorable.

ICRA also takes note of the sensitivity of the debt coverage metrics to the movement in interest rates as the floating interest rates are subject to resets, and a leveraged capital structure. The company may look to raise additional debt to leverage 17-18 MW capacity, which is entirely funded through equity at present. The debt coverage metrics would remain sensitive to the quantum of such additional debt and repayment tenure. As the projects are at customer premises, the flexibility to change the customers in case of any event of default would be limited, unlike open access-based projects. However, this risk is offset by adequate termination payments under the PPAs. In such instances, the timely receipt of termination payments from the customers would be critical.

The Stable outlook assigned to the long-term rating of CSEIPL factors in the steady cash flow visibility, aided by the long-term PPAs and timely cash collections expected from the customers.

Key rating drivers and their description

Credit strengths

Strengths of being part of Cleantech Solar Group – CSEIPL is part of the Cleantech Solar Group, which in turn is promoted by Keppel Consortium and Shell Plc. The platform benefits from a diversified portfolio of over 850 MW across seven countries in South Asia and the presence of strong shareholders, who are focused on growing their renewable energy portfolio. CSEIPL is expected to benefit from the presence of strong sponsors.

Low offtake risk due to long-term PPAs with industrial customers at highly competitive tariffs – The solar capacities under CSEIPL have tied up long-term PPAs with large industrial and commercial customers at pre-determined tariffs, thereby limiting the demand and pricing risks. The PPAs include a provision for termination payments which cover for the outstanding debt under the SPV. Further, comfort is drawn from the competitive tariffs offered by the projects to the customers against the grid tariff rates. Moreover, the PPAs would enable the customer to meet their renewable purchase obligations.

Diversified customer base with satisfactory credit profile – The presence of a diversified customer base with a satisfactory credit profile mitigates the counterparty risk to a large extent. While the payment track record varies across operational projects, the company has been receiving payments from majority of its customers in a timely manner since commissioning.

Comfortable debt coverage metrics and liquidity profile – CSEIPL's debt coverage metrics are expected to be comfortable with cumulative DSCR above 1.4x over the debt tenure, supported by the availability of PPAs at attractive rates, a conservative capital structure, long tenure of the debt, competitive interest rates and use of surplus cash flows to prepay the debt. Also, the company's liquidity profile is supported by the presence of a DSRA equivalent to two quarters.

Credit challenges

Vulnerability of cash flows to solar radiation – Given the single-part tariff under the PPAs, the revenues and cash flows of the solar power projects under CSEIPL remain vulnerable to the actual generation, which in turn is exposed to the variability in solar radiation. While comfort is drawn from the geographical diversion of assets and improved performance seen in the current year, demonstration of generation performance in line or above the appraised estimate on a sustained basis remains a key monitorable.

Limited flexibility to change customers in case of a default – The flexibility to change customers remains limited for the projects under CSEIPL as these are in the customer premises. Nonetheless, comfort can be drawn from the provision for termination payments under the PPAs, which are estimated to cover for the debt outstanding. In such instances, the timely receipt of termination payments from the customers would be critical. Also, the company's operations would remain sensitive to any adverse regulatory changes for rooftop projects.

Exposed to interest rate risk - The interest rates on the term loans availed by the company for its projects is floating and subject to annual resets. Given the fixed nature of the tariffs under the PPAs and the leveraged capital structure, the company's debt coverage metrics remain exposed to the movement in interest rates and any increase in indebtedness.

Liquidity position: Adequate

CSEIPL's liquidity position is expected to be adequate, with sufficient buffer between cash flows from operations and debt repayment obligation. The cash flows from operations are expected to be healthy at Rs. 25.16 crore against an annual debt repayment of Rs. 19.19 crore in CY2023. Moreover, a two-quarter DSRA and timely payments from the customer is expected to support the liquidity profile. The company had cash and liquid investments of Rs. 22.02 crore as on August 31, 2023, including DSRA of Rs. 20.74 crore.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company is able to demonstrate generation performance in line or higher than the appraised estimate along with timely payments from the customers, leading to healthy credit metrics.

Negative factors – Pressure on the rating could arise if the generation performance of CSEIPL remains below the appraised estimate on a sustained basis, adversely impacting the debt coverage metrics. Also, delays in payments from counterparties adversely impacting the liquidity profile is a negative trigger. A specific credit metric for downgrade is the cumulative DSCR on the project debt falling below 1.25x.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers
Parent/Group support	-
Consolidation/Standalone	Standalone

About the company

Cleantech Solar Energy (India) Private Limited (CSEIPL) is a wholly-owned subsidiary of Cleantech Solar Asia Pte. Ltd. (CSA), which in turn is 75.5% owned by the Keppel consortium and 24.5% by Shell.

The CSEIPL rooftop portfolio consists of 97.20-MW (DC capacity) solar power assets, commissioned between August 2015 and January 2023. These assets are located at 47 sites across 12 states, namely Andhra Pradesh, Gujarat, Haryana, Karnataka, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh and West Bengal. The company has signed long-term power purchase agreements (PPAs) with reputed C&I customers for the assets.

Key financial indicators (audited)

Consolidated	CY2021	CY2022
Operating income	56.8	52.6
PAT	-14.2	-10.3
OPBDIT/OI	76.8%	84.9%
PAT/OI	-25.0%	-19.5%
Total outside liabilities/Tangible net worth (times)	2.8	2.9
Total debt/OPBDIT (times)	7.9	7.0
Interest coverage (times)	1.4	1.6

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Aug 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2022
					Oct 27, 2023	Dec 26, 2022	-	-
1	**Term Loans**	Long term	254.89	145.11	**[ICRA]A (Stable)**	**[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**	March 2020	-	FY2035	254.89	[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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Vikram V
+91 40 4547 4829
vikram.v@icraindia.com

Dhruv Consul
+91 124 4545 347
dhruv.consul@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches