

November 15, 2023

CIAL Infrastructures Ltd.: Rating upgraded to [ICRA]A+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based term loans	185.00	185.00	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Stable)
Fund-based working capital limit	5.00	5.00	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Stable)
Total	190.00	190.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade of CIAL Infrastructures Limited (CIL/ the company) factors in improvement in the credit profile of the parent and off-taker, Cochin International Airport Limited (CIAL, rated at [ICRA]AA- (Stable)) and in CIL's coverage metrics in the backdrop of signing of interim power purchase agreement (PPA) with Kerala State Electricity Board Limited (KSEBL) for the 4.5-MW Arippara Small Hydro-Electric Project (SHEP) at Rs. 4.30/unit. ICRA notes that CIL is also expected to sign a short-term PPA with KSEBL for the Payyannur solar plant for two years, which will further support cash flows and coverage metrics. The rating also considers the strong financial profile of the company, characterised by its robust cash accruals and healthy debt coverage indicators. The rating derives comfort from the long-term power purchase agreements (PPAs) for the 39-MW solar capacity located in the airport premises with CIAL, strong counterparty and low offtake risk as more than 70% of CIL's operational capacity is tied-up with CIAL, along with a track record of timely payments. The rating considers the healthy financial flexibility associated with a strong promoter profile and ICRA's expectations that CIAL would be willing to extend financial support to CIL, given the high strategic importance that CIL holds for CIAL for meeting the latter's diversification objectives.

CIL had commissioned the 11.6-MWp Payyannur solar plant and the 4.5-MW Arippara SHEP in H2 FY2022, and the company has signed an interim PPA with KSEBL for the Arippara SHEP at a tariff of Rs. 4.30/unit in May 2023. The final PPA is pending for approval with KSERC and is likely to be signed by the end of the current financial year. The company has also signed a short-term PPA with KSEBL in FY2023 at a tariff of Rs. 2.37/unit for the Payyannur solar plant for 9.5 months (15.06.2022 – 31.03.2023) and is expected to extend this PPA for two more years (01.04.2023 – 31.03.2025) with the same terms as the earlier short-term PPA. As per the management, the short-term PPA is likely to be signed by December 2023. At present, the units generated from the Payyannur solar plant are injected into the grid and post the signing of PPA, invoices for these units shall be raised. Although any delay in the signing of PPA for the Payyannur solar plant is likely to affect the revenues, the cash flows from the signed PPAs (Arippara and 39-MW airport premises) would be comfortable for debt servicing requirements. The rating also considers low receivable days at below 30 days due to a strong counterparty (CIAL) and timely receipt of payments from KSEBL.

The rating is, however, constrained by the vulnerability of cash flows to variations in solar irradiation levels and hydrological risks. In the event of non-generation of power due to variations in solar irradiation levels, the company's cash inflows may be affected. Moreover, the cash flows from the hydro project remain exposed to hydrological risks, given that it is not covered under any deemed generation clause in case of drop in generation due to shortage of water, as the company's revenues are linked to actual unit sales. Additionally, the company is exposed to offtake risks on account of short-term nature of PPA for the Payyannur solar plant. The company is also exposed to variations in interest rates, given the floating nature of the interest rates on term loans.

The Stable outlook on the rating reflects ICRA's opinion that the rated entity will continue to benefit from its long-tenor PPAs for 39-MW solar capacity and 4.5 MW Arippara SHEP and timely receipt of payments from its strong offtaker, CIAL.

Key rating drivers and their description

Credit strengths

Long-term PPAs that cover full debt tenure - The company has long-term PPAs for 39-MW solar capacity with CIAL and 4.5-MW Arippara SHEP with KSEBL, covering full tenure of the debt for 100% of the capacity installed inside the airport premises and SHEP in March 2023. Further, the timely receipt of payments has been supporting CIL's liquidity position.

Strong counterparty for 39 MW of operational capacity at airport premises - CIL is supplying the entire power requirement of CIAL from the 39-MW solar plant operational inside the airport premises for the past five years. The offtake risk is low as only surplus generation is sold to KSEBL. Till FY2020, the entire power generated from the 39-MW solar plant was sold to CIAL at Rs. 6.80/unit, however in FY2021 and FY2022, around 18% of power was sold to KSEBL, on account of airport operations being hit by the pandemic. Nevertheless, operations at CIAL improved in FY2023 and only around 9% power was sold to KSEBL.

Robust financial profile - The financial profile of CIL is strong, characterised by robust cash accruals, and healthy debt coverage indicators. In FY2023, the company's revenues increased by 43% YoY to Rs. 42.3 crore from Rs. 29.5 crore in FY2022 on account of higher offtake of power by CIAL, on the back of improved airport operations and revenue contribution from the two new power plants (4.5-MW SHEP, and 11.6-MWp Payyannur solar plant). At present, revenue from CIAL contributes to around 75% of CIL's revenue and is likely to continue going forward.

Strong parent profile - CIL is a wholly-owned subsidiary of CIAL. The rating factors in ICRA's expectations that CIAL would be willing to extend financial support to CIL, should there be a need, given the high strategic importance that CIL holds for CIAL for meeting the latter's diversification objectives. The rating also factors in the improvement in the credit profile of the parent and offtaker, CIAL.

Credit challenges

Lack of long-term PPA for the Payyannur solar plant; relatively weaker counterparty for the new capacities – While 100% of the capacities at airport premises and Arippara SHEP have long-term PPAs, the Payyannur solar plant lacks a long-term PPA. Earlier, it had signed a 9.5-month PPA at Rs. 2.37/unit tariff with KSEBL and is likely to sign a short-term PPA of two years with KSEBL shortly. Post the expansion of Terminal 3 at CIAL, the energy requirement is likely to go up and CIL is expected to sign long-term PPA for the Payyannur solar power plant with CIAL. Accordingly, signing of long term PPAs for the Payyannur solar project remains a key rating monitorable.

Additionally, the PPAs signed for the new capacities are signed with KSEBL, which is a weaker counterparty compared to CIAL. However, payments from KSEBL are received in a timely manner within 8-50 days. Hence, the ability of CIL to realise the payments from KSEBL without material delays, remains important from liquidity perspective.

Vulnerability of cash flows to variations in solar irradiance and hydrological risks - In the event of non-generation of power due to variations in solar irradiation levels, the company's cash inflows may be affected. Further, the cash flows from the newly operational hydro power project remain exposed to hydrological risks, given that it is not covered under any deemed generation clause in case of drop in generation due to shortage of water, as the company's revenues are linked to actual unit sales. However, the generation from the plants is in line with ICRA's estimates and the coverage metrics are comfortable. Further, the O&M risk for the company is largely mitigated on account of fixed-price contracts covering penalties for non-generation below guaranteed units.

Interest rate risk - The company is exposed to variations in interest rates, given the floating nature of interest rates of term loans.

Liquidity position: Adequate

The liquidity position of the company is adequate, with unencumbered cash and liquid balances of Rs. 11.38 crore as on March 31, 2023. Further, the company had unutilised fund-based limits of Rs. 3.13 crore and Rs. 3.91 crore, respectively, as on March 31, 2023, and July 31, 2023. The utilisation of fund-based limits has remained moderate at an average of 20% in the 12 months ending in July 2023. The company has repayment obligations of Rs. 7.1 crore in FY2024 and Rs. 7.7 crore in FY2025, which can be comfortably serviced through estimated cash flow from operations and the available liquidity.

Rating sensitivities

Positive factors – The rating could be upgraded if the company ties up long-term PPA for the Payyannur solar plant while ensuring timely receipt of payments along with the improvement in the credit profile of the sponsor and key offtaker, CIAL.

Negative factors – Pressure on CIL’s rating could arise, if there is any significant under-performance of operational projects, coupled with significant debt-funded capex, leading to cumulative DSCR over loan tenure falling below 1.4 times. Also, any significant deterioration in the credit profile or weakening in linkages, with the sponsor, CIAL will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers
Parent/Group support	Parent Company: CIAL The rating factors in ICRA’s expectations that CIAL would be willing to extend financial support to CIL, given the high strategic importance that CIL holds for CIAL for meeting the latter’s diversification objectives. Both CIL and CIAL also share a common name, which in ICRA’s opinion would persuade CIAL to provide financial support to CIL to protect its reputation from the consequences of a Group entity’s distress.
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of CIAL Infrastructures Limited.

About the company

CIAL Infrastructures Limited (CIL) was incorporated in 2012 as a subsidiary of Cochin International Airport Limited (CIAL) to consider opportunities in the power and other infrastructure sectors. CIL is a wholly-owned subsidiary of CIAL (rated at [ICRA]A+ (Positive)). CIAL has commissioned 39-MW solar power plant at the Cochin airport premises, thereby enabling CIAL to achieve the status of a fully solar-powered airport. The plant generates adequate power to meet the energy requirements of the airport. In FY2022, CIL completed the construction of two projects outside airport premises — a 11.6-MWp solar power plant at Payyannur, Kerala and a 4.5-MW Small Hydro Electric Project (SHEP) at Arippara, Kerala, and the same have been operational from Q3 FY2022.

Key financial indicators (audited)

CIL (Standalone)	FY2022	FY2023
Operating income	29.5	42.3
PAT	4.5	10.3
OPBDIT/OI	70.8%	81.9%
PAT/OI	15.2%	24.3%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	4.2	2.3
Interest coverage (times)	4.3	5.9

Source: CIL, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts 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 of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Nov 15, 2023	Oct 14, 2022	Sep 16, 2021	Jun 12, 2020
1 Fund based - Term Loans	Long-term	185.00	78.42	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Fund based- Working Capital	Long-term	5.00	1.87	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based - Term Loans	Simple
Fund based- Working capital limit	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	Fund based - Term Loan 1	February 2020	7.68%	January 2032	150.00	[ICRA]A+ (Stable)
NA	Fund based - Term Loan 2	March 2018	7.68%	February 2030	35.00	[ICRA]A+ (Stable)
NA	Fund based – Working capital limit	-	7.68%	-	5.00	[ICRA]A+ (Stable)

Source: CIL

[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:

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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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