December 18, 2023

Tungabhadra Solar Parks Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	107.00	107.00	[ICRA]A+ (Stable); reaffirmed
Cash credit/Overdraft	10.00	10.00	[ICRA]A+ (Stable); reaffirmed
Total	**117.00**	**117.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Tungabhadra Solar Parks Private Limited (TSPPL) factors in the managerial and financial support from a strong parent, Ayana Renewable Power Private Limited (ARPPL; rated [ICRA]AA-(Stable)/A1+). ARPPL's credit profile is supported by its superior financial flexibility because of its strong sponsors — National Investment and Infrastructure Fund Limited (NIIF), British International Investment (BII; erstwhile CDC Group Plc; a UK Government-owned development finance institution) and Green Growth Equity Fund (GGEF) – along with the large capital commitments made by them and the presence of a diversified renewable power portfolio. The sponsors have made a capital commitment of $721 million in ARPPL till date with NIIF holding 51% along with a majority board representation.

Further, ICRA takes note of the benefits available to TSPPL from being part of a cash pooling mechanism and the cross-default linkages with another special purpose vehicle (SPV) – Anantapur Solar Parks Private Limited (ASPPL), of the Ayana Group, wherein surplus cash in either of the SPVs can be used to meet the shortfall in debt servicing of the other SPV. Both SPVs operate solar power projects aggregating to 40 MW in Karnataka and have long-term power purchase agreements (PPAs) for the entire capacity with state distribution utilities (discoms). The generation performance of both the assets is satisfactory and the collection track record has also been timely post the implementation of the Late Payment Surcharge (LPS) scheme. However, the sustainability of the payment track record remains to be seen, given the moderate financial profile of the state discoms.

TSPPL's rating continues to draw comfort from the revenue visibility and low offtake risk on account of a long-term (25-year) power purchase agreement (PPA) with Gulbarga Electricity Supply Company (GESCOM) for the 20-MW solar power plant of TSPPL at a fixed tariff. The rating also considers the satisfactory generation performance since commissioning with an average plant load factor (PLF) of 22.1% against the lender's apprised PLF of ~21.8%[1]. Moreover, the PLFs have improved in FY2023 and H1 FY2024 over the previous corresponding period following the DC capacity addition. Further, the debt coverage metrics are expected to remain adequate over the debt repayment tenure, supported by the long-term PPA at a reasonable tariff, the long tenure of the project debt and competitive interest rates.

The rating is constrained by the sensitivity of the company's profitability and debt protection metrics to its generation performance. Any adverse variation in weather conditions or module performance may impact the PLF levels and consequently affect the cash flows. This is amplified by the geographic concentration of the asset, with the entire capacity located in Karnataka.

The rating also factors in the counterparty credit risk on account of exposure to a single buyer, GESCOM (rated [ICRA]BBB-(Stable)/[ICRA]A3). The credit profile of GESCOM is constrained by its high receivable position and its payment cycle remains a key monitorable. Nonetheless, after the implementation of the LPS rules by the Ministry of Power, Government of India, the

[1] *adjusted for module degradation over the years*

payment cycle has reduced to 2-3 months from 5-6 months in addition to recovery of the earlier outstanding dues, thereby supporting the liquidity. Further, the project's operations remain exposed to regulatory risks pertaining to the scheduling and forecasting requirements of solar power projects.

The Stable outlook on the rating reflects ICRA's opinion that the company's revenues and profitability will be supported by satisfactory generation performance and the availability of long-term PPA.

Key rating drivers and their description

Credit strengths

Strong managerial and financial support from Ayana Group – The Ayana Group is backed by BII, NIIF and GGEF. The full ownership of the BII belongs to the Secretary of State for International Development, which is controlled by the UK Government. NIIF is anchored by the Government of India (GoI) in collaboration with leading global and domestic institutional investors and is India's first sovereign investment fund. EverSource Capital, a joint venture between Everstone Capital and Lightsource BP, is the fund manager of GGEF, a $700-million target private fund, which has NIIF and the UK Government as anchor investors. All the three shareholders have a committed capital of $721 million with NIIF holding 51% along with majority board representation. ICRA notes that ARPPL is likely to remain strategically important to NIIF, evident from the largest equity commitment from its master fund. TSPPL enjoys strong managerial and financial support, being part of the Ayana platform. Further, the company benefits from being part of a cash pooling mechanism and having cross-default linkages with another SPV of the Group, wherein surplus cash from either of the SPVs can be used to meet the shortfall in debt servicing for the other SPV. This pool has two solar power assets in Karnataka, aggregating to 40 MW.

Revenue visibility due to long-term PPA with GESCOM – TSPPL operates a 20-MW power plant in Karnataka, wherein the counterparty is GESCOM. The PPA is valid for a period of 25 years from the date of commissioning of operations with an applicable tariff rate of Rs. 4.36 per unit.

Satisfactory operational performance for over five years – The asset was commissioned towards the end of FY2018 and has a generation track record of over five years. The generation performance of TSPPL has remained satisfactory since commissioning, reflected in an average PLF of 22.1% against the lender's apprised PLF of ~21.8% (adjusted for module degradation over the years). Further, the PLFs have improved in FY2023 and H1 FY2024 over the previous corresponding period following the addition of DC capacity.

Adequate debt service coverage metrics - The debt coverage metrics are expected to remain adequate over the debt repayment tenure, supported by the long-term PPA at a reasonable tariff, the long tenure of the project debt and competitive interest rates.

Credit challenges

Moderate counterparty credit risk owing to exposure to state utilities in Karnataka – As GESCOM, a state utility in Karnataka, offtakes the entire quantum of power generated, the company remains exposed to the state utility's moderate credit risk profile. Any significant delay in payments by the counterparty will stretch its receivable cycle and in turn adversely impact the overall liquidity profile. While TSPPL has observed certain delays in receiving payments from GESCOM in the past, the implementation of the LPS scheme has improved the payment cycle to 2-3 months from 5-6 months in addition to TSPPL recovering the earlier outstanding dues. However, the payment pattern will remain a key monitorable, going forward.

Vulnerability of cash flows to variation in weather conditions - As the tariffs are one part in nature, the company may book lesser revenues in case of non-generation of power due to the variation in weather conditions. This, in turn, would affect the company's cash flows and debt servicing ability. Also, the company's debt coverage metrics remain sensitive to the interest rate movement. Nonetheless, this risk is mitigated in the medium term, considering the fixed rate under the loan agreement till July 2025.

Regulatory risks of implementing scheduling and forecasting framework for solar sector – The company's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for renewable energy projects.

Liquidity position: Adequate

As of October 2023-end, TSPPL reported cash balances of Rs. 6.53 crore following the receipt of the earlier outstanding dues under the LPS scheme. Further, the company also maintains two quarters' DSRA of Rs. 5.91 crore in the form of a bank guarantee. Moreover, there is a sanctioned overdraft limit of Rs. 10 crore, which can be utilised to bridge any major cash flow mismatch. The entire overdraft limit remained unutilised as of October 2023-end. Against the annual external debt obligations of ~Rs. 11-12 crore, the available liquidity and cash flows from operations are expected to remain adequate.

Rating sensitivities

Positive factors – ICRA could upgrade the rating in case of a sustained generation performance of the project above the lender's apprised PLF estimate and timely receipt of payments from the customer. Specific credit metrics for upgrade include improvement in the cumulative DSCR to above 1.30 times. The rating will also remain sensitive to the credit profile of the parent, ARPPL, and ASPPL.

Negative factors – The rating could be downgraded in case of a significant underperformance in generation by the project or any significant delays in receiving payments from the offtaker, adversely impacting the liquidity profile of the company. Also, the rating would remain sensitive to the credit profile of ARPPL and ASPPL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Solar Power Producers]
Parent/Group support	The rating assigned factors in the presence of cash surplus sharing and cross-default linkages between the two SPVs of the group, namely Tungabhadra Solar Parks Private Limited and Anantapur Solar Parks Private Limited. Also, the rating factors in the implicit support from the ultimate holding company, ARPPL, with support expected to be forthcoming in case of any cash flow mismatch The rating for TSPPL has been arrived at by following the analytical steps: 1. An assessment of the standalone credit profile of TSPPL 2. An assessment of the Group's credit profile by undertaking a consolidated assessment of the two SPVs in view of the linkages between them, and then further notching up the Group's rating based on expectations of implicit support from the holding company, ARPPL 3. The final rating of TSPPL is arrived at by suitably notching up the standalone rating after duly considering the Group's rating and the linkages between the standalone entity and the Group
Consolidation/Standalone	The rating is based on the standalone financial profile of the rated entity

About the company

TSPPL is operating a 20-MW solar power plant in Karnataka, which was commissioned on October 6, 2017. The project was won under the state bidding route with the applicable tariff for the project being Rs. 4.36 per unit. The tariff was revised downwards by KERC, which has been contested by the Group, and the case is pending with APTEL. TSPPL was originally promoted by the First Solar Group. In H1 FY2021, the asset was subsequently purchased by the Ayana Renewables Group. The project comprises modules from First Solar, inverters from GE and the O&M responsibilities are handled by the company itself.

Key financial indicators (audited)

TSPPL Standalone	FY2022	FY2023
Operating income	15.89	16.58
PAT	- 0.59	0.73
OPBDIT/OI	85.81%	87.94%
PAT/OI	-3.72%	4.43%
Total outside liabilities/Tangible net worth (times)	4.93	4.73
Total debt/OPBDIT (times)	7.02	6.36
Interest coverage (times)	1.31	1.49

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

NOTE: Debt includes lease liabilities and 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	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Oct 31, 2023 (Rs. crore)	Date & rating	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Dec 18, 2023	Nov 22, 2022	Sep 13, 2021	Mar 19, 2021	Oct 16, 2020
1	Term loan	Long term	107.0	79.9	[ICRA]A+ (Stable)	[ICRA]A+(CE) (Stable) withdrawn; [ICRA]A+ (Stable) assigned simultaneously	[ICRA]A+(CE) (Stable)	[ICRA]A(CE) (Stable)	Provisional [ICRA]A(CE) (Stable)
2	Working capital facilities	Long term	10.0	-	[ICRA]A+ (Stable)	[ICRA]A+(CE) (Stable) withdrawn; [ICRA]A+ (Stable) assigned simultaneously	[ICRA]A+(CE) (Stable)	[ICRA]A(CE) (Stable)	Provisional [ICRA]A(CE) (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Working capital limits	Very 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	Term loan	May 30, 2020	-	FY2040	107.00	[ICRA]A+ (Stable)
NA	Cash credit/overdraft	-	-	-	10.00	[ICRA]A+ (Stable)

Source: Company

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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