

December 29, 2023

Talf Solar 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 - Proposed	6.60	7.00	[ICRA]BB+ (Stable); reaffirmed
Long-term - Non-fund-based - Proposed	3.40	3.00	[ICRA]BB+ (Stable); reaffirmed
Total	10.00	10.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in the satisfactory generation performance of the distributed solar capacities developed by Talf Solar India Private Limited (or TSIPL) with an installed solar capacity of ~19 MWp as on date. The rating remains constrained by the company's stretched liquidity position at a standalone level, coupled with the addition/expected addition of external debt for funding the equity of the project SPVs, which exposes the company to the risk of mismatches in case of delays in the upstreaming of funds from the SPVs. These risks are expected to moderate, going forward, with the increase in the installed capacity base and stabilisation of projects.

The rating derives comfort from the geographical diversification and low regulatory risk in the commissioned/under-construction distributed solar capacity being developed by TSIPL. The distributed capacity mitigates the impact of lower-than-design energy generation in a particular project over the portfolio coverage/ return metrics. Moreover, the Group has contracted power for majority of its portfolio capacity under long-term power purchase agreements (PPA) with a diversified customer base which mitigates the counterparty credit risks for the portfolio. Given the attractive tariffs (blended tariff for commissioned projects till date stood at Rs. 4.30 per unit and that for under-construction projects at Rs. 5.4 per unit), ICRA expects the debt coverage indicators to remain adequate, subject to achieving the design generation and the O&M expenses remaining in line with the estimates.

The rating is, however, constrained by the limited track record of its commissioned portfolio with a blended track record of less than two years as on September 30, 2023. ICRA notes that the capacity addition has been deferred and the company (on a consolidated level) expects to achieve an installed capacity of 28 MWp by March 2024 (and another 3 MWp by December 2024) against the earlier estimate of 23 MWp by FY2023. Execution and funding risks continue to exist for the residual under-construction (~12MWp) capacity, though this has moderated on account of the phased addition of project capacities, reduction in module prices, improved track record of the solar capacity additions as well as partial tie-up of project finance, promoter debt as well as other external debt.

ICRA notes that the external debt (promoter debt will remain subordinate to external debt servicing) for funding the project equity is a key risk, which results in higher overall leverage and moderation of debt service metrics, and exposes the company to the risk of delay in upstreaming of funds from SPVs. Lack of contractual safeguards for project cash flows at the SPV level is a key risk, which moderates the liquidity position of the company. ICRA notes that some of the recent project debt agreements do include establishment of trust and retention account agreement with clearly defined mechanism for utilisation of project cash flows. The project economics will remain sensitive to the volatility in generation to solar irradiation levels as well as movement in interest rates.

The Stable outlook on the [ICRA]BB+ rating reflects the benefits of the long-term PPAs with various offtakers, an expected stable generation performance and receipt of payments from the offtakers in a timely manner.

Key rating drivers and their description

Credit strengths

Geographic diversification of projects – The commissioned projects (81 sites with aggregate 19-MW capacity) as well as under-construction projects (42 sites with ~12 MW capacity) are spread across states in the country such as Delhi NCR, Uttarakhand, West Bengal and Madhya Pradesh, which leads to geographical diversification and reduces the asset concentration risk.

Low offtake risk and strong collection efficiency – Most of the PPAs have been signed with commercial and industrial customers for ~ 68% of the project capacity, while for the balance 32% capacity, the PPAs are with Uttarakhand Power Corporation Limited. The presence of termination/buyout clause in most of the C&I PPAs, the competitive tariff against the grid tariff rate and the highly diversified counterparties remain the mitigating factors. The payment from the counterparties is typically received within 30 days from the date of billing. Given the attractive tariffs, the company's debt service coverage ratio on a consolidated basis is expected to remain above 1.20x for the commissioned/under-construction capacity, subject to achieving the design generation and the O&M expenses remaining in line with the estimates. The regulatory risk for the portfolio contracted with C&I customers remains low with ~71% of the rooftop project capacity and the balance developed under the VNM scheme of the Delhi Government. Under the scheme, the wheeling charges, banking charges, cross-subsidy surcharge and any other charge(s), as decided by the Commission, will not be levied during the useful life of the project.

Credit challenges

Limited track record of commissioned capacity – Of the total 19-MWp installed capacity of the Group as on date, the capacity commissioned as on March 31, 2023 stood at ~ 15MWp. The weighted average track record of the portfolio stood at ~1.8 years as on September 30, 2023. ICRA notes that the performance of the commissioned capacity so far has been in line with the P-90 estimates. However, given the limited track record of the commissioned portfolio, demonstration of a generation performance in line or above the P-90 levels on a sustained basis will remain a key monitorable.

Funding and execution risk of under-construction projects – Against an installed capacity of 19MWp, ~12-MWp project capacity is under construction at present. ICRA notes that these projects are expected to be commissioned by March 2024. Execution and funding risk continue to exist for the residual under-construction (~12MWp) capacity. However, these risks have moderated on account of the phased addition of project capacities, reduction in module prices, improved track record of solar capacity additions by the company as well as partial tie-up of project finance, promoter debt as well as other external debt.

Stretched liquidity position - TSIPL's liquidity is stretched, driven by an inadequate back-up liquidity arrangement at the standalone level and is moderated by the lack of contractual ring-fencing of project cash flows/presence of TRA mechanism in project debt financing at the SPV level. ICRA notes that some of the recent project debt agreements do include establishment of trust and retention account agreement with clearly defined mechanism for utilisation of project cash flows. The unencumbered cash and cash equivalents of the company were at Rs. 0.5 crore as on March 31, 2023 and are expected to remain low, given the funding requirement of the SPVs for completing their under-construction projects.

Vulnerability of cash flows to solar irradiation – Variability in solar irradiation may affect generation, which may impact the revenues and the cash flow of the projects as the revenues are directly linked to the actual generation. The risk is mitigated to some extent by the geographically diversified asset base of the portfolio.

Exposure to interest rate risk – The tariffs for the projects are single part in nature. Therefore, the coverage metrics remain exposed to interest rate risk as the interest rates are floating in nature.

Liquidity position: Stretched

TSIPL's liquidity is stretched on account of inadequate back-up liquidity arrangements at the standalone level. The liquidity profile is moderated by the lack of contractual ring-fencing of project cash flows/presence of TRA mechanism in project debt

financing for most of the SPVs. ICRA notes that with the company remaining in a growth phase in the medium term, there will be a sustained requirement of capital for funding the project equity as well as cash burn in the initial phase of stabilisation of projects. The unencumbered cash and cash equivalent of the company stood at Rs. 0.5 crore as on March 31, 2023.

Rating sensitivities

Positive factors – The rating may be revised upwards if the Group is able to show case a track record of satisfactory operations with generation in line with the P-90/design performance and timely collection of receivables. Timely infusion of equity capital and financial closure for the under-construction capacity of ~10MWp will also support an upgrade.

Negative factors – Pressure on the rating could arise in case of delays in commissioning the under-construction projects, resulting in cost-overflow. Further, delays in achieving financial closure or infusing the required equity will weigh on the rating. The rating could also be downgraded if the PLFs for the projects remain below the P-90 estimates on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of all its SPVs (as mentioned in Annexure), given their close operational and financial linkages

About the company

Talf Solar India Private Limited (TSIPL) is the holding company of the Talf Group of companies. Incorporated in 2017, it is involved in the development and operations of both rooftop and ground-mount solar power projects and has an installed capacity base of 19 MWp (1.3 MWp at holding company level) with another 12 MWp under construction. The flagship company is promoted by Mr Saurabh Rao (70.2% stake in aggregate), who is a first-generation entrepreneur with extensive experience in financial services, including financing of infrastructure projects.

Key financial indicators

TSIPL Consolidated*	FY2022	FY2023
Operating income	28.7	8.3
PAT	2.7	-0.5
OPBDIT/OI	14.9%	71.9%
PAT/OI	9.5%	-6.4%
Total outside liabilities/Tangible net worth (times)	2.1	2.6
Total debt/OPBDIT (times)	7.0	9.9
Interest coverage (times)	2.9	1.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, all computations is as per ICRA Research

*includes associate companies where TSIPL holds 49% stake however has management control and has issued corporate guarantee for debt raised by those SPVs

TSIPL Standalone	FY2022	FY2023
Operating income	25.9	15.5
PAT	1.8	1.2
OPBDIT/OI	8.6%	12.2%
PAT/OI	6.9%	7.7%
Total outside liabilities/Tangible net worth (times)	1.0	0.4
Total debt/OPBDIT (times)	0.9	0.5
Interest coverage (times)	24.1	14.6

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Dec 29, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Dec 29, 2023	Sept 26, 2022	-	-
1 Fund based – Proposed	Long-term	7.00	--	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
2 Non-fund based - Proposed	Long-term	3.00	--	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based - Proposed	Simple
Long-term - Non-fund-based – Proposed	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based – Proposed	-	-	-	7.00	[ICRA]BB+(Stable)
NA	Non-fund based – Proposed	-	-	-	3.00	[ICRA]BB+(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

Company Name	TSIPL Ownership	Consolidation Approach
Talf Solar India Private Limited	100.00% (rated entity)	Full Consolidation
G.V. Energy Solutions Private Limited	99.99%	Full Consolidation
Talf ASR Solar Urja Private Limited	49%*	Full Consolidation
Arun Kumar Agarwal Solar Private Limited	49%*	Full Consolidation
SKAG Solar Urja Private Limited	49%*	Full Consolidation
Talf Energy India Private Limited	99.80%	Full Consolidation
Talf SAC Solar Urja Private Limited	99.00%	Full Consolidation
Talf Renewables Private Limited	99.99%	Full Consolidation
Talf Saur Urja Private Limited	99.90%	Full Consolidation
Talf Solar Projects Private Limited	99.00%	Full Consolidation
Talf Green Energy Private Limited	100%	Full Consolidation

Source: Company

Note: ICRA has taken a consolidated view of the parent (TSIPL), and its SPV's while assigning the ratings.

*Since the management control are held with TSIPL's promoters, ICRA has taken a consolidated view of these entities while assigning the ratings.

ANALYST CONTACTS

Girishkumar Kadam

+91 226 1143 411

girishkumar@icraindia.com

Vikram V

+91 40 4547 4829

vikram.v@icraindia.com

Siddhartha Kaushik

+91 124 4545 323

siddhartha.kaushik@icraindia.com

Neha Mangal

+91 124 4545 367

neha.mangal@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

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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



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