January 03, 2024

Radiance KA Sunrise Five Private Limited: [ICRA]A (Stable) reaffirmed

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Previous Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	32.50	32.50	[ICRA]A (Stable) reaffirmed
Total	**32.50**	**32.50**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation of Radiance KA Sunrise Five Private Limited (KA Five) factors in the strong parentage of Radiance Renewables Private Limited {RRPL, rated [ICRA]A (Positive)}, which is backed by Green Growth Equity Fund (GGEF). The National Investment and Infrastructure Fund (NIIF) and the Department of International Development (DFID), Government of UK, are the anchor investors in GGEF. The parentage has translated into exceptional financial flexibility for the company and offers managerial support in carrying out its operations as well as raising funds.

KA Five has set up a 11.2 MWp/8MWAC solar power project at Chitradurga, Karnataka, under the group captive model wherein RRPL has contributed 74% common equity, while the remaining 26% has been contributed by the offtaker, MSPL Limited {MSPL, rated [ICRA]A+ (Stable)/[ICRA]A1+}. The project was commissioned in August 2022. Given the group captive status of the project, the offtaker is exempt from the payment of cross-subsidy surcharge (CSS) and additional surcharge (AS), which makes the landed tariff from the project highly competitive for the offtaker vis-à-vis the grid tariff. Thus, the rating factors in the low offtake risk for the project on account of a highly competitive tariff vis-à-vis the grid tariff and the long-term power purchase agreement (PPA) with a lock-in period of 15 years which exceeds the loan repayment tenure.

The rating also factors in the low counterparty risk on account of the healthy credit profile of the offtaker and expectation of the collection efficiency to remain healthy.

The rating is, however, constrained by the limited track record of performance, risk of irradiance levels and interest rate risks along with any adverse changes in regulations. The project was commissioned in August 2022 and has a track record of 16 months. The performance of the project has been stable so far and will remain a key rating driver for the entity, going forward. The project performance will remain susceptible to the irradiance levels as it directly impacts the power generation and cash flows. While the weather remains an uncontrollable factor, adverse climate changes leading to dense cloud cover over an elongated period and pollution from sources impacting the irradiance remain the key environmental risks for the project. As solar power projects tend to require significant tracts of land, land acquisition can be an issue although the project has been set up in a solar park and the social risk remains immaterial for the entity.

The cash flows of the company are susceptible to the interest rates at which the funding has been raised. The interest rates are expected to harden, leading to headwinds in cash generation and the company's debt servicing capability. The ability of the company to renegotiate the terms of the loans and/or refinance the loans at lower rates will remain a key monitorable, going forward. The rating is also constrained by the regulatory risks, as the competitiveness of the tariff vis-à-vis the grid tariff remains contingent on the group captive status of the project. In case of adverse regulatory changes, the offtaker may have to bear the additional charges levied on the offtake from the project. This will impact the competitiveness of the tariff and may lead to renegotiations after the lock-in period expires.

The Stable outlook on the rating reflects ICRA's expectation of the company maintaining a stable operating performance and ensuring comfortable debt servicing, going forward.

Key rating drivers and their description

Credit strengths

Strong parentage of Radiance Renewables Private Limited lending financial flexibility and managerial support - KA Five is a subsidiary of RRPL, which is the holding company of the Radiance Group (installed capacity of 300 MW+) and is backed by GGEF. GGEF counts NIIF and DFID, UK Government, among its anchor investors. GGEF is managed by EverSource Capital, which is a joint venture of EverStone Capital and Lighthouse BP. The management of the Radiance Group has experience in setting up renewable power projects in India. GGEF has capital commitments from anchor investors for investing in RRPL, apart from Ayana Renewables, Green Cell Mobility and other platform companies.

Low offtake and price risk - The project is backed by a 25-year PPA with MSPL Limited, rated [ICRA]A+ (Stable)/[ICRA]A1+. The PPA has a lock-in period of 15 years with a fixed one-part tariff and assured offtake by the offtaker. The lock-in period exceeds the repayment tenure of the loans availed by the company. The offtake risk remains low, given the competitive tariff against the grid tariff.

Low counterparty risk - The counterparty risk remains low, given the healthy credit risk profile of the offtaker. The payments have been timely with the collection efficiency at 99.99% since the start of operations in August 2022. Thus, ICRA expects the payments for KA Five to remain timely, keeping the reliance on the working capital borrowings minimal.

Credit challenges

Limited track record of project performance - The project under the company was commissioned in August 2022 and has a limited track record of around 16 months. While the performance of the plant has been better than the P-90 levels so far, the performance, going forward, will remain a key monitorable.

Cash flows exposed to risk of irradiance levels and interest rate environment - Power production and, thus, the cash flow generation of power projects remain exposed to irradiance levels. While the company does not have control over weather-related factors, the tariffs are one-part in nature and the cash flows will face headwinds in a scenario of lower-than-expected irradiance. The cash flows would also remain susceptible to changes in interest rates for the loan contracted by the entity. While the tariff is fixed in nature, the interest rates on the term loans are variable and the cash flows will be affected in a rising interest rate environment. The ability of the company to service its debt will also moderate unless the company's performance exceeds the base case production levels.

Unfavourable changes in regulations may pose risks to cash flows - The solar power project has been set up under the group captive model, wherein the power produced by the company is exempt from the levy of cross subsidy surcharge/additional surcharge. These exemptions make the current landed tariff for the offtaker competitive against the grid tariff. However, the tariff remains exposed to regulatory changes, which may result in such charges being levied in the future. While the provisions of the PPA ensure the pass-through of the levy of such charges to the offtaker, the competitiveness of the project's tariff vis-à-vis the grid tariff will moderate. Hence, the tariff may have to be renegotiated after the expiry of the lock-in period.

Liquidity position: Adequate

The liquidity profile of the company is adequate, reflected in the availability of surplus cash of Rs. 2.36 crore along with a six-month DSRA of Rs. 2.76 crore maintained in the form of fixed deposits as on September 30, 2023. Going forward, the internal cash flow generation from the project is expected to be sufficient to meet the debt servicing obligations with generation close to the P-90 estimates. In case of a shortfall in cash flow generation, ICRA expects the parent, Radiance Renewables Private Limited, to meet the cash flow mismatch.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company is able to demonstrate a generation performance in line or higher than the appraised estimate along with timely payments from the customers, leading to healthy credit metrics. An improvement in the credit profile of the parent, Radiance Renewables Private Limited, will also support an upgrade..

Negative factors – Pressure on the company's rating could arise if the actual PLF remains lower than the P-90 PLF on a sustained basis, and/or the company is unable to maintain a cumulative DSCR of 1.20x on a sustained basis. Further, any significant delays in receiving payments from the offtakers adversely impacting the company's liquidity profile would be a negative factor. The rating could also be revised downwards if the linkages with the parent weaken, and/or the credit profile of its parent i.e., Radiance Renewables Private Limited, deteriorates.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers
Parent/Group support	The rating factors in implicit support from the parent, Radiance Renewables Private Limited, given the business linkages, strategic importance and the willingness shown by the parent to support the entity
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of the entity

About the company

Radiance KA Sunrise Five Private Limited (KA Five) is a subsidiary of Radiance Renewables Private Limited {RRPL, rated [ICRA]A (Positive)/[ICRA]A2+}, which is the holding company of the Radiance Group and is backed by Green Growth Equity Fund (GGEF). GGEF has NIIF and DFID, UK Government, as its anchor investors. GGEF is managed by EverSource Capital, which is 50:50 joint venture of EverStone Capital and Lighthouse BP.

KA Five has set up a 11.2MWp/8MW (AC) ground-mounted solar power project in Karnataka under the group captive mode. The project was commissioned in August 2022. A long term PPA has been signed with MSPL Limited {rated [ICRA]A+ (Stable)/[ICRA]A1+; upgraded in December 2021} with a lock-in period of 15 years and a PPA tenure of 25 years. RRPL held 74% and MSPL Limited the remaining 26% in KA Five as on September 30, 2023.

Key financial indicators (audited)

KA Five (Standalone)	FY2022	FY2023
Operating income	NM	4.57
PAT	NM	-0.30
OPBDIT/OI	NM	79%
PAT/OI	NM	-6%
Total outside liabilities/Tangible net worth (times)	NM	3.16
Total debt/OPBDIT (times)	NM	8.19
Interest coverage (times)	NM	1.39

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; the project had no operations in FY2022

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 of September 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 03, 2024	Nov-16, 2022	-	-
1	Term loans	Long term	32.50	31.22	[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**	FY2023	NA	FY2037	32.50	[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-NA

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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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