January 23, 2024

Aurinko Energy Private Limited: Rating downgraded to [ICRA]BB+(Stable) from [ICRA]BBB-(Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund Based - Term Loan	40.00	40.00	[ICRA]BB+(Stable); downgraded from [ICRA]BBB-(Stable)
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure-I*

Rationale

The downgrade for Aurinko Energy Private Limited (AEPL) factors in the deterioration in the credit profile and financial flexibility of the parent company - Shapoorji Pallonji infrastructure Capital Company Private Limited (SPICCPL, rated [ICRA]BB+ (Negative)/[ICRA]A4+) - and the moderation in the financial flexibility of the Shapoorji Pallonji Group (SP Group).

The rating also factors in the counterparty credit risk on account of exposure to a single buyer, Maharashtra State Electricity Distribution Company Limited (MSEDCL), with monthly invoices getting realised in 2-3 months for trailing 12 months (Oct'2022-Sep'2023). The plant's generation performance, though improved as indicated by the PLF level of 22.91% for trailing 12 months (Dec'2022 – Nov'2023) and 21.9% in FY2023, continues to remain below the P-90 level of 23.5% primarily due to lower grid availability. The debt coverage metrics are expected to remain moderate with the cumulative debt service coverage ratio (DSCR) on the external debt estimated at ~1.18x over the debt tenure.

Also, as the company's cash flows and debt protection metrics are sensitive to its generation performance, any adverse variation in weather conditions may negatively impact the PLF levels and consequently affect the cash flows as the PPA tariff is single part and fixed in nature. This constraint is amplified by the geographic concentration of the asset, with the entire capacity at a single location in Maharashtra. ICRA also notes that AEPL's debt coverage metrics remain exposed to the interest rate movement because of the fixed tariff under the PPA and the floating interest rates.

The rating, however, draws comfort from an experienced and technically qualified sponsor - the Shapoorji Pallonji Group. The rating also considers the limited demand and tariff risks for AEPL's 10-MW solar power project, with a 25-year long-term power purchase agreement (PPA) with MSEDCL for the entire project capacity at a fixed tariff of Rs. 3.11 per unit. The company has also secured additional tariff from MSEDCL under change-in-law, in lieu of the safeguard duty imposed on imported solar modules. Further, ICRA favourably takes note of the cost-competitive tariff rate offered by the project, which is lower than the average power procurement cost (APPC) of MSEDCL.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that the company would benefit from the long-term PPA, satisfactory generation performance and timely payments from MSEDCL.

Key rating drivers and their description

Credit strengths

Experience of promoters in renewable sector - AEPL is wholly owned by Shapoorji Pallonji Infrastructure Capital Company Private Limited {SPICCPL, rated [ICRA]BB+ (Negative)/[ICRA]A4+}. SPICCPL is a wholly-owned subsidiary of Shapoorji Pallonji and Company Private Limited {SPCPL, rated [ICRA]BBB- (Negative)/[ICRA]A3}, which has strong execution capabilities along with the expertise of its managerial and technical personnel heading the key business verticals.

Revenue visibility due to long-term PPA with MSEDCL - AEPL has signed a long-term PPA with MSEDCL (covering the full debt tenure) for the entire project capacity of 10 MW at a fixed tariff of Rs. 3.11 per unit for a tenure of 25 years, limiting demand and tariff risks. The company also secured additional tariff from MSEDCL under change-in-law, in lieu of the safeguard duty imposed on imported solar modules.

Presence of DSRA and escrow mechanism - AEPL's liquidity profile is adequate, supported by cash DSRA equivalent to one quarter of interest and principal payments (against stipulated two quarter DSRA requirement), and satisfactory receipt of payments from MSEDCL for most of the months. As per the company, the second-quarter DSRA will be created from future cash flows. Also, the receivables are being routed through the escrow account, providing additional comfort towards debt servicing.

Credit challenges

Single-asset operations; sensitivity of debt metrics to energy generation - The debt metrics of the solar power project under AEPL remain sensitive to the PLF level, given the one-part tariff structure under the PPA. Hence, any adverse variation in the weather conditions and/or module performance may impact the PLF and consequently the cash flows. The geographic concentration of the asset amplifies the generation risk. Owing to the improvement in gird availability, the PLF levels increased in FY2023 and the current fiscal. The PLF level was 22.91% for trailing 12 months (Dec'2022 – Nov'2023) and 21.9% in FY2023 against a P-90 level of 23.5%. Going forward, with the expected improvement in grid availability, the PLF levels are expected to rise slightly. However, the actual impact and a sustained improvement in the PLF levels remain to be seen.

The company's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for solar power projects, given the variable nature of solar power generation.

Counterparty credit risk due to exposure to a single buyer - The company remains exposed to counterparty credit risks due to the exposure to a single buyer, MSEDCL. MSEDCL's financial profile is dependent on the timely pass-through of cost variations to customers under its distribution licensee operations and subsidy payments from the state government. Moreover, the payments from MSEDCL have been satisfactory for most months so far with invoices getting realised in 2-3 months for trailing 12 months (Oct'2022-Sep'2023).

Leveraged capital structure, moderate debt coverage indicators and exposure to interest rate movement - The company's capital structure is leveraged owing to the debt-funded capex undertaken to set up the project. The project's debt coverage metrics are expected to remain moderate with the cumulative debt service coverage ratio (DSCR) on the external debt estimated at ~1.18x over the debt tenure. Also, the debt coverage metrics remain exposed to the interest rate movement because of the fixed tariff under the PPA and the floating interest rates.

Of the total debt, AEPL has availed a funding of about Rs. 8.90 crore from the promoter Group in the form of unsecured loans and compulsory convertible debentures; these loans are subordinated to the term loan availed from IREDA and the interest payments on these loans are to be made only from the surplus cash available after servicing the debt obligations of the IREDA term loan, including the creation of DSRA.

Liquidity position: Adequate

The liquidity position of AEPL is expected to be supported by adequate cash flows from operations against debt obligations, free cash and bank balance of Rs. 1.26 crore as on December 19, 2023 and a DSRA (Rs. 1.47 crore) equivalent to one quarter's interest and principal obligations.

Rating sensitivities

Positive factors - ICRA could upgrade AEPL's rating if it demonstrates a track record of generation performance in line with the P-90 estimate on a sustained basis along with timely payments from the offtaker and improvement in the financial flexibility of the parent group's profile.

Negative factors - The rating could be downgraded if a significant underperformance in generation adversely impacts the cash accruals. Significant delays in receiving payments from the offtaker adversely impacting the company's liquidity would also affect the rating. Further, deterioration of the parent group's credit profile may exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financials of the rated entity

About the company

AEPL, an SPV of the Shapoorji Pallonji Group, is operating a 10-MW (AC Capacity) solar power plant in the Akkalkot village of Maharashtra. The plant commenced operations from October 2020.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	6.7	6.5
PAT	(1.8)	(1.1)
OPBDIT/OI	82.8%	86.2%
PAT/OI	(26.5%)	(17.1%)
Total outside liabilities/Tangible net worth (times)	8.2	9.8
Total debt/OPBDIT (times)	8.5	8.1
Interest coverage (times)	1.21	1.33
Adjusted interest coverage (times)*	1.50	1.63

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; * adjusted for interest on promoter debt in the form of unsecured loans and compulsory convertible debentures; these loans are subordinated to the bank debt availed from IREDA*

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 Dec 19, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 23, 2024	Feb 17, 2023	Feb 21, 2022	-
1	Term loan	Long term	40.00	35.2	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (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**	FY2020	-	FY2036	40.00	[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 – 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.

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