January 31, 2024

FP Zeus Private Limited: [ICRA]A- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	38.70	[ICRA]A- (Stable); assigned
Total	**38.70**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to FP Zeus Private Limited (FPZPL) factors in its strong parent – Fourth Partner Energy Private Limited (FPEPL; rated [ICRA]A- (Stable)/[ICRA]A2+) – which has an established track record in the renewable energy sector with an operating portfolio of ~810 MWp as on August 2023. FPEPL is backed by The RISE Fund (TPG) and Norfund, the Norwegian investment fund for developing countries; together they have infused an equity capital of Rs. 1,597 crore in this platform.

Further, ICRA takes note of the benefits available to FPZPL from being part of a cash pooling mechanism and the cross-default linkages with another special purpose vehicle (SPV) – FPEL Evergreen Energy Private Limited (FEEPL) - of the Fourth Partner 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 onsite rooftop solar power projects, aggregating to ~42.5 MWp spread across various states in India.

The rating favourably factors in the limited demand risk for FPZPL's rooftop and onsite project portfolio due to the long-term power purchase agreements (PPA) signed with reputed commercial and industrial (C&I) customers for its entire capacity. The tenures of these PPAs vary from 15 to 25 years across projects and the tariffs under the PPAs remain competitive from the perspective of the customers. ICRA takes note of the satisfactory credit profile of the customers, thereby limiting the counterparty credit risk. Further, ICRA notes that the company's debt coverage metrics are expected to be adequate with a projected cumulative DSCR of over 1.2x over the debt repayment tenure, supported by the long-term PPAs and the long tenure of the project debt.

However, the rating is constrained by the sensitivity of the company's cash flows and debt protection metrics to its generation performance, given the single-part tariff under the PPAs. Any adverse variation in weather conditions and module performance can impact the generation levels and consequently the cash flows. While the generation risk is partially mitigated by the geographic diversity of the assets across eleven locations, ensuring effective O&M of the small-sized solar assets at multiple locations remains important. Given the limited operational track record of the assets with majority of the capacity being operational for less than 12 months, the demonstration of generation performance in line or above the appraised P-90 PLF levels remains a key credit monitorable.

ICRA also notes that FPZPL's debt coverage metrics remain exposed to the interest rate movement as the floating interest rates are subject to resets and a leveraged capital structure. The rating also factors in the risk of cash flow mismatch as the lock-in period of 3-10 years under the PPAs is lower than the debt repayment tenure of 16.8 years. As the projects are in the customer premises, the flexibility to change the customers in case of any default would be limited, unlike open access-based projects. However, this risk is offset by adequate termination payments under the PPAs. In such instances, the timely receipt of termination payments from the customers would be critical.

The Stable outlook on the long-term rating for the term loan facility of FPZPL factors in the steady cash flow visibility, aided by the long-term PPAs and timely collections expected from the customers, along with the benefit of being part of the Fourth Partner Energy Group.

Key rating drivers and their description

Credit strengths

Strong financial flexibility and operational strengths by virtue of parentage - FPZPL is a wholly-owned subsidiary of FPEPL, which has an established track record in the renewable energy sector with an operating portfolio of ~810 MW as on August 2023. FPEPL is backed by The RISE fund (TPG) and Norfund with an equity commitment of ~Rs. 1,597 crore. The presence of strong sponsors provides strong financial flexibility to the Group in securing equity and debt funding. FPEPL is expected to support FPZPL in case of any cash flow mismatch.

Revenue visibility due to long-term PPAs - FPZPL has signed long-term PPAs covering the entire capacity with multiple C&I customers. The PPA tenors across the projects range from 15-25 years at competitive tariffs, thereby limiting demand and tariff risks for the entire capacity.

Diversified customer base with satisfactory credit profile - PPAs with customers having satisfactory credit profiles mitigate the counterparty risk to an extent. Although the payment track record varies across operational projects, the company has been receiving payments from its customers in a timely manner since commissioning. Nonetheless, timely payments over a longer period remains a key monitorable.

Adequate debt coverage metrics – The company's debt coverage metrics are expected to be adequate with a projected cumulative DSCR of over 1.2x over the debt repayment tenure, supported by the long-term PPAs at reasonable tariffs and the long tenure of project debt.

Credit challenges

Sensitivity of debt metrics to energy generation –The cash flows of the company would be linked to the generation achieved by its solar power projects, given the single-part tariff under the PPAs. The generation would be sensitive to weather conditions, equipment quality and O&M practices. While comfort can be drawn from the diversification in the asset base, the overall generation performance since commissioning has been below the P-90 PLF estimate owing to the initial stabilisation period. The demonstration of generation performance in line or above the appraised P-90 PLF levels remains a key credit monitorable as the assets have a limited track record.

Risk of cash flow mismatch owing to lower lock-in period in PPAs in relation to debt tenure & limited flexibility to change customers – The lock-in period in the PPAs vary from 3-10 years across assets. This could lead to the risk of cash flow mismatch as the debt repayment is spread across 16.8 years. Moreover, the flexibility to change customers remains limited for these projects as these are in the customer premises. Nonetheless, comfort can be drawn from the provision for termination payments under the PPAs, which are estimated to cover for the debt outstanding.

Exposure to interest rate movement – The company's capital structure remains highly leveraged with a major portion of the cost funded through debt. As a result, the company's debt coverage metrics remain exposed to any movement in interest rate, given the floating interest rates.

Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate with the cash flows from operations along with the available cash balances and DSRA sufficient to service the debt obligations. As on December 31, 2023, the company has a cash balance of Rs. 1.3 crore and DSRA balance of Rs. 1.6 crore. The existing DSRA and cash balances are expected to be sufficient to cover ~8 months of debt servicing.

Rating sensitivities

Positive factors – ICRA could upgrade FPZPL's rating in case of a demonstrated track record of generation performance in line or above the P-90 PLF estimate on a sustained basis and timely payments from the offtakers, resulting in healthy credit metrics. The rating will also remain sensitive to the credit profile of the parent, i.e. Fourth Partner Energy Private Limited.

Negative factors – The rating could be downgraded in case of a significant underperformance in generation, adversely impacting the cash accruals. Specific credit metrics for downgrade include cumulative DSCR on the project debt falling below 1.15 times. Further, any significant delays in receiving payments from the customers adversely impacting the liquidity profile of the company would be a negative trigger. The rating will also remain sensitive to the credit profile of the parent, i.e. Fourth Partner Energy Private Limited.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar
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 FPEL Evergreen Energy Private Limited (FEEPL) and FP Zeus Private Limited (FPZPL). Also, the rating factors in the implicit support from the ultimate holding company, FPEPL, with support expected to be forthcoming in case of any cash flow mismatch. The rating for FPZPL has been arrived at by following the analytical steps: 1. An assessment of the standalone credit profile of FPZPL 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, FPEPL 3. The final rating of FPZPL 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

FP Zeus Private Limited (FPZPL) is an SPV of Fourth Partner Energy Private Limited (FPEPL). It was incorporated on November 25, 2021, to set up 11 rooftop/onsite ground solar power projects with aggregate capacity of 11.94 MWp (DC) located in Haryana, Andhra Pradesh, Maharashtra and Tamil Nadu. The cost incurred for all the projects is Rs. 52.14 crore. All the projects have been commissioned as on date and PPAs have been signed with multiple offtakers, with the tenors varying from 15-25 years. The O&M contract is in place with FPEPL.

Key financial indicators (audited)

FPZPL Standalone	FY2023^
Operating income	1.1
PAT	0.3
OPBDIT/OI	81.0%
PAT/OI	30.0%
Total outside liabilities/Tangible net worth (times)	143.4
Total debt/OPBDITA (times)	19.9
Interest coverage (times)	62.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation ^ operations commenced from FY2023

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 Nov 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 31, 2024	-	-	-
1	**Term loans**	Long term	38.70	34.58	**[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**	May 2023	-	Mar 2040	38.70	[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: 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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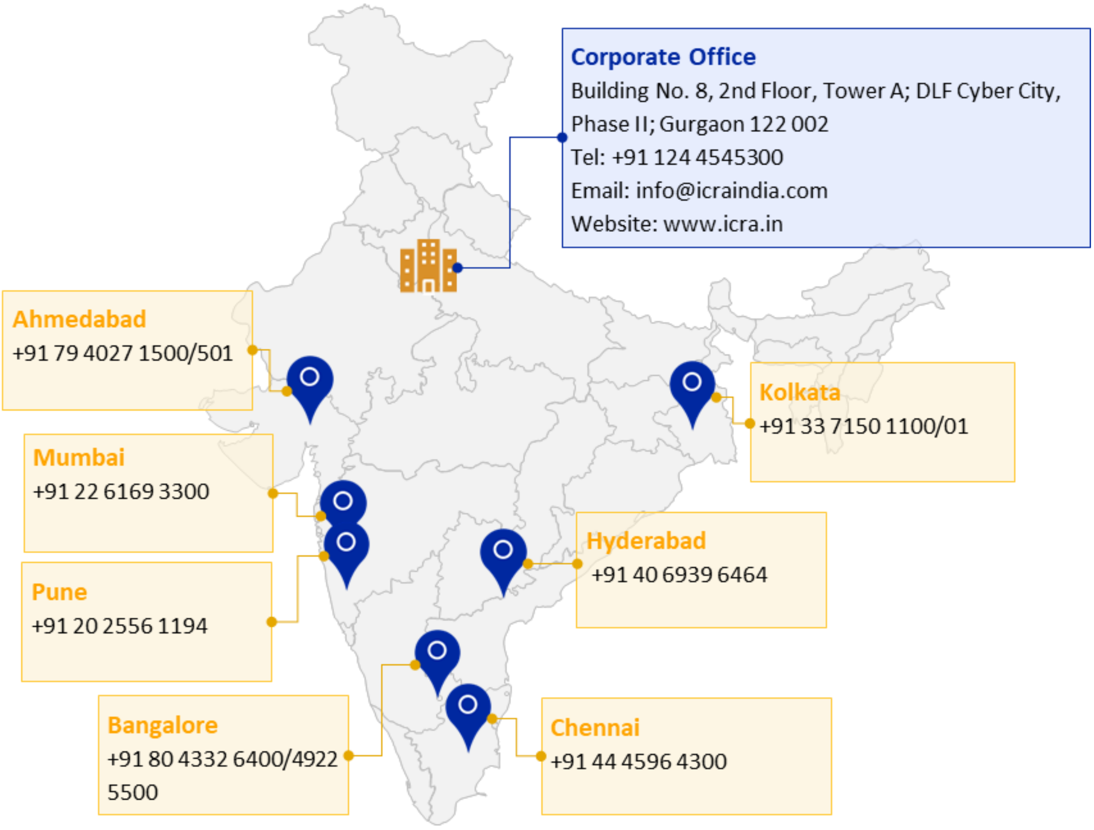

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