January 31, 2024

Omega Solar Projects 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 – Term loan	47.96	42.61	[ICRA]A- (Stable); reaffirmed
Total	**47.96**	**42.61**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation of Omega Solar Projects Private Limited (OSPPL) is based on an assessment of its standalone performance while taking into account the benefit it draws by virtue of being one of the four[1] special purpose vehicles (SPVs) among whom surplus cash flows could be exchanged.

The assigned rating factors in the extensive experience of the promoters in solar energy assets, the revenue visibility from a long-term power purchase agreement (PPA) with Punjab State Power Corporation Limited (PSPCL) at a tariff of Rs. 8.74/KWhr and the healthy debt coverage metrics supported by the recent refinancing of the term loans.

The rating is, however, constrained by the vulnerability of the cash flows to irradiance, moderation in operational performance in FY2022 owing to inverter failure and the moderate credit risk profile of the counterparty. The power generation had remained stable before FY2022, given the healthy plant and grid availability. The generation performance remained satisfactory in FY2023 and H1 FY2024. As OSPPL's plant is located in Punjab where the irradiance can get impacted during winter months due to fog and pollution caused by stubble burning, the impact of irradiance will remain a key monitorable. Thus, the generation performance will remain vulnerable to inverter performance as well as the irradiance levels which remain an uncontrollable factor.

Additionally, counterparty PSPCL has a moderate credit risk profile. While the payments from PSPCL have remained timely, the credit profile of the entity continues to be dependent on the subsidy inflow from the Government of Punjab. Thus, PSPCL's credit profile remains modest and a key constraining factor for OSPPL's rating.

The outlook on the rating is Stable as ICRA expects the company's cash flows to remain stable in light of a healthy operating performance and the long-term PPA with PSPCL. Moreover, the recent refinancing at highly competitive rates and an elongated tenor will keep the credit profile stable.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter in solar energy assets - OSPPL is a 100% subsidiary of NextPower III (NP-III), which is a part of NextEnergy Capital (NEC). NEC is a London-based investment manager which manages solar investments on behalf of some of the largest pension funds in the world. NEC, through NP-III, acquired the company from SUN Clean Technology Investments Limited in November 2020 and has adequate experience in operating solar projects. NP-III is a fund which has raised USD 896

[1] The four SPVs are Belgaum Renewable Energy Private Limited (BREPL, rated [ICRA]A- (Stable)), Omega Solar Projects Private Limited (OSPPL, rated [ICRA]A- (Stable)), Samyama Jyothi Solar Energy Private Limited (SJSEPL, rated [ICRA]A(Stable)), and Sadipali Solar Private Limited (SSPL, rated [ICRA]A+ (Stable). These four SPVs are wholly-owned by NextPower III Singapore Holdco Pte Limited (NPIII).

million against its initial target of USD 750 million and has a global presence in the US, Spain, Portugal, Chile, Poland, Italy and India with an aggregate installed capacity of ~1.9 GW.

Revenue visibility from long-term PPA with PSPCL at a fixed tariff; moderate tail period beyond debt tenure - SJSEPL has a 25-year PPA with PSPCL at a fixed tariff of Rs. 8.74/KWhr. The PPA provides long-term visibility to the company's cash flows. As the residual tenor of the PPA (~17 years) exceeds the current tenor of the loan i.e. 15 years, the tail period provides comfort in terms of ability to refinance the debt, if required.

Healthy coverage ratios, driven by competitive cost of borrowing and elongated tenor of debt - The company refinanced the debt obligations on its books in June 2022 at highly competitive interest rates and an elongated tenor. As a result, the ability to service the debt has improved significantly. OSPPL's debt servicing capability has improved significantly with the reduction in the interest rate. ICRA expects the company's cumulative DSCR to remain >1.50x over the loan tenor, given the stable cash flows and the recent refinancing. Additionally, the company will maintain a balance equivalent of debt servicing (principal and interest) for two upcoming quarters in a debt servicing reserve account (DSRA) in the form of fixed deposits, which will provide comfort in terms of debt servicing.

Credit challenges

Cash flows vulnerable to irradiance levels due to dependence on a single asset - OSPPL is entirely dependent on power generation from the solar power project for its revenues and cash accruals. Given the single-part nature of the tariff, the company may lose revenues and profits if the power generation declines due to variability in solar irradiance. The single location and single-asset nature of operations exacerbate this risk. ICRA notes that the generation has remained above the P-90 estimates consistently in the last five years.

Moderate credit risk profile of the counterparty – OSPPL has a PPA with PSPCL for a period of 25 years. The collections from PSPCL have remained timely so far. However, the overall credit profile of PSPCL remains weak and highly dependent on the subsidy inflow from the Government of Punjab (GoP). Thus, the modest credit profile of the counterparty will continue to constrain OSPPL's rating.

Liquidity position: Adequate

The liquidity position of OSPPL remains adequate, evident from Rs. 4.40 crore of unencumbered cash and a DSRA of Rs. 3.83 crore maintained in the form of fixed deposits as on September 30, 2023. Going forward, the cash flow is expected to remain adequate to meet the debt servicing requirements of the company with the generation expected to remain in line with the P-90 levels.

Rating sensitivities

Positive factors – ICRA can upgrade the rating of the SPV if the company can achieve production in line or above P-90 levels along with the continuation of timely payments from the offtaker, strengthening the debt coverage metrics and liquidity position.

Negative factors – Pressure on SPV's rating could arise if the power generation declines below P-90, moderating the DSCR below 1.15 times on a sustained basis. Payment delays from the offtaker, leading to a deterioration of the company's liquidity profile, could also weigh on the rating. Also, any weakening of the liquidity profile or the debt coverage metrics of the pool would be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Power – Solar](#)
Parent/Group support	ICRA has consolidated the financials of the four SPVs - BREPL, OSPPL, SJSEPL and SSPL - to arrive at a notional group rating which has been used to notch up the individual SPV ratings, factoring in implicit support from the Group, given the expected fungibility of surplus cash among the SPVs.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of OSPPL.

About the company

Omega Solar Projects Private Limited (OSPPL) is a special purpose vehicle that has been operating a 10-MWac solar project in Sangatpura, Punjab, since March 2015. In November 2020, the special purpose vehicle was acquired by NextEnergy Capital (NEC) through its susidiary, NextPower III Singapore Holdco Pte. Ltd., (the holding company is a direct subsidiary of NextPower III LP, a UK based LP.) from earlier investors, SUN Clean Technology Investments Limited {a joint venture of Jersey (56%) ORIX Corporation, Japan (44%)}. The project is being managed by WiseEnergy (part of NextEnergy Group) which manages 1,450 plants with an overall installed capacity of 1.8GW+ in renewable assets.

Key financial indicators (audited)

OSPPL Standalone	FY2022	FY2023
Operating income	12.1	12.3
PAT	0.3	-1.5
OPBDIT/OI	78.4%	75.7%
PAT/OI	2.6%	-12.0%
Total outside liabilities/Tangible net worth (times)	NM	-3.3
Total debt/OPBDIT (times)	5.1	6.9
Interest coverage (times)	1.9	1.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, NM: Not meaningful

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 Jan 22, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 31, 2024	Dec 02, 2022	-	-
1	Fund based – Term loans	Long term	42.61	42.61	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based – Term loans	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 loans**	June 2022	NA	June 2036	42.61	[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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