May 24, 2024

Arize Renewables Private Limited: Rating downgraded to [ICRA]A- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	75.00	25.00	[ICRA]A- (Stable) downgraded from [ICRA]A (Stable)
Total	**75.00**	**25.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating downgrade for Arize Renewables Private Limited (Arize) factors in the delay in collection from the offtaker for its ~5-MW project in Ludhiana as well as the possibility of capacity curtailment because of the shelving of the other ~3.0-MW project for Sangam (India) Limited in Rajasthan on account of regulatory challenges in the state. The company has set up one ~5.0-MWp Behind the Meter(BTM) rooftop solar project for S.T. Cottex Private Limited in Ludhiana and a ~3.0-MWp BTM solar project for Sangam (India) Limited in Bhilwara, Rajasthan.

The tariff payments for the Ludhiana project have been held up on account of an ongoing commercial dispute, putting stress on the company's near-term liquidity. Moreover, with lack of visibility on cash flows from the other project till the time the sale/ termination process concludes, the liquidity position of the company is expected to remain moderated. ICRA understands that the holding company, Radiance Renewables Private Limited (RRPL, rated [ICRA]A (Stable)/ [ICRA]A2+) will be bringing in the necessary financial support to tide over the cash flows mismatches being witnessed in both the projects of the company. RRPL had infused a subordinated promoter debt of Rs. 1.66 crore in FY2024 to meet the stabilisation expenses of the projects, which has supported the liquidity position of the company.

The ratings continue to factor in the strong parentage of RRPL, which is backed by Green Growth Equity Fund (GGEF). The National Investment and Infrastructure Fund (NIIF) and the Foreign Commonwealth Development Office (FCDO) of the UK Government are the anchor investors in GGEF. The parentage has translated into exceptional financial flexibility for the company and managerial support in carrying out its operations as well as raising funds.

Moreover, while the Rajasthan project is expected to be sold to its offtaker shortly, the rating factors in the healthy revenue visibility provided by the Ludhiana project because of its long-term power purchase agreement (PPA) with the offtaker having a healthy credit risk profile. Besides the fixed tariff, the PPA includes deemed generation clauses wherein the offtaker has to purchase the entire power generated on a take-or-pay basis, providing revenue assurance and comfort over the company's debt servicing capabilities. The rating also factors in the termination payments built in the PPAs, which provide adequate coverage for the outstanding debt in scenarios of buyer/seller event of defaults.

The rating is, however, constrained by the limited track record of operations of the Ludhiana project along with risks related to irradiance levels, counterparty credit profile and interest rate movements. The company's 5.0-MWp project at the S.T.Cottex facility was commissioned in May 2022. While the company's operational performance has remained stable so far in terms of power generation, it will remain exposed to the risk of irradiance, going forward. While weather remains an uncontrollable factor, the impact of 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. With realization of project cash flows contingent upon the ability of the off-taker to make timely payments, the assigned ratings remain constrained by the credit profile of the respective off-takers. ICRA notes that given the significant discount in PPA tariff compared to the grid tariff, the payments are likely to remain timely for the company. The cash flows of the company are susceptible to the interest rates at which the funding has been raised.

The Stable outlook on the rating indicates ICRA's expectation of the generation being in line with the P-90 estimates and timely collections from offtaker, resulting in sufficient cash flows for meeting the debt servicing requirements of the company, going forward.

Key rating drivers and their description

Credit strengths

Strong parentage ensures financial flexibility and managerial support - Arize is a wholly-owned subsidiary of Radiance Renewables Private Limited (RRPL), which is the holding company of the Radiance Group. RRPL is backed by of Green Growth Equity Fund (GGEF). GGEF counts India's National Infrastructure Investment Fund (NIIF) and the Foreign Commonwealth Development Office (FCDO) of the UK government among its anchor investors. GGEF is managed by EverSource Capital, which is a joint venture of EverStone Capital and Lightsource 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.

Healthy revenue visibility from long-term PPA with fixed tariff and deemed generation clauses - The revenue visibility remains healthy, given the 25-year PPA at a fixed tariff for the S.T. Cottex project. The expected stable power generation and a highly competitive tariff vis-à-vis the grid tariff is likely to result in steady cash generation for the project. The tariff is expected to remain competitive against the grid tariff in future as well as open access charges are not applicable, given the BTM nature of the project. This, along with the expected inflation of power costs in general, will keep the grid tariff higher. The company has entered into an O&M contract at a fixed price which will ensure adequate visibility of the cash generated.

The PPA also ensures that the offtaker purchases power on a take-or-pay basis (deemed power generation clause) i.e. the offtaker has to purchase the power made available by the plant and/or pay for the power that can be generated by the plant even if it cannot offtake the power. The robust revenue visibility will, thus, ensure adequate cash generation for debt servicing, going forward.

Healthy termination payments in excess of entire external debt- The termination payment under the PPA is more than adequate to cover the entire outstanding debt on an ongoing basis. This provides comfort in terms of the company's ability to repay its debt in case the offtaker intends to buy the plant, or in case of buyer's event of default.

Low counterparty risk – The counterparty risk for the project remains low given the healthy credit risk profile of the counterparty.

Credit challenges

Limited track record of performance- The ST Cottex project was commissioned in May 2022. While the operating performance characterised by the plant load factor (PLF) has remained in line with the P-90 estimate, the project has a short track record of operations of less than 2 years. Hence, a sustained operating performance will remain a key monitorable. Additionally, as the project is a co-located captive project, the rating is constrained by the credit profile of the offtaker as well.

Cash flows exposed to risk of irradiance levels and interest rate environment- The power production and thus the cash flow generation for the solar power project remains exposed to the irradiance levels. While the company does not have control over weather-related factors, the tariff is one part in nature that exposes the cash flows to 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. Moreover, while the solar tariff is fixed, the interest rates on the contracted loans are variable in nature, exposing the cash generation to interest rate volatility. The company's ability to service its debt will also moderate unless its performance exceeds the base case production levels.

Liquidity position: Adequate

Arize's liquidity is backed by the maintenance of a DSRA equivalent to two quarters of debt servicing and the expected support from parent RRPL in case of any shortfall. The company maintained required a DSRA of ~Rs.1.4 crore and free cash/bank balance of Rs. 0.3 crore as on March 31, 2024.

Rating sensitivities

Positive factors – ICRA could improve the rating of the Arize if there is improvement in the credit profile of the parent. The rating would also witness improvement in case of timely receivable of collection from offtaker.

Negative factors – The negative pressure on the rating could arise in a scenario of the project generation remaining below the projected levels on a sustained basis and/or the cumulative DSCR remaining below 1.20x on a sustained basis over the remaining course of debt repayment for the company. The rating could also be revised downwards in case of weakening of linkages with the parent and/or weakening in the credit profile of its parent i.e., Radiance Renewables Private Limited. The rating would also witness downward pressure in case of elongation of the receivable days resulting in moderation in cash flow from operations/ liquidity position of the company.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology Power - Solar
Parent/Group support	ICRA has factored in implicit support from the parent, Radiance Renewables Private Limited
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of Arize Renewables Private Limited

About the company

Arize Renewables Private Limited (Arize) is a wholly-owned special purpose vehicle (SPV) floated by Radiance Renewables Private Limited, which is the holding company of the Radiance Group and is backed by Green Growth Equity Fund (GGEF). GGEF has NIIF and FCDO, UK Government, as its anchor investors. GGEF is managed by EverSource Capital, which is 50:50 joint venture of EverStone Capital and Lightsource BP. Arize engaged in acquiring under-construction rooftop solar/behind-the-meter solar power projects. The company was formed in June 2021 and currently has two operational projects - one ~5-MWp rooftop solar project in the premise of ST Cottex Private Limited in Ludhiana and another ~3-MWp project (expected to be sold to its offtaker shortly) at Sangam (India) Limited's Bhilwara facility.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	0.0	3.1
PAT	-0.1	0.0
OPBDIT/OI	-	85.8%
PAT/OI	-	-0.6%
Total outside liabilities/Tangible net worth (times)	NM	5.1
Total debt/OPBDIT (times)	NM	11.3
Interest coverage (times)	NM	1.4

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 24, 2024	-	February 3, 2023	-
1	Term loan	Long term	25.00	16.83	[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	25.0	[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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