July 25, 2024

VSV Onsite Private Limited: [ICRA]BBB+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based - Term loan	90.45	[ICRA]BBB+ (Stable); assigned
Total	**90.45**	

**Instrument details are provided in Annexure-1*

Rationale

The rating assigned to the loan facilities of VSV Onsite Private Limited (VOPL) factors in the operational nature of its 30.75-MWp rooftop and ground-mounted solar power assets out of the overall portfolio of ~33.7 MWp. The balance capacity is expected to be commissioned by August 2024. The rating also factors in the limited demand risks for the company with the presence of long-term power purchase agreements (PPAs) with UltraTech Cement Limited (UTCL) at fixed tariffs under the group captive mode. Further, comfort is drawn from the highly competitive tariff offered by the company, which is at a significant discount to the grid tariff rates. The credit profile of the customer remains strong, leading to timely realisation of payments, as demonstrated so far. ICRA also takes note of the diversified asset base spread over various locations across different states. Further, the rating derives comfort from the satisfactory generation performance of the assets with a plant load factor (PLF) being in line with the lender-appraised PLF estimate (adjusted for module degradation).

ICRA notes that VOPL is a subsidiary of Daishi Patona Private Limited (DPPL), which in turn is held by Fourth Partner Energy Private Limited {FPEPL; rated [ICRA]A- (Stable)/[ICRA]A2+}, which has an established track record in the renewable energy sector. The O&M for the solar power project of VOPL is managed by its parent, FPEPL. Further, ICRA takes note of the cash pooling mechanism with 10 other fellow group subsidiaries - 4PEL Green Energy Private Limited, 4PEL Green Power Private Limited, 4PEL Green Solutions Private Limited, 4PEL Mega Green Private Limited, 4PEL Solar Daylight Energy Private Limited, 4PEL Solar Energy Private Limited, 4PEL Sun Ability Private Limited, 4PEL Sun Flash Private Limited, DPPL and VSV Renewables Private Limited {rated [ICRA]BBB+ (Stable)} - wherein any shortfall in debt servicing for one special purpose vehicle (SPV) can be met through the cash surplus available with the other SPVs under the pool. Also, there are cross-default linkages with the aforementioned fellow group subsidiaries and the parent, under the terms of the project debt for VOPL.

The rating is, however, constrained by the company's moderate debt coverage metrics with the annual debt service coverage ratio (DSCR) expected to remain below 1.10x over the near to medium term. Further, the rating is also constrained by the sensitivity of the generation to solar irradiation levels and equipment performance as the revenues are linked to the actual units generated and exported, in view of the single-part tariff structure in the PPA. Any adverse variation in weather conditions or equipment performance or inability to ensure adequate O&M practices for the solar assets would impact the generation and consequently the cash flows. While the generation risk is partially mitigated by the geographic diversity of the assets across six states, ensuring effective O&M of the small-sized solar assets at multiple locations remains important. Thus, achieving a generation performance in line or above the appraised estimate on a sustained basis remains a key monitorable.

ICRA also takes note of the sensitivity of the debt coverage metrics to the movement in interest rates as the floating interest rates are subject to resets, and a leveraged capital structure. As the projects are at customer premises, the flexibility to change the customers in case of any event of default would be limited, unlike open access-based projects. However, this risk is offset by the adequate termination payments under the PPAs.

The Stable outlook assigned to the rating factors in the steady cash flow visibility, aided by the long-term PPAs and timely cash collections expected from the customers.

Key rating drivers and their description

Credit strengths

Strong financial flexibility and operational strengths by virtue of parentage; support available from cash pooling with other SPVs of the group – VOPL is a subsidiary of DPPL, which in turn is held by FPEPL, which has an established track record of developing and operating assets in the renewable energy sector. FPEPL is backed by The RISE fund (TPG) and Norfund. The parent is expected to extent support to its subsidiaries, including VOPL, in case of any cashflow mismatch. Also, comfort is derived from the support available to VOPL from being part of a cash flow mechanism with 10 other fellow group subsidiaries.

Diversified solar portfolio across multiple locations – VOPL has installed 30.75 MWp of solar power plants as on June 30, 2024 out of the overall portfolio of ~33.7 MWp, thereby largely eliminating the execution risks and providing revenue visibility. The company's asset base is spread across various locations.

Revenue visibility from firm long-term PPAs – VOPL has signed long-term PPAs for its existing portfolio of ~33.7 MWp at largely fixed tariffs, providing revenue visibility and limiting the demand and pricing risks. The PPAs include a provision for termination payments in case of any event of default.

Competitive tariff rate at discount to grid tariff with a reputed customer – The weighted average tariff rate for the existing portfolio is at a discount to the respective grid tariff rates, as determined by various state electricity regulatory bodies, limiting the offtake risks. Further, the presence of UltraTech Cement as a customer, which has a strong credit profile, is expected to lead to timely payments.

Credit challenges

Vulnerability of cash flows to solar radiation – The revenues and cash flows of the solar power projects under VOPL remain vulnerable to the actual generation, given the single-part tariff under the PPAs. The generation in turn is exposed to the variability in solar radiation. The demonstration of generation performance in line or above the appraised estimate on a sustained basis remains a key monitorable.

Moderate debt coverage metrics - The debt coverage metrics for VOPL are likely to be moderate with the DSCR expected to remain below 1.10x over the near to medium term. This is owing to the relatively low tariff for the company under its PPA with UTCL. However, comfort is derived from the support available from the pool as well as its immediate parent, DPPL. The lenders also evaluate the performance of the assets, including financial covenant, on a consolidated basis for DPPL and VOPL.

Limited flexibility to change customer in case of a default – The flexibility to change the customer remains limited for the projects under VOPL 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. Also, the company's operations would remain sensitive to any adverse regulatory changes for onsite projects.

Exposed to interest rate risk - The interest rates on the term loans availed by the company for its projects is floating and subject to annual resets. The company's debt coverage metrics remain exposed to the movement in interest rates, given the fixed nature of the tariffs under the PPAs and a leveraged capital structure.

Liquidity position: Adequate

The liquidity position of VOPL is expected to be adequate with sufficient buffer between the cash flows from operations and debt repayment obligation. Moreover, a two-quarter DSRA and timely payments from the customer is expected to support the liquidity profile. The company had cash and bank balance of Rs. 0.34 crore and DSRA of 6.97 crore as on July 08, 2024.

Rating sensitivities

Positive factors – ICRA could upgrade VOPL's rating if the company demonstrates a healthy generation performance for its portfolio, above the lender-appraised PLF estimate, along with timely payments by the customers, leading to an improvement in its debt coverage metrics. Further, an improvement in the credit profile of the parent (FPEPL) would be a positive trigger.

Negative factors – Pressure on VOPL's rating would arise in case of underperformance in generation by its solar power projects on a sustained basis, thereby adversely impacting its debt coverage metrics. Also, any delays in payments by the customers, adversely impacting the company's liquidity position, would be a negative trigger. The rating will also remain sensitive to the credit profile of the parent (FPEPL) and the credit profile of the other 10 SPVs of the pool.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar
Parent/Group support	ICRA has consolidated the financials of eleven SPVs - 4PEL Green Energy Private Limited, 4PEL Green Power Private Limited, 4PEL Green Solutions Private Limited, 4PEL Mega Green Private Limited, 4PEL Solar Daylight Energy Private Limited, 4PEL Solar Energy Private Limited, 4PEL Sun Ability Private Limited, 4PEL Sun Flash Private Limited, VSV Onsite Private Limited, VSV Renewables Private Limited and Daishi Patona Private Limited - to arrive at the notional group rating, after factoring in the support available from the parent, FPEPL. The notional group rating is used to notch up the individual SPV ratings, factoring in implicit support, given the expected fungibility of surplus cash among the SPVs
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity

About the company

VOPL, a subsidiary of DPPL, is engaged in the development and operation of solar roof-top projects and ground-mounted solar plants in India for UTCL. VOPL's rooftop portfolio consists of ~33.7-MWp (DC Capacity) solar power assets, located in various states of India. The company has signed long-term PPAs with UTCL for the assets under the captive mode. The assets have been commissioned over the period from 2021 to 2024.

Key financial indicators

VOPL	FY2023	FY2024^
Operating income (Rs. crore)	10.2	12.5
PAT (Rs. crore)	-0.2	-3.8
OPBDIT/OI (%)	79.5%	88.2%
PAT/OI (%)	-1.7%	-30.1%
Total outside liabilities/Tangible net worth (times)	3.3	3.4
Total debt/OPBDIT (times)	11.8	8.7
Interest coverage (times)	1.0	1.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; ^provisional

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)	Date & rating	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				July 25, 2024	-	-	-
1	**Term loan**	Long-Term	90.45	**[ICRA]BBB+ (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
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 / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan**	Dec 2022	-	Mar 2041	90.45	[ICRA]BBB+ (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:

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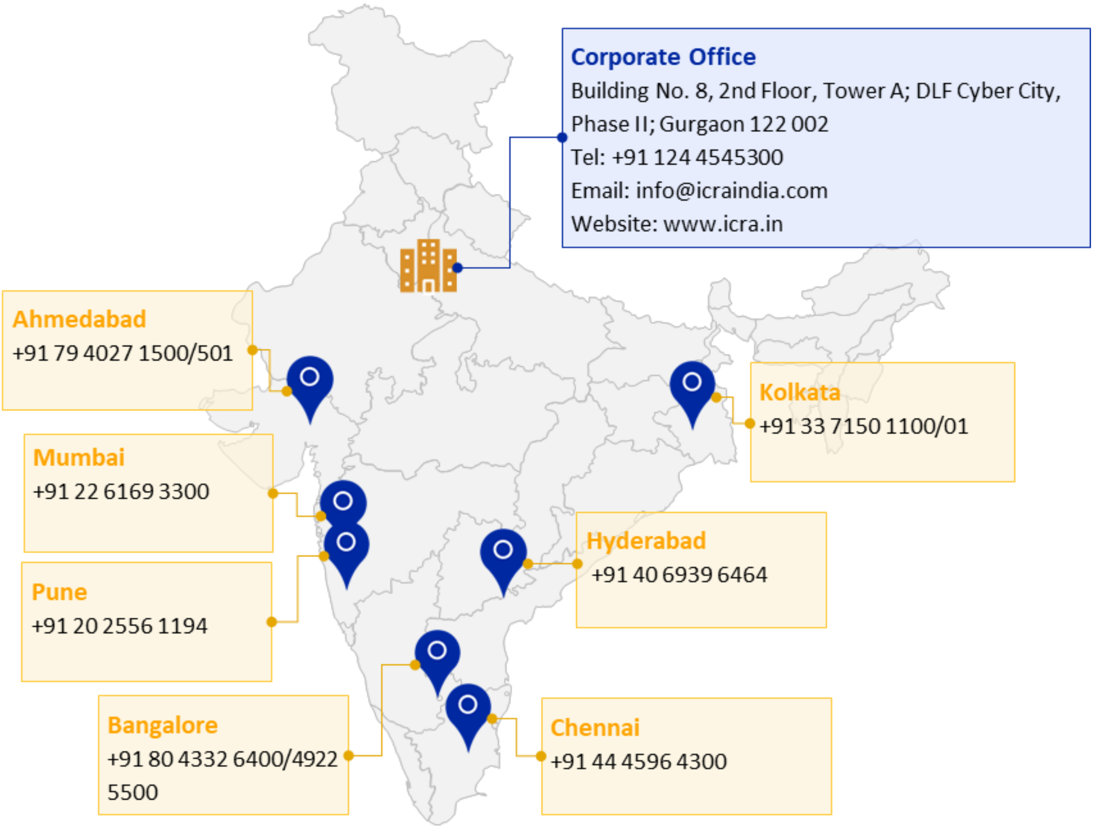

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