July 25, 2024

Daishi Patona Private Limited: [ICRA]A- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based - Term loan	159.55	[ICRA]A- (Stable); assigned
Total	**159.55**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to the loan facilities of Daishi Patona Private Limited (DPPL) factors in the operational nature of its 84.75-MWp rooftop and ground-mounted solar power assets out of the overall portfolio of ~88 MWp (including ~33.7 MWp under VOPL). 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), tied up with large commercial & industrial (C&I) customers at fixed tariffs for the entire solar power portfolio. Further, comfort is drawn from the highly competitive tariff offered by the company, which is at a significant discount to the grid tariff rates. Further, ICRA draws comfort from a diversified customer base across various sectors, including organised retail, pharmaceuticals, chemicals, fast moving consumer goods (FMCG), textiles, educational institution, auto components, food products, beverages and building materials, among others. The credit profile of the customers remains comfortable, leading to a timely realisation of payments, as demonstrated so far. ICRA also takes note of the diversified asset base spread over various locations across different states.

ICRA notes that DPPL is a subsidiary of Fourth Partner Energy Private Limited {FPEPL; rated [ICRA]A- (Stable)/[ICRA]A2+}, which has an established track record in the solar power sector. The O&M for the solar power project of DPPL 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, VSV Onsite Private Limited (VOPL) 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 DPPL.

The rating derives comfort from the satisfactory generation performance of the assets with the plant load factor (PLF) being in line with the lender-appraised PLF estimate (adjusted for module degradation). Further, ICRA notes that the company's debt coverage metrics are expected to be adequate with a projected cumulative debt service coverage ratio (DSCR) of 1.2x over the debt repayment tenure, supported by the long-term PPAs, the long tenure of the project debt and competitive interest rates. The DSCR estimate includes the assets under DPPL's subsidiary, VOPL, which operates a ~33.7-MWp solar power portfolio (rooftop & ground-mounted) having PPAs with UltraTech Cement Limited in various locations.

The rating is, however, 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 spread across 16 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 the 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 – DPPL is a subsidiary of 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 DPPL, in case of any cashflow mismatch. Also, comfort is derived from the support available to DPPL from being part of a cash flow mechanism with 10 other fellow group subsidiaries.

Diversified solar portfolio across multiple locations and offtakers – DPPL has installed 84.75 MWp of solar power plants as on June 30, 2024 out of the overall portfolio of ~88 MWp, thereby largely eliminating the execution risks and providing revenue visibility. The company's asset base is spread across multiple states with customers in varied sectors such as retail, pharmaceutical, chemicals, fast moving consumer goods (FMCG), textiles, educational institution, auto components, food products, beverages, etc. Reputed offtakers include UltraTech Cement Limited, Hindustan Unilever Limited, Hyundai Motors India Limited, Jayashree Textiles, Avenue Supermarts Ltd., Garg Acrylics, RSWM Limited etc.

Revenue visibility from firm long-term PPAs – DPPL has signed long-term PPAs (15-25 years) for its portfolio of ~88 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 reputed customers – The weighted average tariff rate for the solar power portfolio is at a discount to the respective grid tariff rates as determined by various state electricity regulatory bodies, limiting the offtake risks. Further, it enjoys a reputed and diversified customer profile, restricting the counterparty risks to an extent.

Adequate debt coverage metrics – DPPL's debt coverage metrics is expected to be adequate with a cumulative DSCR of 1.2x over the debt tenure, supported by the availability of long-term PPAs, a satisfactory generation performance, the long tenure of the debt and a competitive interest rate. The DSCR estimate includes the assets under DPPL's subsidiary, VOPL

Credit challenges

Vulnerability of cash flows to solar radiation –The revenues and cash flows of the solar power projects under DPPL remain vulnerable to the generation performance, given the single part tariff under the PPAs. The generation again 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.

Limited flexibility to change customers in case of a default – The flexibility to change customers remains limited for the projects under DPPL 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 rooftop 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 DPPL is expected to be adequate, with sufficient buffer between cash flows from operations and debt repayment obligation. The timely payment from the customers is expected to support the liquidity profile. At a consolidated level, the company had cash and bank balance of Rs. 7.34 crore and DSRA of 19.25 crore as on July 8, 2024.

Rating sensitivities

Positive factors – ICRA could upgrade DPPL'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 DPPL's rating would arise in case of underperformance in generation by its solar power projects, weakening the cumulative DSCR for its project debt to less than 1.15 times on a sustained basis. Also, any delays in payments by the customers adversely impacting the liquidity position of the company 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 the 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	For arriving at the ratings, ICRA has considered consolidated financials of the SPVs mentioned in Annexure II

About the company

DPPL is a wholly-owned subsidiary of FPEPL and was incorporated on July 22, 2019. The company is engaged in the development and operation of solar roof-top projects in India for C&I customers. DPPL's portfolio consists of ~88-MWp solar power assets, located in various states in India (including ~33.7 MW under VOPL). The company has signed long-term PPAs with multiple C&I offtakers for these assets. The assets have been commissioned over the period from 2019 to 2023.

Key financial indicators

DPPL Consolidated	FY2023	FY2024^
Operating income (Rs. crore)	38.4	42.0
PAT (Rs. crore)	-5.7	-10.2
OPBDIT/OI (%)	84.1%	89.9%
PAT/OI (%)	-14.8%	-24.4%
Total outside liabilities/Tangible net worth (times)	16.6	22.5
Total debt/OPBDIT (times)	9.6	8.1
Interest coverage (times)	1.0	1.1

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

DPPL Standalone	FY2023	FY2024^
Operating income (Rs. crore)	28.2	29.5
PAT (Rs. crore)	-5.5	-6.5
OPBDIT/OI (%)	85.8%	90.7%
PAT/OI (%)	-19.5%	-21.9%
Total outside liabilities/Tangible net worth (times)	-18.4	-12.1
Total debt/OPBDIT (times)	8.8	7.9
Interest coverage (times)	0.9	1.1

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	159.55	[ICRA]A- (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	159.55	[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

Company Name	Consolidation Approach
Daishi Patona Private Limited	Full Consolidation
VSV Onsite Private Limited	Full Consolidation

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About ICRA Limited:

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