July 26, 2024

FPEL Flash Energy Private Limited: Rating upgraded to [ICRA]A- (Stable); outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	21.73	21.73	[ICRA]A- upgraded from [ICRA]BBB+; outlook revised to Stable from Positive
Total	**21.73**	**21.73**	

Instrument details are provided in Annexure-I

Rationale

The rating upgrade for FPEL Flash Energy Private Limited (FFEPL) factors in the timely commissioning of its wind-solar hybrid power project in June 2023 and the satisfactory generation performance of the project in line with the P-90 estimates post commissioning, resulting in adequate debt coverage metrics.

The rating action continues to take comfort from the cash pooling mechanism available to FFEPL with six other fellow subsidiaries – FP Crysta Energy Pvt. Ltd., FPEL Sunrise Pvt. Ltd., FPEL Surya Private Limited, FP Eco Energy Pvt. Ltd., FPEL Radiant Energy Pvt. Ltd. and FPEL Beat Energy Pvt. Ltd., wherein any shortfall in debt servicing for FFEPL can be met through the cash surplus available with the other six special purpose vehicles (SPVs). The seven SPVs together have set up 63.2-MW wind-solar hybrid power capacity at Gondal in Gujarat, with PPAs tied up with multiple industrial customers. The projects of all the SPVs were commissioned in June 2023 and their generation performance has been satisfactory, post commissioning. The rating also takes note of the company's 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. Further, the seven SPVs have cross-default linkages with the parent, under the terms of the debt.

The rating continues to factor in the limited demand and tariff risks resulting from the presence of long-term power purchase agreements (PPA) with industrial customers for its hybrid project of 7.4 MW at a fixed tariff under the third-party mode. The offtakers have comfortable credit profiles, which has resulted in timely receipt of payments. Further, given the long-term PPAs at reasonable tariffs and the long tenure of the project debt, the debt coverage metrics are expected to be satisfactory with the cumulative debt service coverage ratio (DSCR) over 1.28x.

The rating is, however, constrained by the sensitivity of generation to solar irradiation levels and the wind power density along with equipment performance as the revenues are linked to the actual units generated, in view of the single-part tariff structure in the PPAs. Any adverse variation in weather conditions and equipment performance can impact the generation levels and consequently the cash flows. The demonstration of generation performance in line or above the P-90 PLF levels on a sustained basis remains a key credit monitorable.

ICRA also notes that FFEPL's debt coverage metrics remain exposed to the interest rate movement, as the floating interest rates are subject to regular resets. The rating also factors in the risk of cash flow mismatch as the lock-in period under the PPA is lower than the debt repayment tenure of 20 years. Also, the termination payments during the lock-in period would not cover for the entire debt outstanding. Nonetheless, comfort can be drawn from the highly competitive tariffs offered by the company to its customers against the HT industrial grid tariff and the track record of the sponsor in securing PPAs with large industrial and commercial customers. Further, the lender has the option to exercise cash sweep, wherein the surplus cash can be utilised to prepay the debt, thereby reducing the effective debt repayment tenure.

Further, the company's operations remain exposed to regulatory risks associated with forecasting & scheduling regulations, norms for captive projects and open access charges. While an increase in the open access charges or imposition of new charges

would be borne by the offtaker under the terms of the PPA, this would impact the competitiveness of the tariff offered under the PPA and in turn the savings to the customer.
The Stable outlook on the rating factors in the steady cash flow visibility provided by the operational status of the project with long-term PPAs in place as well as the timely cash collections expected from the customers.

Key rating drivers and their description

Credit strengths

Cash pooling with fellow subsidiaries; operational and financial strengths by virtue of parentage - FFEPL is a subsidiary of FPEPL, which has an established track record in the renewable energy sector. FPEPL is backed by The RISE fund (TPG) and Norwegian sovereign fund, Norfund. The presence of strong sponsors provides strong financial flexibility to the Group in securing equity and debt funding. FPEPL is expected to support FFEPL in case of any cash flow mismatch. Further, comfort is drawn from the cash pooling mechanism available with six fellow group subsidiaries in the Gondal project, under the terms of the project debt, wherein any shortfall in debt servicing for FFEPL can be met through the cash surplus available with the other SPVs in the pool.

Revenue visibility from long-term PPAs at highly competitive tariff – FFEPL has signed long-term PPAs with two offtakers covering the entire capacity. The PPA tenor is 12-25 years with a lock-in period of 3-10 years, thereby limiting the demand and tariff risks for the capacity. Moreover, comfort is drawn from the significant discount offered by FFEPL to the customers against the grid tariff.

Comfortable financial profile of customer – The payments from the customers have been largely timely, post commissioning, considering their comfortable financial profiles and the significant discount offered by the company through its tariff against the grid tariff for industrial customers. Also, the sourcing of power from FFEPL enables the customers to make progress in their sustainability initiatives.

Satisfactory debt coverage metrics – The company's debt coverage metrics are expected to be adequate with a projected cumulative DSCR of over 1.28x over the debt repayment tenure, supported by the long-term PPAs at reasonable tariffs and the long tenure of the project debt.

Credit challenges

Vulnerability of debt coverage metrics to energy generation - The company's cash flows would be linked to the generation achieved by its solar-wind hybrid power project, given the single-part tariff under the PPA. The generation would be sensitive to weather conditions, equipment quality and O&M practices. The geographic concentration of the assets amplifies the generation risk. While comfort is drawn from the satisfactory performance post commissioning in June 2023, a sustained demonstration of generation performance in line or above the appraised P-90 PLF level remains a key credit monitorable

Risk of cash flow mismatch owing to lower lock-in period under PPA in relation to debt tenure - The lock-in period under the PPAs signed by FFEPL is lower than the debt repayment tenure of 20 years, which could lead to the risk of cash flow mismatch. Also, the termination payments under the PPA do not fully cover for the debt outstanding. Nonetheless, comfort can be drawn from the competitive tariffs offered by the company to its customers against the HT industrial grid tariff, the track record of the sponsor in securing PPAs with large industrial and commercial customers and the notice period available at the time of PPA termination to enable the company to replace the customers. Further, the lender has the option to exercise cash sweep, wherein the surplus cash can be utilised to prepay the debt, thereby reducing the effective debt repayment tenure.

Interest rate risk and regulatory risks - The company's debt coverage metrics remain exposed to any movement in interest rate, given that the floating interest rates are subject to regular resets, and a leveraged capital structure. Further, the company's operations are exposed to regulatory risks pertaining to the scheduling and forecasting requirements of solar and wind power projects. Also, the company remains exposed to regulations related to captive power projects and the adverse variation in open access charges, which could impact the competitiveness of the tariff offered.

Liquidity position: Adequate

FFEPL's liquidity is adequate, aided by DSRA of one quarter and timely payments from its customer. The project has been commissioned and the revenue from it is expected to adequately meet the debt servicing requirement and operational expenses. In addition to the DSRA of Rs. 1.46 crore, the cash balance stood at Rs. 1.57 crore as on June 27, 2024. The liquidity is further supported by the cash pooling mechanism available with six other SPVs and the presence of a strong parent, FPEPL, which is expected to provide support to the company, if required.

Rating sensitivities

Positive factors – ICRA could upgrade FFEPL's rating if the company demonstrates a satisfactory generation performance above the P-90 estimates, along with timely payments by the customers, leading to an improvement in the debt coverage metrics. Further, an improvement in the credit profile of the parent, FPEPL, would be a positive trigger.

Negative factors – Pressure on the rating would arise if underperformance in generation by its solar & wind power projects weakens the cumulative DSCR for the 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 credit profile of the parent (FPEPL) and the credit profile of the other SPVs of the pool.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar Power - Wind
Parent/Group support	ICRA has consolidated the financials of the seven SPVs - FP Crysta Energy Pvt. Ltd., FPEL Radiant Energy Pvt. Ltd., FPEL Sunrise Pvt. Ltd., FP Eco Energy Pvt. Ltd., FPEL Surya Energy Pvt. Ltd., FPEL Beat Energy Pvt. Ltd. and FPEL Flash Energy 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 profile of the rated entity

About the company

FFEPL is an SPV promoted by FPEPL. It was incorporated in February 2022 to set up a wind-solar hybrid power project at Gondal in Gujarat under the third-party mode. It has a total capacity of 7.4 MW with a solar capacity of 2.0 MWp and a wind capacity of 5.4 MW. PPAs have been tied for entire capacity with two offtakers under the third-party mode. The tariff under the PPAs is Rs. 3.93-4.42 per unit.

Key financial indicators (audited)

Standalone	FY2024*
Operating income	3.9
PAT	-3.0
OPBDIT/OI	85.8%
PAT/OI	-76.5%
Total outside liabilities/Tangible net worth (times)	9.9
Total debt/OPBDIT (times)	12.8
Interest coverage (times)	0.8

*Source: Company, ICRA Research; * Provisional numbers; 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		
	Instrument	Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 26, 2024	May 04, 2023	-	-
2	Term loans	Long term	21.73	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	-	-

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-I**	Sept 2022	-	Mar 2044	21.73	[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:

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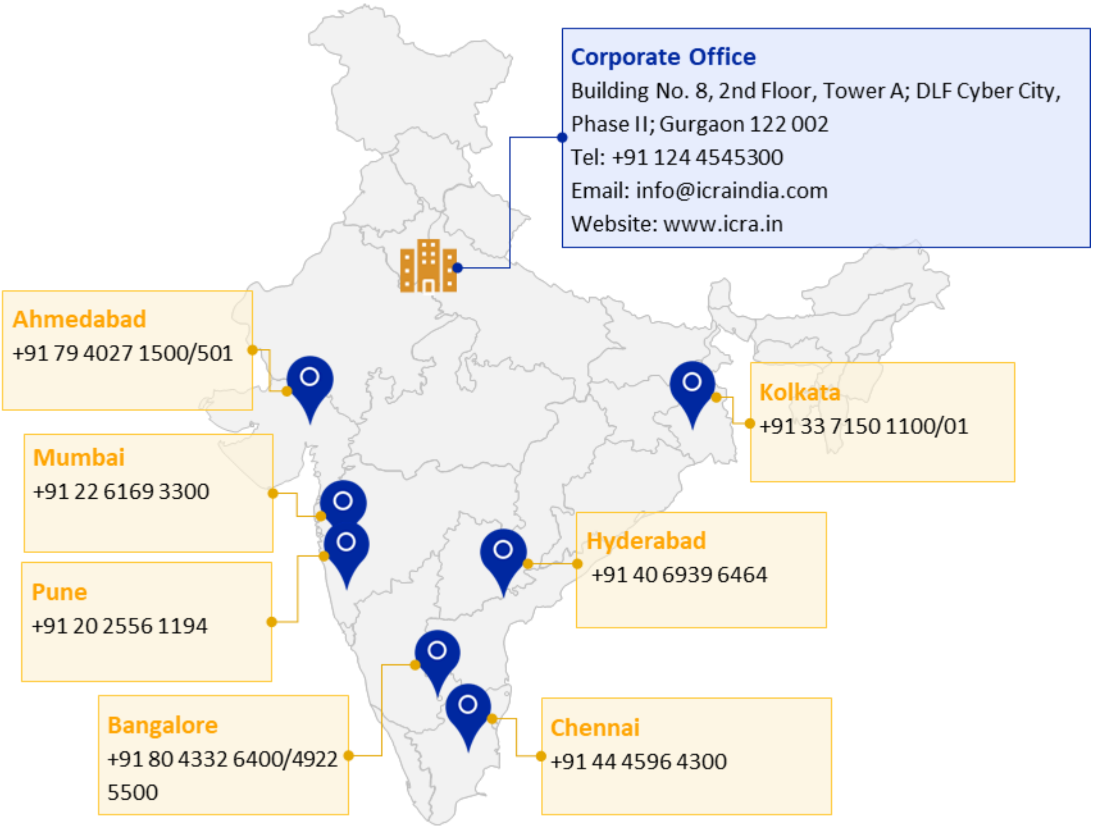

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