

August 02, 2024

Fourth Partner Solar Power Private Limited: [ICRA]BBB+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loans	346.80	[ICRA]BBB+ (Stable); assigned
Total	346.80	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned to Fourth Partner Solar Power Private Limited (FPSPL) takes into account its strong operational and financial linkages with its ultimate parent – Fourth Partner Energy Private Limited (FPEPL; rated [ICRA]A- (Stable)/[ICRA]A2+). The rating also factors in the satisfactory project economics, aided by the remunerative yet competitive tariff for the tied-up capacity and the long-tenured project debt. Around 68% of the 105-MWp capacity is tied up with offtakers having moderately strong credit profiles under long-term power purchase agreements (LT PPA). Additionally, the tariff competitiveness of the project remains superior with the company offering significant discount to the offtakers compared to the prevailing grid tariff. The project is being developed under a captive arrangement which insulates the company from the levy of cross-subsidy and additional surcharges.

The rating is, however, constrained by the execution risks in the project as the company has achieved partial commissioning for 59 MW of the 70-MW capacity in June 2024, and the balance is expected to be completed by December 2024. While the PPAs for a part of the capacity are in place, the supply of power under these contracts shall commence post execution of the transmission and wheeling agreements. The company has started selling power in the exchanges in the interim.

The project is exposed to tariff risk for the untied capacity wherein the company shall be selling power through short-term bilateral contracts or the exchange. While the tariffs in the exchange have remained healthy in the last two years, any moderation in the realised tariffs in spot sales against the contracted rates in the long-term PPAs can impact the company's debt coverage metrics. Additionally, the company's cash flow and debt protection metrics will remain sensitive to the irradiance levels, given the single-part tariff in the long-term PPAs. Any adverse variation in weather conditions and module performance may impact the PLF levels and consequently the cash flow. This is amplified by the geographic concentration of the asset as the entire capacity is at a single location in Uttar Pradesh. The ability of the company to demonstrate generation in line with or above the design PLF levels on a sustained basis along with the tie-up of the balance capacity under long-term PPAs will remain the key monitorable.

The Stable outlook on the company's rating reflects ICRA's expectation that the project will be commissioned within the budgeted time and costs followed by the generation being in line with the design levels as well as healthy tariff realisation in short-term sales in line with the LT contracted rates.

Key rating drivers and their description

Credit strengths

Revenue visibility with moderate counterparty - The company has tied up long-term PPAs (25-year) for ~71.3-MWp capacity at a fixed tariff with reputed commercial and industrial customers. The demand risks for the untied capacity remain low, given the expectation of healthy electricity demand growth.

Superior tariff competitiveness – The PPA tariff offered by the company is at a discount to the state grid tariff rates, which enables the customers to realise significant savings. In addition, while the state grid tariffs are expected to show an inflationary trend, the tariff of the project is fixed and therefore expected to remain competitive over the project term.

Satisfactory debt coverage metrics - The company's debt coverage metrics are expected to remain comfortable with a cumulative DSCR of above 1.15x over the debt repayment tenure, supported by the long-term PPAs at remunerative tariffs, the healthy tariffs realised on the exchange/spot sales (in line with or close to LT contracted rates) and the long tenure of the project debt.

Credit challenges

Full capacity yet to be operational – The company has commissioned 59 MW of the 70-MW capacity and the balance is expected to be commissioned by December 2024. While the PPAs for a part of the capacity are in place, the supply of power under these contracts shall commence post the execution of the transmission and wheeling agreements. The company has started selling power on the exchange in the interim. Any major delays in commissioning the project impacting the debt coverage indicators will be a key monitorable.

Offtake risk for partial capacity – LT PPAs are in place for 68% of the project capacity. Therefore, the company shall remain exposed to tariff risk for the balance capacity being sold on the exchange or under short-term bilateral arrangements. Any moderation in the realised tariffs in the spot sales against the contracted rates in the long-term PPAs can impact the company's debt coverage metrics.

Cash flows exposed to risk of irradiance levels and interest rate environment - The power production and, thus, the cash flow generation for solar power projects remains exposed to the irradiance levels. While the company does not have control over weather-related factors, the cash flow will face headwinds in a scenario of lower-than-expected irradiance because of the one-part nature of the tariff. The cash flow would also remain susceptible to changes in interest rates for the loan contracted by the entity as the tariff is fixed in nature while the interest rates on the term loans are variable.

Liquidity position: Adequate

The liquidity is expected to remain adequate, aided by positive cash flow from operations on the back of the long-term PPAs at fixed rates for a large part of the solar power project, expectation of healthy tariff for the balance capacity and the timely receipt of payments from the customers, given their moderately strong credit profiles. Further, the company had a debt service reserve account (DSRA) of Rs 4.24 crore and free cash/bank balance of Rs. 0.85 crore as on July 03, 2024.

Rating sensitivities

Positive factors – ICRA could upgrade rating if the generation is in line with the P-90 PLF estimates on a sustained basis, tie-up for balance capacity under long term PPAs and improvement in the debt coverage metrics. Also, the rating would remain sensitive to credit profile of its ultimate parent, FPEPL.

Negative factors – Pressure on ratings could arise in case of material delay in the project commissioning and/or major cost overrun, delays in collections from counter-parties, or lower tariff realized for untied capacity, resulting in moderation in the liquidity position or DSCR of the company below 1.10x. The rating could also be revised downwards if the linkage with the parent weakens and/or credit profile of ultimate parent i.e FPEPL weakens.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology- Power-Solar
Parent/Group support	Parent/Group Company: Fourth Partner Energy Private Limited. The rating assigned to FPSPL factors in the likelihood of its parent extending financial support to it because of the close business linkages between them
Consolidation/Standalone	Standalone

About the company

Fourth Partner Solar Power Private Limited (FPSPL) is a subsidiary of Fourth Partner Energy Private Limited, which holds ~72% in FPSPL. FPSPL is setting up a 105-MW DC solar power plant at Babina in Jhansi (Uttar Pradesh) under the group captive model having SCOD of June 30, 2024. The company has commissioned ~59-MW AC (~90 MW DC) in June 2024 and the balance is expected to be commissioned in by December 2024. At present, for ~71.3 MW DC, FPSPL has signed long-term power purchase agreements (PPA) with multiple offtakers. FPSPL has incurred an expenditure of ~Rs. 383.1 crore till May 09, 2024 of the total envisaged project cost of Rs. ~495.4 crore.

Key financial indicators : Not applicable as a project stage company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			August 02, 2024	-	-	-
1	Term loans	Long term	346.80	[ICRA]BBB+ (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 loans	FY2024	NA	FY2046	346.80	[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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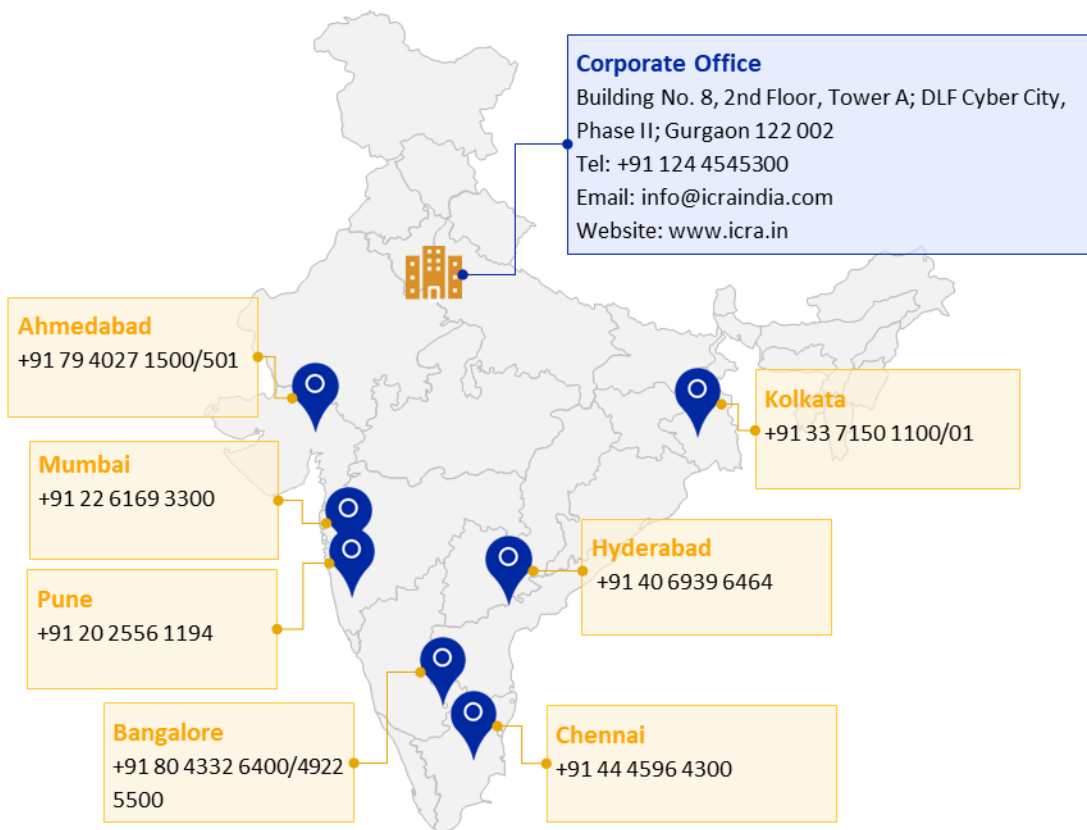
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