September 24, 2024

Huoban Energy 1 Private Limited: Rating upgraded 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	93.00	93.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Total	**93.00**	**93.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating revision for Huoban Energy 1 Private Limited (Huoban 1) factors in the resolution of the issue of the levy of excess wheeling charges on Huoban 1's offtaker. The past overdues have largely been cleared and the company is now realising payments at a contracted tariff. The rating factors in the strong operational and financial linkages with the ultimate parent - Fourth Partner Energy Limited [FPEPL; rated [ICRA]A- (Stable)/[ICRA] A2+ (Stable)] - which is also the engineering, procurement and construction (EPC) and operations and maintenance (O&M) contractor for the 30-MWp solar power project developed by the company in September 2022.

The rating factors in the satisfactory generation performance in FY2024 and the limited demand risks due to the long-term power purchase agreement (PPA) with a credit worthy offtaker for a period of 25 years as well as the low regulatory risks as the project has been developed under the captive mode. The rating also considers the timely collections from the counterparty and the competitive PPA tariff which is at a significant discount to the state grid tariff rates. Further, comfort is drawn from the company's debt coverage metrics that are expected to remain comfortable over the debt repayment tenure.

The rating is, however, constrained by the sensitivity of the cash flows and debt protection metrics to its generation performance, given the single-part tariff under the PPA. Any adverse variation in weather conditions and module performance may impact the PLF levels and consequently the cash flows. This is amplified by the geographic concentration of the asset as the entire capacity is in Maharashtra. The ability of the company to demonstrate generation in line with or above the design PLF levels on a sustained basis remains important.

Further, the company's operations remain exposed to the regulatory risks associated with any changes in forecasting & scheduling regulations, captive project norms and open access charges. Any significant increase in open access charges or imposition of new charges would impact the competitiveness of the tariff offered under the PPA. The debt coverage metrics shall remain susceptible to the increase in interest rates over the life of project debt.

The Stable outlook reflects ICRA's opinion that the company would benefit from the long-term PPA, satisfactory collections from the offtaker, generation in line with the P-90 estimates and the parentage of the Fourth Partner Energy Group.

Key rating drivers and their description

Credit strengths

Strong financial flexibility and operational strengths by virtue of parentage – Huoban 1 is a subsidiary of Huoban Private Limited (HPL), which is a wholly-owned subsidiary of FPEPL, having an established track record in the solar power sector. FPEPL is backed by The RISE fund (TPG) and Norfund. The presence of strong sponsors provides strong financial flexibility to the Group in securing equity and debt funding. In addition, ICRA expects FPEL to extend extraordinary support to the company in the event of any cash flow mismatches due to reduced generation or collections.

Competitive tariff at a discount to grid tariff – The PPA tariff offered by the company is at a significant discount to the state grid tariff rates, which enables the customer 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 is therefore expected to remain competitive over the project term.

Satisfactory debt coverage metrics – The company's debt coverage metrics are expected to remain comfortable over the debt repayment tenure, supported by the long-term PPA at a remunerative tariff, the long tenure of the project debt and competitive interest rates.

Credit challenges

Limited track record of project performance - The project was commissioned in September 2022 and, thus, has a track record of less than two years till June 2024. The performance, going forward, will remain a key monitorable.

Counterparty credit risk from single offtaker - The company has tied up a long-term PPA (25-year) for the entire 30MWp capacity at a fixed tariff with an industrial consumer located in Maharashtra and, hence, remains exposed to delays in payments by the offtaker on account of payment issues/disputes/deterioration in credit profile. Hence, the credit profile of the counterparty will continue to be a monitorable.

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

Unfavourable changes in regulations may pose risks to cash flows - The solar power project has been set up under the captive model wherein the power produced by the company is exempt from the levy of cross-subsidy surcharge/additional surcharge. Given such exemptions, the current landed tariff for the offtaker remains competitive against the grid tariff. However, the tariff remains exposed to regulatory changes which may result in such charges being levied, going forward. While the provisions of the PPA ensure the pass-through of such charges to the offtaker, the competitiveness of the project's tariff vis-à-vis the grid tariff will moderate. It may result in a renegotiation of the tariff, post the expiry of the lock-in period.

Liquidity position: Adequate

The liquidity is expected to remain adequate, aided by the positive cash flow from operations. The long-term PPA at a fixed rate for the solar power project and expectation of timely receipt of payments from the customer on the back of its strong credit profile is expected to ensure a steady cash flow. A cash/bank balance of Rs. 6.24 crore and a DSRA of Rs. 4.33 crore as on June 30, 2024, are in place. In case of a shortfall in cash flow generation, ICRA expects the parent, Fourth Partner Energy Private Limited, to meet the cash flow mismatch.

Rating sensitivities

Positive factors – ICRA could upgrade Huoban 1's rating if the actual generation level is higher than the P-90 estimate on a sustained basis, leading to an improvement in the company's credit metrics. Also, the rating would remain sensitive to the credit profile of its ultimate parent, FPEPL.

Negative factors – Pressure on Huoban 1's rating could arise if the actual PLF remains lower than the P-90 level on a sustained basis, and/or the company is unable to maintain a cumulative DSCR of 1.15x on a sustained basis. The rating could also be revised downwards if the linkages with the parent weaken, and/or the credit profile of its ultimate parent i.e., FPEPL, deteriorates.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for Solar Power Producers
Parent/Group support	Parent/Group Company: Fourth Partner Energy Private Limited. The rating assigned to Huoban 1 factors in the high likelihood of its parent extending extraordinary financial support to it because of the close business linkages between them
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Huoban 1 is an SPV of HPL, which in turn is a wholly-owned subsidiary of FPEPL. The company was incorporated in July 2021 to set up a 30-MWp (DC) solar power project at Dhule, Maharashtra. The project was commissioned on September 30, 2022 with a long-term PPA for 25 years signed with SAMPL, which is also the offtaker for the entire capacity. To comply with the captive regulations, the customer has subscribed to the shareholding of the company.

Key financial indicators (audited)

Huoban 1	FY2023	FY2024*
Operating income	7.4	15.1
PAT	-1.7	-6.0
OPBDIT/OI	70.2%	76.3%
PAT/OI	-22.7%	-39.8%
Total outside liabilities/Tangible net worth (times)	5.4	7.3
Total debt/OPBDIT (times)	21.4	9.8
Interest coverage (times)	0.9	1.0

*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		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Sept 24, 2024	June 14, 2023	-	-
1	Term loan	Long term	93.00	**[ICRA]A- (Stable)**	[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	**Long-term fund-based – Term loan**	March 2023	NA	June 2040	93.0	[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.

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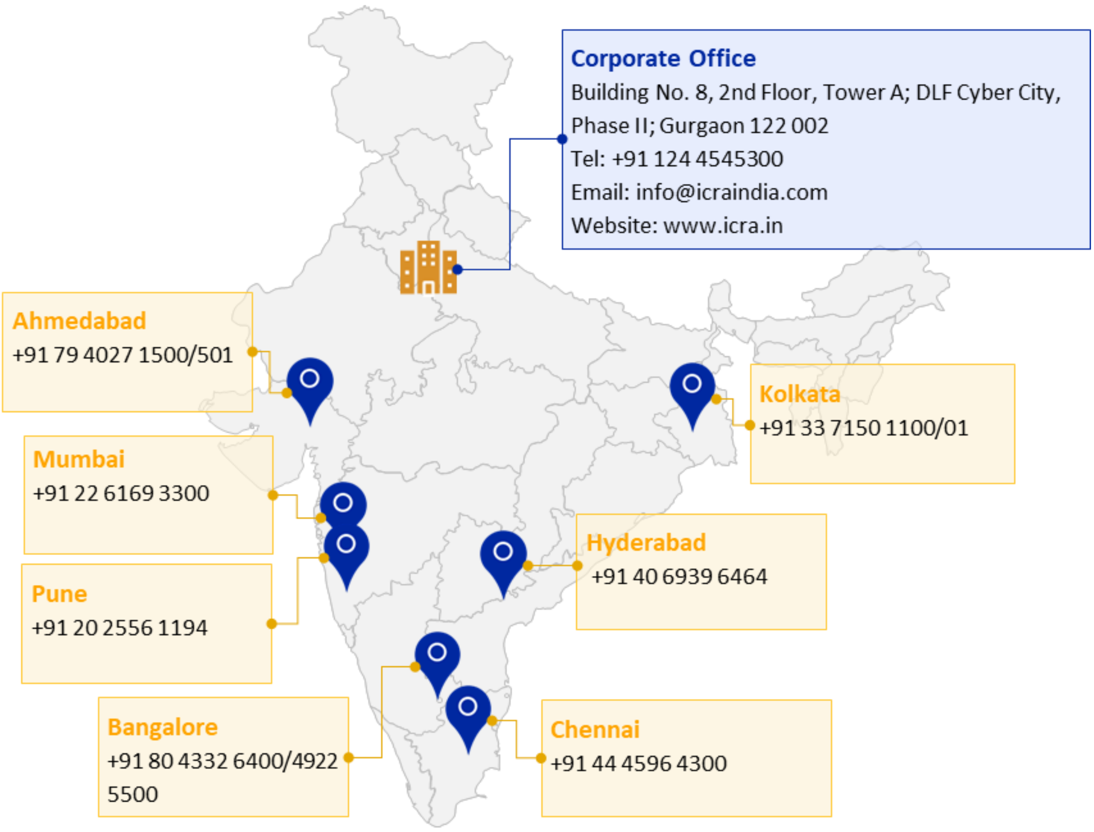

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