September 27, 2024

Sunsole Renewables Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	12.84	12.84	[ICRA]BBB+ (Stable); reaffirmed
Total	**12.84**	**12.84**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Sunsole Renewables Private Limited (SRPL) factors in the strengths arising from the company's parentage, being a part of the Cleantech Solar Group, which has reputed sponsors like Keppel Corporation and Shell Plc, along with an experienced management, established track record in developing solar power projects and a diversified solar project portfolio of 1,082 MW tied up with large commercial & industrial customers. There are cross-default linkages among the various special purpose vehicles (SPVs) of the Group in India, held by Cleantech India OA Pte. Ltd. (CIOA) under the co-obligor structure of the project debt financing.

Further, the rating favourably factors in the long-term power purchase agreement (PPA) signed by SRPL with Siemens Limited (SL), at a fixed tariff under the captive mode, thereby limiting the demand and pricing risks for its 4.1 MW solar power project. The tariff offered under the PPA is highly competitive in relation to the grid tariff for this customer and the PPA would enable the customer to meet their sustainability goals. Also, ICRA takes note of the satisfactory generation performance achieved by the company since project commissioning in August 2022. Further, the rating draws comfort from the strong credit profile of SL, which is expected to lead to timely realisation of payments for the company.

However, the rating is constrained by the vulnerability of the cash flows and debt coverage metrics of the solar power project to its generation performance, given the single-part tariff under 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 generation and consequently the cash flows. Demonstration of generation performance in line or above the appraised estimate on a sustained basis remains a key monitorable.

The lock-in period under the PPA signed by FSPL is marginally lower at 15 years against the debt repayment tenure of ~15.5 years. Also, the termination payments under the PPA do not cover for the entire debt outstanding. Nonetheless, comfort can be drawn from the competitive tariff offered by the company and the Group's track record in securing PPAs with large industrial and commercial customers. ICRA also takes note of the sensitivity of debt coverage metrics to the movement in interest rates considering the leveraged capital structure and fixed tariffs under the PPA. Given the moderate coverage metrics expected for the project, the ability of SRPL to exceed the appraised generation estimate and having a competitive interest rate on the project debt remains important.

Further, the company remains exposed to regulatory risks associated with forecasting & scheduling regulations, regulations for captive projects and open access charges. While the open access charges are to be paid by the customer under the PPA, any significant increase in these charges would impact the competitiveness of the tariff.

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

Key rating drivers and their description

Credit strengths

Strengths by virtue of being part of Cleantech Solar Group – SRPL is part of the Cleantech Solar Group, which in turn is promoted by Keppel Consortium and Shell Plc. The platform benefits from a diversified portfolio of 1,082 MW across seven countries in South Asia and the presence of strong shareholders, who are focused on growing their renewable energy portfolio. SRPL is expected to benefit from the strengths of the Group, given the cross-default linkages with the parent Cleantech India OA Pte. Ltd. (CIOA) & other group SPVs.

Low offtake risk with presence of long-term PPA with an industrial customer at a highly competitive tariff – The solar project under SRPL has tied up a long-term PPA with SL under the captive mode at a fixed tariff, thereby limiting the demand and pricing risks. The PPA includes a provision for termination payments which covers for a certain portion of the debt. Further, comfort is drawn from the competitive tariffs offered by the project to the customer against the grid tariff rates. Moreover, the PPA would enable the customer to meet its renewable purchase obligations.

Strong credit profile of customer – The presence of a strong counterparty like, SL, is expected to result in timely payments, as demonstrated so far.

Credit challenges

Vulnerability of cash flows to solar radiation – Given the single part tariff under the PPA, the revenues and cash flows of the solar power project under SRPL remain vulnerable to actual generation, which in turn is exposed to the variability in solar radiation. This risk is amplified by the geographic concentration of the asset. While comfort is drawn from the performance so far, a demonstration of generation in line with the appraised estimate on a sustained basis remains a key monitorable.

Risk of cash flow mismatch owing to lower lock-in period under the PPAs in relation to debt tenure – The PPA signed by SRPL has a lock-in period of 15 years, marginally lower than the debt repayment tenure of ~15.5 years. Also, the termination payments under the PPA do not cover for the entire debt outstanding. Nonetheless, comfort can be drawn from the significant discount offered by the company to its customer against the grid tariff and the track record of the sponsor in securing PPAs with large industrial and commercial customers.

Exposed to interest rate risk – The interest rate on the term loan availed by the company for its project is floating and subject to regular reset. Given the fixed nature of the tariff under the PPA and the leveraged capital structure, the debt coverage metrics for the company remained exposed to the movement in interest rate as seen in the recent past. Given the moderate coverage metrics expected for the project, the ability of SRPL to exceed the appraised generation estimate and having a competitive interest rate on the project debt remains important.

Regulatory risks – The company's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for solar power projects. However, the risk of variation is relatively low for solar power projects compared to wind power projects. Also, the project is exposed to any revision in regulations for captive projects and open access charges, which could impact the competitiveness of the tariff offered.

Liquidity position: Adequate

The liquidity position of SRPL is expected to be adequate, with sufficient buffer between cash flows from operations and debt repayment obligation. Moreover, the two-quarter DSRA and timely payments from the customer is expected to support the liquidity profile. The company had cash and liquid investments of Rs. 1.78 crore as on June 17, 2024 including DSRA of Rs. 1.29 crore.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company is able to demonstrate a generation performance in line or higher than the appraised estimate along with timely payments from the customer, leading to healthy credit metrics. Also, rating would remain sensitive to the credit profile of its parent, CIOA.

Negative factors – Negative pressure on the rating could arise if the generation performance of SRPL remains below the appraised estimate on a sustained basis, thereby adversely impacting the debt coverage metrics. Also, delay in payments from counterparty adversely impacting the liquidity profile of the company would be a negative trigger. Further, the rating would remain sensitive to the credit profile of its parent, CIOA. A specific credit metric for downgrade is cumulative DSCR on the project debt falling below 1.10x.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Power- Solar
Parent/Group support	The rating assigned to SRPL factors in the implicit support from holding company, CIOA, with support expected to be forthcoming in case of any cash flow mismatch, given the cross default linkages with CIOA and other SPVs of the group.
Consolidation/Standalone	Standalone

About the company

SRPL is a subsidiary of CIOA, Singapore, wherein CIOA holds a 74% stake and the remaining 26% is held by the sole offtaker, Siemens Limited. CIOA is a 100% subsidiary of Cleantech Solar Asia Pte. Ltd. (CSA), which in turn is 75.5% owned by Keppel consortium and 24.5% by Shell. CSA has a solar power portfolio of 1,082 MW across India, Thailand, Malaysia, Cambodia, Indonesia, Vietnam and Singapore.

SRPL owns and operates a 4.1-MW (DC Capacity) solar power project in the Latur district of Maharashtra. The project was commissioned on August 1, 2022. The company has signed a 15-year long-term PPA with Siemens Limited. As required under the group captive regulations, the customer has subscribed to the shareholding of the company.

Key financial indicators (audited)

SRPL	CY2022	15M FY2024^
Operating income	0.9	3.0
PAT	(0.0)	(0.2)
OPBDIT/OI	75.4%	82.0%
PAT/OI	-1.5%	-5.3%
Total outside liabilities/Tangible net worth (times)	3.0	3.2
Total debt/OPBDIT (times)	18.0	6.0
Interest coverage (times)	1.3	1.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, ^ Provisional

Note: SRPL shifted its financial reporting from calendar year to financial year in the latest completed fiscal year. As a result, the company is reporting 15M financials for FY2024.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Sep 27, 2024	Date	Rating	Date	Rating	Date	Rating
Term Loans	Long term	12.84	[ICRA]BBB+ (Stable)	30-Jun-23	[ICRA]BBB+ (Stable)	14-Jun-22	[ICRA]A-(CE) (Stable)	-	-
				-	-	23-Sep-22	[ICRA]A-(CE) (Stable) withdrawn; [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/ Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Nov 2021	NA	FY2037	12.84	[ICRA]BBB+ (Stable)

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 6939 6410
vikram.v@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

Prerna Aggarwal
+91 124 4545380
prerna.aggarwal1@icraindia.com

Soumya Satapathy
+91 33 7150 1100
soumya.satapathy@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

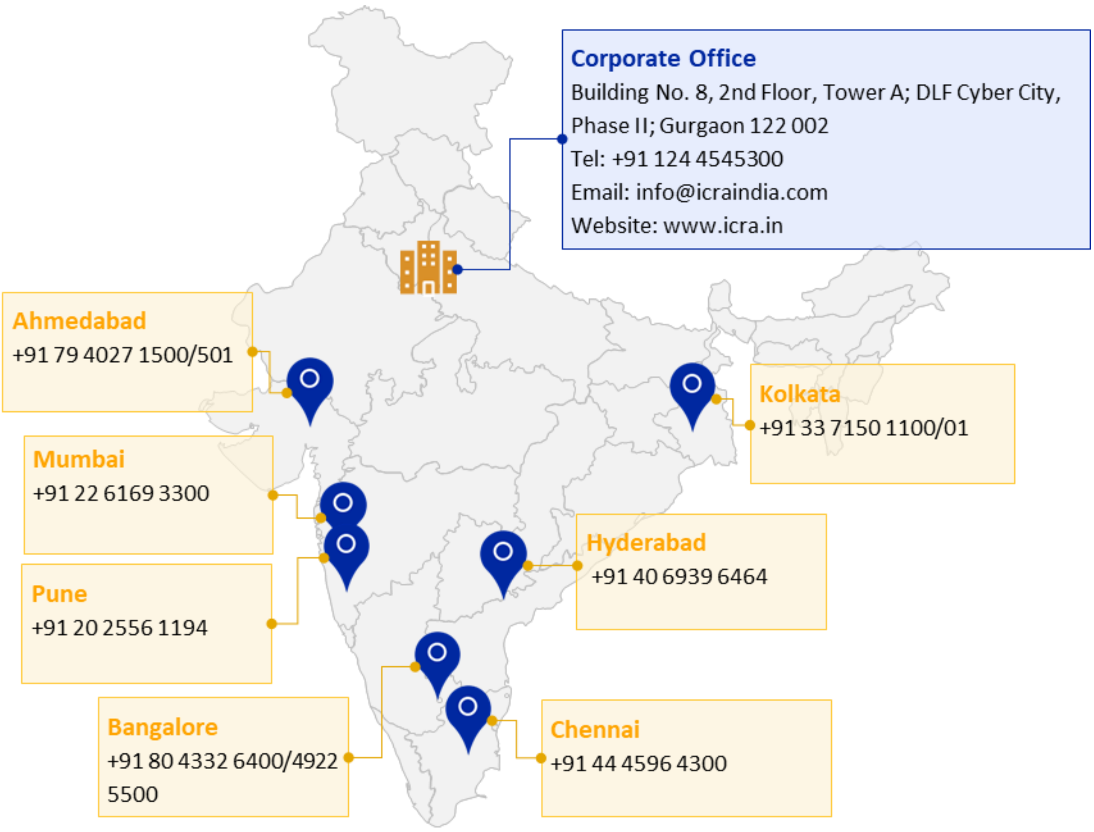
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.