October 08, 2024

Solairepro Urja Private Limited: [ICRA]AA(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	758.44	[ICRA]AA (Stable); assigned
Total	**758.44**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating factors in the long track record and stable generation performance of Solairerpro Urja Private Limited's (SPUPL) 250-MW (350 MW DC) solar photovoltaic (PV) project since full commissioning in March 2020. The average PLF was satisfactory at 24.4% in FY2024 and 24.18% in FY2023. The plant and grid availability also remained comfortable at above 98% in the last two years. The rating also factors in the limited demand and tariff risks for SPUPL on account of the long-term (25-year) power purchase agreement (PPA) for the entire capacity with NTPC Limited (NTPC) at a fixed tariff of Rs. 3.15 per unit. On behalf of NTPC Limited, NTPC Vidyut Vyapar Nigam Limited (NVVN) works as the nodal agency, and in turn has signed power supply agreements (PSA) with state-owned distribution utilities (discoms). The presence of a strong counterparty, NTPC (rated [ICRA]AAA (Stable)/[ICRA]A1+), ensures timely realisation of payments, supported by a payment security mechanism under the PPA. Also, the competitive tariff offered by the project is a credit positive for the company.

The company's debt coverage metrics are expected to remain healthy, with the cumulative DSCR on the external debt estimated to remain at ~1.4x, supported by a strong operating performance, the long maturity of the project debt and a competitive cost of debt. The presence of a debt service reserve account (DSRA) equivalent to one quarter's debt obligations also provides comfort from a credit perspective. ICRA notes that the promoter contribution for the project is largely in the form of convertible debt instruments, which remain subordinated to the project debt. The payment of interest on these instruments and the dividend payment by SPUPL are subject to meeting the restricted payment conditions with prior approval from lenders stipulated under the loan agreement.

The rating also draws comfort from the presence of an experienced sponsor, Edelweiss Infrastructure Yield Plus (EIYP) fund, which is operating ~813 MW (DC) of renewable energy capacities in India, and its association with the Engie Group, as the operations and maintenance (O&M) of the plant is managed by Engie Group entity, Solairedirect India LLP.

The rating, however, is constrained by the vulnerability of the cash flows to weather conditions and module performance, as the revenues are linked to the actual units generated and exported, considering the single part tariff structure under the PPA. This is amplified by the geographic concentration of the asset in Andhra Pradesh. However, the performance demonstrated so far provides comfort against this risk. Further, the debt coverage metrics of SPUPL remain exposed to the interest rate movement, given the fixed tariff under the PPA. This is partly mitigated by the fixed rate of interest for a period of 37 months from August 2024.

ICRA also takes note of the refinancing risk in the near term, arising from the lender's right to exercise put option within a span of 15 months, as stipulated in the loan agreement. However, comfort is taken from the company's ability to refinance the same, as seen in the past. Further, the rating factors in the regulatory challenge of implementing forecasting and scheduling mechanism for solar power projects, considering the variable nature of solar energy generation. However, the risk of variation is relatively low for solar power projects compared to wind power projects.

The Stable outlook assigned to the company factors in the presence of a long-term PPA with NTPC, the timely payments by the offtaker and a satisfactory generation performance.

Key rating drivers and their description

Credit strengths

Satisfactory generation performance and comfortable debt coverage metrics - The 250-MW (350 MW DC) solar power capacity was fully commissioned in March 2020 (200 MW in June 2019 and remaining 50 MW in March 2020) and has a generation track record of more than four years. The generation performance is satisfactory with the average PLF at ~24% since commissioning. This, along with the long tenure of the project debt and the competitive cost of debt, is expected to lead to comfortable debt coverage metrics, with the cumulative DSCR on the external project debt likely to remain at ~1.4x over the debt tenure.

Revenue visibility from long-term PPA with NTPC - SPUPL has low offtake risks owing to the presence of a long-term (25 year) PPA with NTPC at a tariff of Rs. 3.15 per unit for the entire duration of the project. The long-term PPA provides revenue visibility for the company.

Presence of a strong counterparty ensures timely payments - The presence of a strong counterparty like NTPC ([ICRA]AAA (Stable)/[ICRA]A1+) ensures timely realisation of payments under the PPA. On an average, the receivable cycle of the company has remained at around 15 days in the past. This is further supported by the payment security mechanism under the PPA.

Presence of an experienced sponsor; operational expertise from association with France-based Engie Group - SPUPL's ultimate sponsor, EIYP, has investments in power transmission, roads and renewable assets with an experienced management and operating team. Further, ICRA takes note of the company's operating expertise from its association with France-based utility major, Engie. The O&M of the plant is managed by Engie Group entity, Solairedirect India LLP.

Credit challenges

Vulnerability of cash flows to variation in weather conditions; asset concentration risk - Given the single-part tariff under the PPA, the revenues and cash flows of the solar power project under SPUPL remain vulnerable to the actual generation, which in turn is exposed to the variability in solar radiation and module performance. This risk is amplified by the geographic concentration of the asset. Nonetheless, comfort is derived from the sourcing of PV modules from reputed suppliers, the presence of an experienced O&M contractor and a satisfactory performance so far.

Exposure to interest rate risk - The company's capital structure remains leveraged due to the largely debt-funded nature of the project. Therefore, the company's debt coverage metrics remain exposed to the movement in interest rates. This is partly mitigated by the fixed rate of interest for a period of 37 months from August 2024.

Regulatory risks of implementing scheduling and forecasting framework for solar sector - The company's operations remain exposed to regulatory risks pertaining to the scheduling and forecasting requirements applicable for renewable energy projects, given the intermittent nature of generation. However, the risk of variation is relatively low for solar power projects compared to wind power projects.

Liquidity position: Strong

The company's liquidity profile is expected to remain strong with significant buffer between the cash flows from the project and debt servicing obligations, supported by a satisfactory generation performance and timely realisation of payments. The liquidity is further supported by a debt service reserve account (DSRA) equivalent to one quarter's debt servicing and undrawn working capital line of Rs. 20 crores as of August 2024. The cash balances, including DSRA of Rs. 24.55 crore, stood at Rs. 86.37 crore as of September 2024.

Rating sensitivities

Positive factors – The rating can be upgraded if the generation performance remains above the historical average on a sustained basis, thereby further improving SPUPL's debt coverage metrics, along with a strong liquidity profile.

Negative factors – Pressure on the rating could arise if the actual generation remains below the historical average and/or any increase in the debt levels weakens the cumulative DSCR on the project debt to less than 1.30 times on a sustained basis. Further, any significant delays in receiving payments from the offtaker adversely impacting SPUPL's liquidity profile may trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of SPUPL

About the company

SPUPL was incorporated to set up a 250-MW (AC)/350-MW (DC) grid-connected solar PV project at Kadapa Solar Park in Andhra Pradesh. The company has signed a PPA with NTPC Limited at Rs. 3.15/unit for the entire capacity. The first phase of 200 MW was successfully commissioned in June 2019, followed by the commissioning of the remaining 50 MW in March 2020. SPUPL is promoted by EIYP Fund, which has majority shareholding (74%) in the company. Engie Energy India Private Limited (EEIPL) holds the balance 26%. EEIPL is a part of the Engie Group, which is a France-based utility company.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	164.23	166.28
PAT	-6.08	-1.89
OPBDIT/OI	83.8%	82.0%
PAT/OI	-3.7%	-1.1%
Total outside liabilities/Tangible net worth (times)	23.15	23.43
Total debt/OPBDIT (times)	8.09	7.95
Interest coverage (times)	1.32	1.38

Source: Company, ICRA Research; 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

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Oct 08, 2024	Date	Rating	Date	Rating	Date	Rating
Long term - Term loan – Fund-based	Long term	758.44	[ICRA]AA (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Very 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**	June ‘24	NA	Sep’ 2038	758.44*	[ICRA]AA(Stable)

*Source: Company, * outstanding loan as on date: 751.24*

[*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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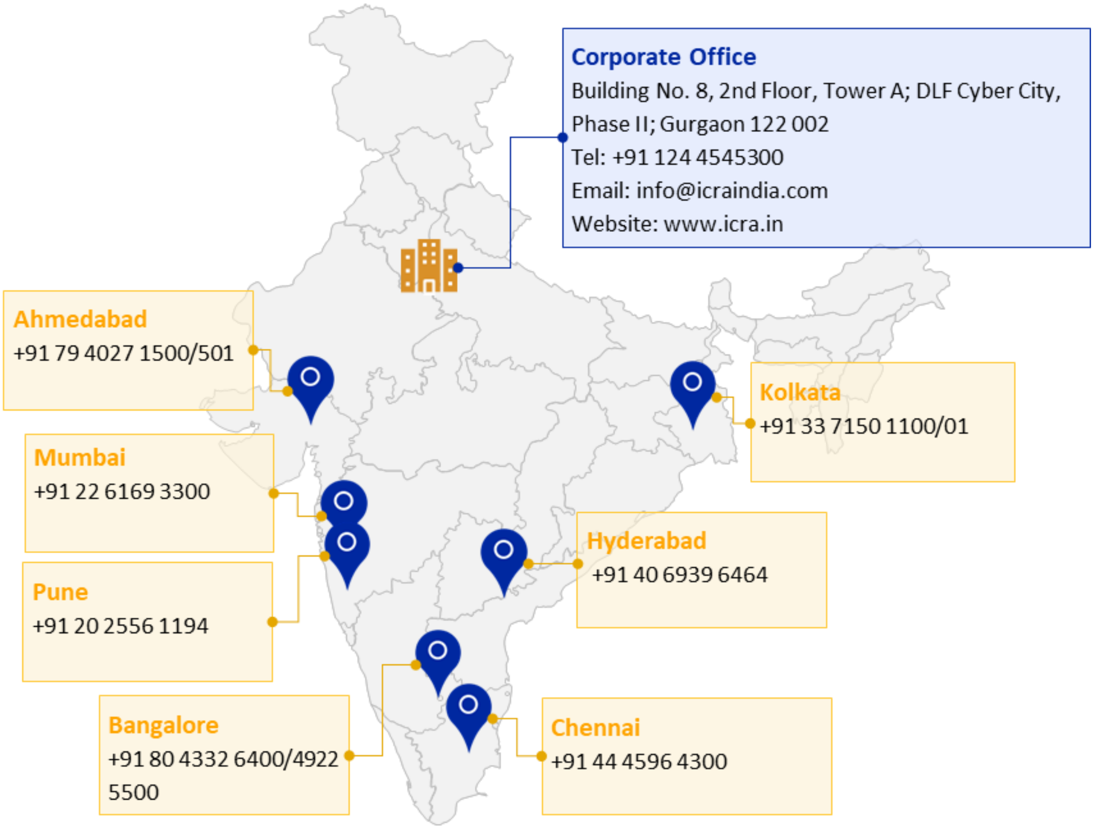

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