November 08, 2024

Talf Solar India Private Limited: Rating upgraded to [ICRA]BBB- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based - Proposed	7.00	7.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+(Stable)
Long-term - Non-fund based – Proposed	3.00	3.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+(Stable)
Total	**10.00**	**10.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the rating assigned to Talf Solar India Private Limited (or TSIPL) factors in the improvement in its liquidity position, driven by the fund raised from its promoters in FY2024 and a scale-up of its solar power capacity to ~25 MW as of September 2024 against ~19 MW as of December 2023. The solar capacity is expected to further scale up to 65 MW by March 2026, led by new projects in Uttarakhand, Madhya Pradesh and Delhi. The company raised fresh equity from the promoters in FY2024 and raised external commercial borrowings (ECB) from Kiomi Emerging Markets Limited (KEML; a promoter entity) and from CareCap Technology Ventures (CCTV), led by Mr. Frederik Pfisterer who is a member of the supervisory board of TSIPL.

The equity funding for the under-development projects is expected to be met through the available cash and funding lines from KEML and CCTV along with the profits from the engineering, procurement and construction (EPC) business undertaken by TSIPL for its subsidiaries. While the ECB funding availed by TSIPL from KEML has defined the coupon payments and repayment, the same can be deferred based on the cash flow position of TSIPL, as per the understanding from KEML, which is one of the major shareholders in TSIPL with a 20.85% stake. The company shall be servicing the coupon payments on the ECBs availed from CCTV from its cash flows and the principal (Rs. 2.2 crore) is scheduled for repayment in August 2026.

The rating also derives comfort from the geographical and customer diversification of the commissioned and under-construction solar power capacity of TSIPL. The geographical diversification mitigates the impact of lower-than-design energy generation in a particular project over the portfolio debt coverage metrics. Moreover, the Group has contracted majority of its portfolio capacity under long-term power purchase agreements (PPA) with a diversified customer base which mitigates the counterparty credit risks for the portfolio. The liquidity position of the portfolio is supported by the timely payments from the customers and the maintenance of a debt service reserve account (DSRA) equivalent to one quarter debt servicing with the subsidiaries. Also, the generation performance of the operating solar capacity has remained satisfactory. Given the attractive tariffs, ICRA expects the debt coverage indicators to remain adequate, subject to achieving the design P-90 generation estimate and the O&M expenses remaining in line with the estimates.

The rating is, however, constrained by the exposure to execution and funding risks, as the Group has considerable project capacity under implementation. The timely completion of land acquisition, the associated infrastructure and sourcing the required equipment within the budgeted costs would remain important to enable the completion of the projects within the scheduled timeline and capital cost. The demonstrated track record of solar capacity additions by the company as well as partial tie-up of project finance and funding available at the promoter level would moderate these risks to a certain extent.

The rating is also constrained by the limited track record of the recently commissioned projects as well as the vulnerability of the company's cash flows and debt protection metrics to its generation performance. Any adverse variation in weather conditions and module performance may impact the PLF levels and consequently affect its cash flow. The ability of the recently commissioned and under-development projects to demonstrate a generation performance in line with the appraised estimates remains critical to achieve the satisfactory debt coverage metrics. Moreover, the debt coverage metrics would remain sensitive to the movement in interest rates, given the high share of debt in funding at the project level.

ICRA notes that the debt contracts at the SPV level lack the contractual safeguards for project cash flows typically seen in project finance transactions. Nonetheless, the recent project debt agreements include such safeguards, including establishment of trust and retention account agreement with a clearly defined mechanism for the utilisation of project cash flows. This is expected to be followed for the upcoming projects as well. Further, ICRA understands that TSIPL does not have any plans to raise debt at the standalone level (apart from the ECBs from shareholders and CCTV) and the same shall remain a key monitorable for the rating.

The Stabe outlook reflects the benefits of the long-term PPAs with a diversified offtaker mix, an expected stable generation performance and timely receipt of payments from the offtakers for the company.

Key rating drivers and their description

Credit strengths

Availability of long term PPAs limits the demand and tariff risk for the solar power portfolio – The company has signed long-term PPAs for its solar power portfolio with a tenure of 25 years at a fixed tariff, providing strong visibility on revenues and cash flows and thereby limiting the demand and tariff risks. The company has signed PPAs with commercial & industrial (C&I) customers and government institutions which accounts for 60% of its operating portfolio, while the balance 40% is tied up with Uttarakhand Power Corporation Limited. The presence of termination/buyout clause in most of the C&I PPAs, the competitive tariff against the grid tariff rate and the highly diversified counterparties provide comfort against demand risks.

High collection efficiency with satisfactory generation performance – The payment from the counterparties is being received in a timely manner for the operating projects, with a collection efficiency of over 95% in FY2024. Further, the generation performance of the commissioned capacity before FY2024 has been largely in line with the P-90 estimates. While the projects commissioned in FY2024 had faced initial teething issues, the PLF levels have improved in H1 FY2025.

Geographic diversification of projects provides comfort against generation risk – The commissioned projects (~25-MW capacity) as well as under-construction projects (~40 MW capacity) are spread across multiples states in the country such as Delhi NCR, Uttarakhand, West Bengal and Madhya Pradesh, which leads to geographical diversification and reduces the exposure to adverse weather conditions at a particular location.

Satisfactory debt coverage metrics – The portfolio's debt coverage metrics are expected to remain comfortable over the debt repayment tenure, supported by the long-term PPAs at an attractive tariff, the long tenure of the project debt and competitive interest rates along with a satisfactory generation performance.

Credit challenges

Execution and funding risk for under-construction projects – TSIPL has ~40-MWp solar power capacity under construction/implementation at present, wherein it remains exposed to execution risks related to land, approvals and transmission infrastructure. Also, the tie-up of debt funding and the availability of promoter funding in a timely manner remain important. ICRA notes that these projects are expected to be commissioned over the next two years by FY2026. Herein, comfort is drawn from the track record of the company, the partial tie-up of project finance and the funding available at TSIPL's level.

Vulnerability of cash flows to solar irradiation – Variability in solar irradiation may affect generation, which may impact the revenues and the cash flow of the projects as the revenues are directly linked to the actual generation. The risk is mitigated to some extent by the geographically diversified asset base of the portfolio.

Limited track record of operations for recently commissioned capacity - Of the total 25-MWp installed capacity of the Group as on date, ~9.5-MWp capacity was commissioned in FY2024, wherein the track record of generation performance is limited. The demonstration of a generation performance in line or above the P-90 levels on a sustained basis will remain a key monitorable.

Exposure to interest rate risk – The debt coverage metrics remain exposed to the adverse movement in interest rates, as the tariffs under the PPAs for the projects are single part in nature and the share of debt financing for the solar projects of the Group remains high.

Liquidity position: Adequate

The liquidity position of TSIPL is expected to remain adequate, driven by the fund infusion from shareholders and investors, enabling the company to fund the equity requirement of the under-construction projects. At a standalone level, the company generates revenues and profits from EPC services provided to the subsidiaries, which are expected to be reinvested into new projects. The company shall be servicing the coupon payments on the ECBs availed from CCTV from its cash flows. The outstanding ECBs amounting to Rs. 2.2 crore from CCTV are due for repayment in August 2026. The cash and liquid investments of the company stood at Rs. 6.6 crore on a standalone basis as on September 30, 2024. Apart from this, TSIPL has an available credit line from its shareholders amounting to ~Rs. 3.5 crore to meet any exigencies and unutilised working capital limits of Rs. 0.75 crore.

Rating sensitivities

Positive factors – The rating may be revised upwards post commissioning of under construction projects within budgeted cost and timelines along with demonstrated performance of generation in line with P-90 PLF levels and timely collection of receivables, leading to healthy debt coverage credit metrics at a consolidated level and maintenance of adequate liquidity position.

Negative factors – Pressure on the rating could arise in case of delays in commissioning the under-construction projects, resulting in cost-overrun and impacting liquidity position of the company. Further, the rating could also be downgraded if the PLFs for the operating projects remain below the P-90 estimates on a sustained basis leading to moderation in debt coverage metrics. Also, delays in payments from customers or inability to raise funding for ongoing projects adversely impacting the company's liquidity position would be a trigger for 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 consolidated the financials of TSIPL along with its SPVs (as mentioned in Annexure II)

About the company

Talf Solar India Private Limited (TSIPL) is the holding company of the Talf Group. Incorporated in 2017, it is involved in the development and operations of both rooftop and ground-mount solar power projects and has an installed capacity base of ~25 MWp (1.3 MWp at holding company level) with another 40 MWp under construction. The flagship company is promoted by Mr. Saurabh Rao (holding 70.2% stake in aggregate), who is a first-generation entrepreneur with extensive experience in financial services, including financing of infrastructure projects. Further, Mr. Ankit Jain and Mr. Chris Vermont are also part of key managerial team. Mr. Jain has extensive experience in project development and financing while Mr. Vermont is a seasoned finance professional having held leadership roles.

Key financial indicators (audited)

TSIPL Standalone	FY2023	FY2024
Operating income	15.5	24.8
PAT	1.2	2.7
OPBDIT/OI	12.2%	15.6%
PAT/OI	7.7%	11.0%
Total outside liabilities/Tangible net worth (times)	0.4	1.2
Total debt/OPBDIT (times)	0.5	3.9
Interest coverage (times)	14.6	7.9

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

TSIPL Consolidated	FY2022	FY2023
Operating income	27.6	3.4
PAT	1.5	-0.4
OPBDIT/OI	11.9%	58.9%
PAT/OI	5.4%	-11.4%
Total outside liabilities/Tangible net worth (times)	1.7	2.0
Total debt/OPBDIT (times)	3.4	11.9
Interest coverage (times)	4.2	2.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore, all computations are as per ICRA Research

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)	Nov 08, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based - Proposed	Long term	7.00	[ICRA]BBB-(Stable)	29-Dec-23	[ICRA]BB+(Stable)	26-Sep-22	[ICRA]BB+(Stable)	-	-
Non-fund based - Proposed	Long term	3.00	[ICRA]BBB-(Stable)	29-Dec-23	[ICRA]BB+(Stable)	26-Sep-22	[ICRA]BB+(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based - Proposed	Simple
Long-term - Non-fund-based – Proposed	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	Fund based – Proposed	-	-	-	7.00	[ICRA]BBB- (Stable)
NA	Non-fund based – Proposed	-	-	-	3.00	[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

Company Name	TSIPL Ownership	Consolidation Approach
Talf Solar India Private Limited	100.00% (rated entity)	Full Consolidation
G.V. Energy Solutions Private Limited	99.99%	Full Consolidation
Talf ASR Solar Urja Private Limited	49%*	Full Consolidation
Arun Kumar Agarwal Solar Private Limited	49%*	Full Consolidation
SKAG Solar Urja Private Limited	49%*	Full Consolidation
Talf Energy India Private Limited	99.80%	Full Consolidation
Talf SAC Solar Urja Private Limited	99.00%	Full Consolidation
Talf Renewables Private Limited	99.99%	Full Consolidation
Talf Saur Urja Private Limited	99.90%	Full Consolidation
Talf Solar Projects Private Limited	99.00%	Full Consolidation
Talf Green Energy Private Limited	100%	Full Consolidation
Talf Greengen India Private Limited	100%	Full Consolidation
Talf SAS Energy India Private Limited	100%	Full Consolidation

Source: *Company*

Note: *ICRA has taken a consolidated financial profile of the parent (TSIPL) and its SPVs while assigning the rating*

*******Since the management control is with TSIPL's promoters, ICRA has consolidated these entities with TSIPL while assigning the rating*

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About ICRA Limited:

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