November 18, 2024

Photon Solar Power Private Limited: [ICRA]BB-(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	9.65	[ICRA]BB- (Stable); assigned
Long Term - Fund based – Unallocated limits	6.75	[ICRA]BB- (Stable); assigned
Total	**16.40**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating factors in the healthy operating track record of Photon Solar Power Private Limited's (PSPPL) 10-MWac (two projects of 5MWac each) solar photovoltaic (PV) projects since its commissioning in 2015-16. The rating considers the long-term power purchase agreement with Telangana State Southern Power Distribution Company Limited (TSSPDCL) for the entire capacity of 10 MW at a fixed weighted average tariff of Rs.6.6 per unit. ICRA also takes note of the satisfactory generation performance of the solar assets with an average PLF of ~19% in FY2024.

The rating, however, is constrained by the counterparty credit risk pertaining to the sole offtaker, TSSPDCL, with a weak credit profile. ICRA notes that after the implementation of the Late Payment Surcharge (LPS) scheme, the company's receivable position has improved to 75-85 days compared to the significant delays in receiving the payments in the past. However, given the weak credit profile of the offtaker, the exposure to counterparty credit risk continues and timely collection of payments from TSSPDCL on a sustained basis will be a key monitorable.

Further, the rating is constrained by the absence of a debt service reserve account (DSRA) and the vulnerability of the cash flows to weather conditions and module performance as the revenues are linked to the actual units generated, considering the single part and fixed tariff under the PPA. However, the inconsistency in cash flows due to a variation in the solar irradiation level remains relatively low for solar PV-based projects compared to other renewable source-based projects. Further, the debt coverage metrics of PSPPL remain exposed to the interest rate movement, given the fixed tariff under the PPA. Moreover, ICRA notes that the company's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for renewable energy projects.

The Stable outlook on the long-term rating for PSPPL reflects ICRA's expectation that the company's operating performance would remain satisfactory, and it would continue to benefit from the long-term PPA with TSSPDCL.

Key rating drivers and their description

Credit strengths

Revenue visibility from long-term PPA with TSSPDCL – PSPPL has signed a long term PPA with TSSPDCL for the entire capacity of 10 MW at a fixed weighted average tariff of Rs. 6.6 per unit. The long-term PPA provides revenue visibility for the company.

Satisfactory generational performance in the last one year with operating track record of more than five years – The entire 10-MW capacity was commissioned in 2015-16 and has an operational track record of over five years. The generation performance of both the 5-MW projects remained satisfactory with an average PLF of ~19% in FY2024.

Credit challenges

Counterparty credit risk – The company's operations remain exposed to counterparty credit risk pertaining to the sole offtaker, TSSPDCL, with a weak credit profile. ICRA notes that after the implementation of the Late Payment Surcharge (LPS) scheme, the company's receivable position has improved to 75-85 days compared to the significant delays in payment receipts in the past. However, given the weak credit profile of the offtaker, the exposure to counterparty credit risk continues and timely collection of payments from TSSPDCL on a sustained basis will be a key monitorable.

Absence of DSRA and vulnerability of cash flows to variation in weather conditions and interest rate – In the absence of a DSRA, the company's debt repayments could be impacted in case of delays in receipt of payments. Further, given the single-part tariff under the PPA, the revenues and cash flows of the solar power project under PSSPL remain vulnerable to the actual generation, which in turn is exposed to the variability in solar radiation and module performance. Also, the company's debt coverage metrics remain exposed to any movement in interest rate, given the floating interest rates.

Weak cost competitiveness of PPA tariff – PSSPL remains exposed to the risk of grid curtailment by TSSPDCL, given the relatively high PPA tariff (Rs. 6.6/unit) against the average power purchase cost of the state distribution utility and the recent competitively bid tariff rates for sourcing solar energy. Nonetheless, the company has not faced any major grid availability issues from TSSPDCL till date.

Regulatory risks of implementing scheduling and forecasting framework for the 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.

Liquidity position: Stretched

The company's liquidity profile is expected to remain stretched, given the absence of a DSRA and limited buffer available between the cash flow from operations and the debt servicing obligations. The cash balance stood at 1.32 crore as on September 30, 2024.

Rating sensitivities

Positive factors – The rating may be upgraded if the company demonstrates a generation performance above the historical average PLF. An improvement in credit profile of the offtaker and timely payments by the customer, leading to an improvement in the company's debt coverage, would further favour an upgrade.

Negative factors – Pressure on the rating could arise if the actual PLF remains below the historical average PLF on a sustained basis, thereby deteriorating the debt coverage metrics. Also, any delays in payments by the customers adversely impacting the company's liquidity position would be a negative trigger.

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 PSPPL

About the company

Photon Energy Systems Limited (PESL) is the parent company of the Group which is involved in the installation and supply of solar modules and the subsequent O&M of solar power plants. PSPPL is a subsidiary of PESL and has two operational solar power projects of 5 MW each in the Medak district of Telangana.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	9.4	10.5
PAT	3.1	3.2
OPBDIT/OI	80.3%	61.9%
PAT/OI	32.5%	30.5%
Total outside liabilities/Tangible net worth (times)	1.3	0.9
Total debt/OPBDIT (times)	2.2	1.8
Interest coverage (times)	3.7	4.6

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)**	**Nov 18, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Long term - Term loan - Fund based	Long term	9.65	[ICRA]BB- (Stable)	-	-	-	-	-	-
Long term- Term loan- Unallocated	Long term	6.75	[ICRA]BB- (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based – Term loan	Simple
Long term - Fund based – Unallocated limits	NA

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	06-02-2014	9.50%	Sep-26	5.00	[ICRA]BB- (Stable)
NA	Term Loan	10-03-2016	9.95%	Sep-27	4.65	[ICRA]BB- (Stable)
NA	Long Term - Fund based – Unallocated limits	NA	NA	NA	6.75	[ICRA]BB- (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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