November 26, 2024

FPEL Mega Solar Private Limited: Rating reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT- Fund-based – Term loan	7.49	7.49	[ICRA]A- (Positive); reaffirmed; outlook revised to Positive from Stable
LT- Unallocated	20.00	0.00	-
Total	**27.49**	**7.49**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook to Positive from Stable on FPEL Mega Solar Private Limited's (FMSPL) long–term rating follows the change in outlook of its parent company i.e., Fourth Partner Energy Private Limited (FPEPL; revised to [ICRA]A- (Positive)/[ICRA]A2+ from [ICRA]A- (Stable)/[ICRA]A2+). ICRA continues to believe that FMSPL will benefit from the management and financial support from its parent, in case of any requirement. ICRA also takes note of the commissioning of additional 0.77-MW operational capacity of FMSPL in the last one year, thus increasing its rooftop solar power operational capacity to 4.05 MW from 3.28 MW as of November 2023. The rating continues to factor in the limited demand and tariff risks for FMSPL's rooftop solar power portfolio, given the 25-year long-term power purchase agreements (PPA) for the entire capacity with Avenue Supermarts Limited and its subsidiary (DMart Group) at fixed tariffs. Further, comfort is drawn from the highly competitive tariffs offered by the company, which are at a significant discount to the state grid rates. Also, the PPA tie-up with a strong customer like DMart is expected to lead to timely receipt of payments, as demonstrated so far.

The rating is, however, constrained by the sensitivity of generation to solar irradiation levels and equipment performance as the revenues are linked to the actual units generated and exported, in view of the single-part tariff structure in the PPAs. Any adverse variation in weather conditions or equipment performance or inability to ensure adequate operations & maintenance (O&M) practices for the solar assets would impact generation and consequently the cash flows. While the performance of the operating capacity remains satisfactory so far, the ability of the company to demonstrate generation in line or above the design PLF levels, on a sustained basis, remains important.

ICRA notes that the company's debt coverage metrics are expected to be comfortable with a projected cumulative debt service coverage ratio (DSCR) of over 1.35x during the debt repayment tenure, supported by the long-term PPAs at attractive tariffs and the long tenure of the project debt at competitive interest rates. However, the debt coverage metrics would remain sensitive to the movement in interest rates as the floating interest rates are subject to resets and the capital structure is leveraged. Also, as the projects are located at customers' premises, the flexibility to change the customers in case of any event of default would be limited, unlike open access-based projects. However, this risk is offset by adequate termination payments under the agreements. In such instances, timely receipt of termination payments from the customers would be critical.

Key rating drivers and their description

Credit strengths

Revenue visibility from long-term PPA – FMSPL has signed long-term PPAs (25-year) for its entire solar power portfolio at fixed tariffs with D Mart, providing revenue visibility and limiting demand and pricing risks. Further, the PPAs include a provision for termination payments, which cover outstanding debt for the asset.

Strong credit profile of customer – FMSPL has tied up the PPAs with Avenue Supermarts Limited and its subsidiary, which has a strong credit profile. This is expected to lead to timely receipt of payments.

Competitive tariff offered by FMSPL – The tariffs offered by the company are at a significant discount to the state grid rates making them highly competitive.

Strengths from parentage – FMSPL is a wholly-owned subsidiary of FPEPL, which has an established track record in the solar power sector. FPEPL is backed by reputed investors with an overall portfolio of 1.9 GWp, comprising an operating capacity of ~1,050 MW and the balance capacity under development. The O&M for FMSPL is being managed by FPEPL.

Comfortable debt coverage metrics and liquidity profile – FMSPL's debt coverage metrics are expected to be comfortable with a cumulative DSCR above 1.35x over the debt tenure, supported by PPAs at attractive rates, long tenure of the debt and competitive interest rates. Also, the liquidity profile of the company is supported by the presence of a DSRA equivalent to one quarter of debt servicing.

Credit challenges

Vulnerability of cash flows to solar radiation – Given the single-part tariff under the PPAs, the revenues and cash flows of the solar power projects under FMSPL remain vulnerable to the actual generation, which is in turn exposed to the variability in solar irradiation and equipment performance. As the track record of operations for majority of the assets is limited, the demonstration of performance in line or above the appraised estimate remains to be seen.

Limited flexibility to change customers in case of a default – The flexibility to change customers remains constrained for the projects under FMSPL as they are in the customers' premises. Nonetheless, comfort can be drawn from the provision for termination payments under the PPAs, which are estimated to cover the outstanding debt. In such instances, the timely receipt of termination payments from the customers would be critical. Also, the company's operations would remain sensitive to any adverse regulatory changes for rooftop projects.

Exposed to interest rate risk - The interest rates on the term loans availed by the company for its projects are floating and subject to annual resets. The company's debt coverage metrics remain exposed to the movement in interest rates, given the fixed nature of the tariffs under the PPAs and the leveraged capital structure.

Liquidity position: Adequate

The liquidity position of FMSPL is expected to be adequate, with sufficient buffer between cash flows from operations and debt repayment obligations. Moreover, the presence of DSRA and timely payments from the customer is expected to support the liquidity profile. The company had cash and liquid investments of Rs. 1.24 crore as on November 08, 2024, including DSRA of Rs. 0.34 crore.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is an improvement in the credit profile of the parent, along with the company's ability to demonstrate generation performance exceeding the appraised estimate, while ensuring timely payments from customers, leading to healthy credit metrics.

Negative factors – Pressure on the rating could arise if the generation performance of FMSPL remains below the appraised estimate on a sustained basis, adversely impacting the debt coverage metrics. Also, delays in payments from counterparties adversely impacting the liquidity profile is a negative trigger. A specific credit metric for downgrade is the cumulative DSCR on the project debt falling below 1.15x. Also, the rating would remain sensitive to the credit profile of its parent, FPEPL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar
Parent/Group support	Parent company: Fourth Partner Energy Private Limited. The rating assigned to FMSPL factors in the implicit support available from FPEPL, in case of any requirement
Consolidation/Standalone	Standalone

About the company

FMSPL, incorporated on July 30, 2021, is a wholly owned subsidiary of FPEPL. The company is engaged in the business of operating rooftop-based solar power plants for Avenue Supermarts Limited (ASL; D Mart). FMSPL rooftop portfolio consists of a total operational capacity of 4.05 MW. The assets are located across 17 districts of Gujarat. The commissioning of these assets started from November 11, 2021, and became fully operational by May 17, 2024. The company has signed long-term PPAs with Avenue Supermarts Limited and its subsidiary.

Key financial indicators (audited)

FMSPL	FY2023	FY2024
Operating income	1.4	2.0
PAT	0.1	0.8
OPBDIT/OI	79.5%	86.7%
PAT/OI	7.3%	38.5%
Total outside liabilities/Tangible net worth (times)	3.4	3.8
Total debt/OPBDIT (times)	5.7	5.8
Interest coverage (times)	2.6	1.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts 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 26, 2024	Date	Rating	Date	Rating	Date	Rating
Long term-term loan-fund based	Long Term	7.49	[ICRA]A- (Positive)	10-NOV-2023	[ICRA]A- (Stable)	-	-	-	-
Long term-unallocated - unallocated	Long Term	0.00		10-NOV-2023	[ICRA]A- (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	**Term loan**	September 2022	-	FY2037	7.49	[ICRA]A- (Positive)

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:

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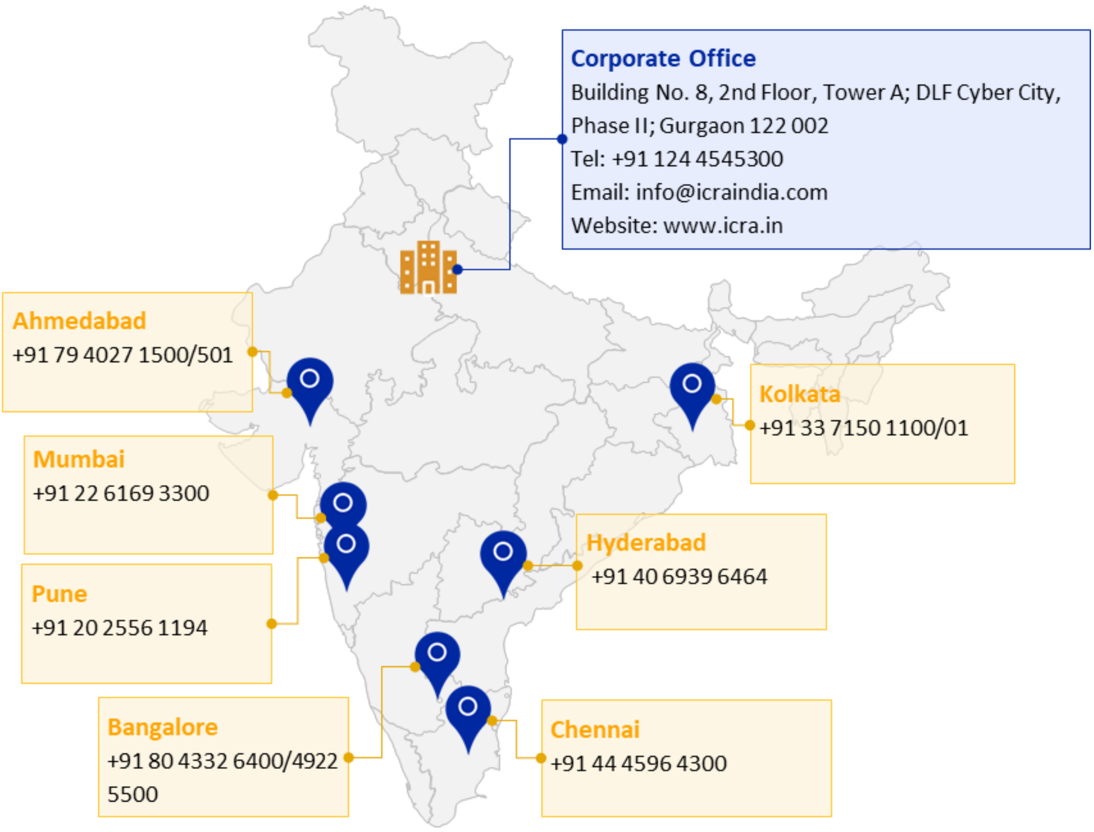

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