November 28, 2024

Serentica Renewables India Private Limited: Ratings reaffirmed and assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Fund-based/ Non-fund based limits	260.00	260.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Long term/Short term - Non-fund based limits	0.00	300.00	[ICRA]AA- (Stable)/[ICRA]A1+; assigned
Long term/Short term – Unallocated limits	240.00	640.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed and assigned for enhanced limits
Total	**500.00**	**1,200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for Serentica Renewables India Private Limited (SRIPL) factors in the presence of long-term power purchase agreements (PPAs) under the captive mode with Vedanta Limited, Hindustan Zinc Limited and Bharat Aluminium Company Limited for its entire renewable power capacity of 3.94 GW at fixed tariffs, providing revenue visibility and limiting offtake and pricing risks. SRIPL had an operational renewable energy (RE) power capacity of 0.65 GW and assets under construction of ~3.3 GW as on November 19, 2024. The entire capacity is expected to be commissioned by June 2025. The portfolio comprises solar capacity of 2.56 GW and wind capacity of 1.38 GW.

Further, the Group has emerged as a winning bidder for ~1 GW of renewable projects under the tenders issued by the Central nodal agencies, for which the PPAs are yet to be signed. This will take the overall Group portfolio to ~5 GW by 2026. The presence of strong counterparties for the 3.94-GW portfolio is expected to result in timely receipt of payments for the company. The tariff rates offered by SRIPL's projects remain competitive for the customers and would enable them to meet their renewable purchase obligation (RPO)/sustainability targets.

ICRA factors in the long tenure of the debt availed by majority of the special purpose vehicles (SPVs) under SRIPL at competitive rates, which is likely to result in healthy debt coverage metrics for the company at a consolidated level. SRIPL is 100% held by Serentica Renewables (Singapore) Private Limited (SRSPL), which is a JV between KKR Group entity and Serentica Renewables Private Limited (SRPL; incorporated in Mauritius), wherein KKR holds the majority shareholding. SRPL is the investment company of the Vedanta Group. The rating positively factors in an experienced management team and the large equity commitment of $ 650 million from KKR, with substantial equity drawn so far. The funding commitment would be adequate to meet the equity requirements for the ongoing projects, including the recently won 1 GW under utility bids.

The ratings are, however, constrained by the exposure to execution risks as the Group has considerable project capacity of 3.33 GW under implementation. The timely completion of the land acquisition, setting up the transmission infrastructure and sourcing the required equipment within the budgeted costs would remain important for the completion of the projects within the scheduled timeline and capital cost. Any delay beyond the scheduled commercial operation date (CoD) timeline of June 2025 could impact the tariff realisation of the SPVs, as the current 100% waiver of inter-state transmission (ISTS) charges for renewable energy projects would be reduced to 75% after June 30, 2025.

Also, the company is exposed to any adverse movement in foreign exchange rates as the PPAs are denominated in US dollar terms. However, this risk is partly mitigated as a portion of the SPV debt towards the projects is either in the form of external commercial borrowings or has a currency hedge in place.

The pending capital expenditure (capex) for the under-construction portfolio under the various SPVs is ~Rs. 12,700 crore (of the total capex of Rs. 25,200 crore) which is expected to be funded through 75-80% debt under the respective SPVs and the remaining through promoter contribution by SRIPL and the offtakers. ICRA takes comfort from the fact that the promoter contribution is fully tied up and on a portfolio basis ~92% of the required project debt has been sanctioned by various lenders (project debt tie-up pending for two projects). The promoter contribution for the projects is largely in the form of convertible/non-convertible debt instruments, which remains subordinated to the project debt at the SPV level. The payment of interest on these instruments is subject to meeting the restricted payment conditions stipulated under the loan agreement and with prior approval from the lenders.

The ratings are also constrained by the vulnerability of the company's cash flows and debt protection metrics to its generation performance. Any adverse variation in weather conditions and module/wind turbine generator (WTG) performance may impact the PLF levels and consequently affect its cash flows as the PPA tariff is single part in nature. A sustained generation performance in line or above the appraised P-90 estimate for the entire capacity remains a key monitorable for the company.

Given the debt equity mix of approximately 78:22 for the projects, SRIPL is expected to have a leveraged capital structure, and the debt coverage metrics would remain exposed to adverse interest rate movements. Any further increase in the consolidated leverage to meet the project funding requirements will remain a key rating sensitivity for the company. The ratings further factor in the risks pertaining to the scheduling and forecasting framework for renewable energy projects and any adverse changes in regulations for group captive projects.

The Stable outlook on SRIPL's rating reflects ICRA's opinion that the company will be able to scale up its operating portfolio by commissioning the underlying projects and the presence of long-term PPAs with strong counterparties for the portfolio.

Key rating drivers and their description

Credit strengths

High revenue visibility and low offtake risks supported by long-term PPAs at fixed tariffs - The presence of long-term PPAs with a tenure of 25 years signed with Vedanta Limited, Hindustan Zinc Limited and Bharat Aluminium Company Ltd for the entire portfolio capacity of 3.94 GW at fixed tariffs provides revenue visibility and mitigates demand and tariff risks. The PPAs include provision for take or pay clause and termination payments.

Presence of PPAs with strong counterparties expected to enable timely payments - The counterparty credit risk for the company is low as 100% of the capacity is tied up with Vedanta Limited {rated [ICRA]AA Rating watch with developing implications/[ICRA]A1+ Rating watch with developing implications}, Hindustan Zinc Limited and Bharat Aluminium Company Ltd which have strong credit profiles. The presence of strong counterparties for the entire portfolio is expected to result in timely receipt of payments for the company.

Superior tariff competitiveness - The PPAs are denominated in US dollars and the tariff offered by the renewable power projects of SRIPL remain competitive from a customer perspective. Further, it would enable the customers to meet their sustainability targets.

Comfort drawn from experienced management team and equity commitments from KKR - The company has a qualified and experienced management team with a track record in developing and operating renewable power projects across the country. Also, it has a large equity commitment of $650 million from KKR, with substantial equity drawn so far. The funding commitment would be adequate to meet the equity requirements for the ongoing projects, including the recently won 1 GW under utility bids.

Debt coverage metrics expected to remain healthy, post commissioning of the entire 3.94-GW portfolio - The company's consolidated debt coverage metrics are expected to remain healthy, with a projected cumulative DSCR of 1.5x on the external debt, considering the P-90 PLF estimate and commissioning of the entire 3.94-GW portfolio. This is supported by the presence of long-term PPAs at adequate tariff rates, the long maturity profile of the project debt and a competitive cost of debt.

Credit challenges

Execution and stabilisation risks from large under-construction portfolio of 3.3-GW - The projects under SRIPL remain exposed to project execution and stabilisation risks as 3.3-GW capacity is under construction. The entire under-construction capacity is scheduled to be operational by June 2025. The timely completion of land acquisition, setting up of the transmission infrastructure and sourcing the required equipment within the budgeted costs would remain important for the completion of the projects within the scheduled timeline and capital cost. After the commissioning of the projects, SRIPL's ability to achieve timely stabilisation of the assets and ensure a satisfactory operational performance in line with the expected PLF level remains important from a credit perspective. Any delay beyond the scheduled CoD timeline could impact the tariff realisation for the SPVs of SRIPL as the current 100% waiver of ISTS charges for renewable energy projects would be reduced to 75% after June 30, 2025.

Exposure to PLF variation and interest rate risk - The debt metrics of solar & wind power projects remain sensitive to the PLF level, given the one-part tariff structure under the PPA. Hence, any adverse variation in weather conditions and/or module/WTG performance may impact the PLF and consequently the cash flows. Moreover, given the single-part tariff for the entire project duration and the leveraged capital structure for the projects under the SPVs, the company's consolidated cash flows and debt metrics remain exposed to interest rate risk.

Exposure to forex risk as tariff is denominated in US dollar - The company is exposed to any adverse movements in foreign exchange rates as the PPAs are in US dollar terms. This risk is partly mitigated as a portion of the SPV debt towards the projects is either in the form of external commercial borrowings or has a currency hedge in place.

Regulatory risks - The Group's operations are exposed to regulatory risks pertaining to the scheduling and forecasting requirements applicable for RE projects, given the intermittent nature of generation. Also, the company remains exposed to adverse changes in regulations related to captive projects.

Liquidity position: Adequate

The company's liquidity position is expected to remain adequate, with the required equity and debt funding for the ongoing renewable projects largely in place. The funding for the projects is being met through project-specific debt and equity commitments from KKR and contribution from group captive customers. While the company does not have any debt at the standalone level, the operating costs are met through the management fee charged to the SPVs. Going forward, the company is expected to undertake EPC work for the subsidiaries, supporting the revenue and profitability at a standalone level. As on November 19, 2024, the company has cash and bank balances of ~Rs. 2,400 crore at a consolidated level and ~Rs. 820 crore at a standalone level.

Rating sensitivities

Positive factors – The ratings can be upgraded based on the commissioning of the under-construction projects without any major time and cost overruns, along with the demonstration of generation performance in line or above the appraised PLF slevel, post commissioning, resulting in strong debt coverage metrics.

Negative factors – The ratings could be downgraded if there are any major time or cost overruns in developing the under-construction projects, thereby adversely impacting the cash flow generation and debt coverage metrics. Further, a material under-performance in generation by the renewable assets, post commissioning, pulling down the cumulative DSCR on the external debt below 1.30 times on a sustained basis, or delays in receiving payments from the offtakers impacting the company's liquidity profile could warrant a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar Power - Wind
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of SRIPL and its subsidiaries [Details in Annexure II]

About the company

SRIPL is 100% held by SRSPL which in turn is a JV between KKR Group entity and Serentica Renewables Private Limited (SRPL; incorporated in Mauritius) wherein KKR holds the majority shareholding. SRPL is the investment company of the Vedanta Group. SRIPL has an operational RE power capacity of 0.65 GW and assets under construction of ~3.33 GW as on November 19, 2024, which will take the overall group portfolio to 3.94 GW by June 2025. The RE portfolio includes solar capacity of 2.56 GWdc and wind capacity of 1.38 GW which is spread across three states - Karnataka, Rajasthan and Maharashtra - in India. Further, the Group recently won ~1 GW of utility projects (PPAs yet to be signed) through Central nodal agency bids which will take the overall group portfolio to ~5 GW by 2026.

Key financial indicators (audited):

Consolidated	FY2023	FY2024
Operating income	-	-
PAT	- 8.3	-24.2
OPBDIT/OI	NM	NM
PAT/OI	NM	NM
Total outside liabilities/Tangible net worth (times)	NM	NM
Total debt/OPBDIT (times)	NM	NM
Interest coverage (times)	NM	NM

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
NM- Not meaningful as majority of its capacity in under construction phase

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 28,2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long term/Short term – Others – Fund-based/ Non-fund based	Long term/ Short term	260.00	[ICRA]AA- (Stable)/ [ICRA]A1+	16-OCT-2024	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-	-	-	-
Long term/Short term – Others - Non-fund based	Long term/ Short term	300.00	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-	-	-	-	-	-
Long term/Short term - Unallocated	Long term/ Short term	640.00	[ICRA]AA- (Stable)/ [ICRA]A1+	16-OCT-2024	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term – Fund-based/Non-fund based limits	Simple
Long term/Short term – Unallocated limits	NA
Long term/Short term – Others – Non-fund based	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	Long term/Short term - Fund based/Non-fund based limits	NA	NA	NA	260.00	[ICRA]AA- (Stable)/[ICRA]A1+
NA	Long term/Short term – Unallocated limits	NA	NA	NA	640.00	[ICRA]AA- (Stable)/[ICRA]A1+
NA	Long term/Short term – Others – Non-fund based	NA	NA	NA	300.00	[ICRA]AA- (Stable)/[ICRA]A1+

Source: Company data, ICRA Research

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

Annexure II: List of entities considered for consolidated analysis -

Company Name	Ownership	Consolidation Approach
Serentica Renewables India Private Limited	100.00% (Holding Company)	Full Consolidation
Serentica Renewables India 1 Private Limited	100%	Full Consolidation
Serentica Renewables India 2 Private Limited	100%	Full Consolidation
Serentica Renewables India 3 Private Limited	80%	Full Consolidation
Serentica Renewables India 4 Private Limited	51%	Full Consolidation
Serentica Renewables India 5 Private Limited	51%	Full Consolidation
Serentica Renewables India 6 Private Limited	100%	Full Consolidation
Serentica Renewables India 7 Private Limited	100%	Full Consolidation
Serentica Renewables India 8 Private Limited	100%	Full Consolidation
Serentica Renewables India 9 Private Limited	100%	Full Consolidation
Serentica Renewables India 10 Private Limited*	-	-
Serentica Renewables India 11 Private Limited*	-	-
Serentica Renewables India 12 Private Limited	100%	Full Consolidation
Serentica Renewables India 13 Private Limited	100%	Full Consolidation
Serentica Renewables India 14 Private Limited	100%	Full Consolidation
Serentica Renewables India 15 Private Limited	100%	Full Consolidation
Serentica Renewables India 16 Private Limited	100%	Full Consolidation
Serentica Renewables India 17 Private Limited	100%	Full Consolidation
Serentica Renewables India 18 Private Limited	100%	Full Consolidation

*Source: Company; *Subsidiary till January 08, 2024*

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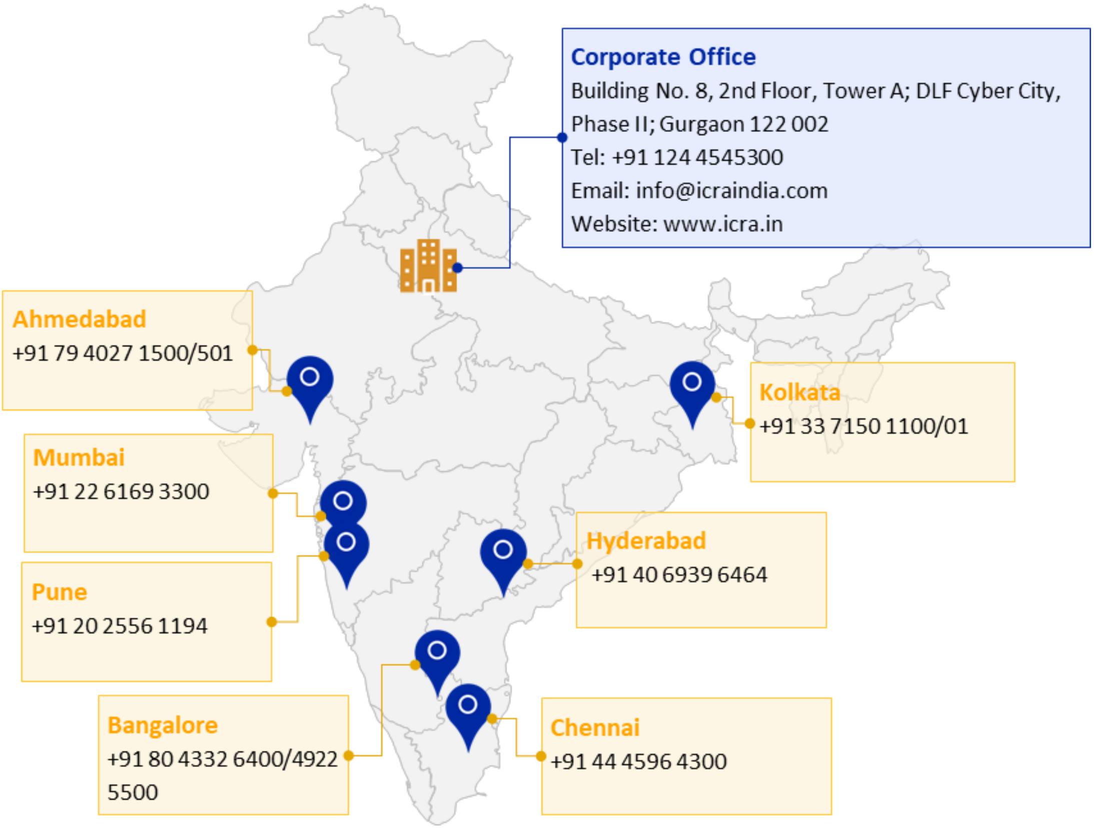

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