December 05, 2024

# FPEL Evergreen Energy 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 |
|---|---|---|---|
| **Long-term fund-based – Term loan** | 94.61 | 94.61 | [ICRA]A- (Positive); reaffirmed; outlook revised to Positive from Stable |
| **Long-term – Unallocated** | 15.23 | 15.23 | [ICRA]A- (Positive); reaffirmed; outlook revised to Positive from Stable |
| **Total** | **109.84** | **109.84** | |

**Instrument details are provided in Annexure-I*

## Rationale

The revision in the outlook to Positive from Stable on FPEL Evergreen Energy Private Limited's (FPEPL) 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 FEEPL will benefit from the management and financial support from its parent, in case of any requirement.

Further, ICRA takes note of the benefits available to FEEPL from being part of a cash pooling mechanism and the cross-default linkages with another special purpose vehicle (SPV) – FP Zeus Private Limited (FPZPL) - of the Fourth Partner Group, wherein surplus cash in either of the SPVs can be used to meet the shortfall in debt servicing of the other SPV. Both SPVs operate onsite rooftop solar power projects, aggregating to ~40.90 MWp spread across various states in India.

The rating favourably factors in the limited demand risk for FEEPL's rooftop and onsite project portfolio due to the long-term power purchase agreements (PPA) signed with reputed commercial and industrial (C&I) customers for its entire capacity. The tenures of these PPAs vary from 15 to 25 years across projects and the tariffs under the PPAs remain competitive from the perspective of the customers. ICRA takes note of the satisfactory credit profile of the customers, thereby limiting the counterparty credit risk. Further, ICRA notes that the company's debt coverage metrics are expected to be adequate with a projected cumulative DSCR of over 1.3x over the debt repayment tenure, supported by the long-term PPAs and the long tenure of the project debt.

However, the rating is constrained by the sensitivity of the company's cash flows and debt protection metrics to its generation performance, given the single-part tariff under the PPAs. Any adverse variation in weather conditions and module performance can impact the generation levels and consequently the cash flows. While the generation risk is partially mitigated by the geographic diversity of the assets across multiple locations, ensuring effective O&M of the small-sized solar assets at multiple locations remains important. Given the limited operational track record of the recently commissioned assets with majority of the capacity being operational for less than 24 months, the demonstration of generation performance in line or above the appraised P-90 PLF levels remains a key credit monitorable.

ICRA also notes that FEEPL's debt coverage metrics remain exposed to the interest rate movement as the floating interest rates are subject to resets and a leveraged capital structure. The rating also factors in the risk of cash flow mismatch as the lock-in period of 3-5 years under the PPAs is lower than the debt repayment tenure of 16.8 years. As the projects are in the customer premises, the flexibility to change the customers in case of any default would be limited, unlike open access-based projects. However, this risk is offset by adequate termination payments under the PPAs. In such instances, the timely receipt of termination payments from the customers would be critical.

## Key rating drivers and their description

### Credit strengths

**Strong financial flexibility and operational strengths by virtue of parentage** - FEEPL is a wholly owned subsidiary of FPEPL, which has an established track record in the renewable energy sector with an operating portfolio of ~1,050 MW as of September 2024. FPEPL is backed by strong sponsors which provides strong financial flexibility to the Group in securing equity and debt funding. FPEPL is expected to support FPPL in case of any cash flow mismatch.

**Revenue visibility due to long-term PPAs** - FEEPL has signed long-term PPAs covering the entire capacity with multiple C&I customers. The PPA tenors across the projects range from 15-25 years at competitive tariffs, thereby limiting the demand and tariff risks for the entire capacity.

**Diversified customer base with satisfactory credit profile** – The PPAs with customers having satisfactory credit profiles mitigate the counterparty risk to an extent. Although the payment track record varies across operational projects, the company has been receiving payments from its customers in a timely manner since commissioning. Nonetheless, timely payments over a longer period remains a key monitorable.

**Adequate debt coverage metrics** – The company's debt coverage metrics are expected to be adequate with a projected cumulative DSCR of over 1.3x over the debt repayment tenure, supported by the long-term PPAs at reasonable tariffs and the long tenure of project debt.

### Credit challenges

**Sensitivity of debt metrics to energy generation –** The cash flows of the company would be linked to the generation achieved by its solar power projects, given the single-part tariff under the PPAs. The generation would be sensitive to weather conditions, equipment quality and O&M practices. While comfort can be drawn from the diversification in the asset base, the overall generation performance since commissioning has been below the P-90 PLF estimate owing to the initial stabilisation period for the recently commissioned assets. The demonstration of generation performance in line or above the appraised P-90 PLF levels remains a key credit monitorable, given the limited operational track record of the recently commissioned assets.

**Risk of cash flow mismatch owing to lower lock-in period in PPAs in relation to debt tenure & limited flexibility to change customers** – The lock-in period in the PPAs varies from 3-5 years across assets. This could lead to the risk of cash flow mismatch as the debt repayment tenure is 16.8 years. Moreover, the flexibility to change customers remains limited for these projects as these are in the customer premises. Nonetheless, comfort can be drawn from the provision for termination payments under the PPAs, which are estimated to cover for the debt outstanding.

**Exposure to interest rate movement –** The company's capital structure remains highly leveraged with a major portion of the cost funded through debt. As a result, the company's debt coverage metrics remain exposed to any movement in interest rate, given the floating interest rates.

## Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate with the expected cash flow from operations along with the available free cash balances and DSRA sufficient to service the debt obligations. As on October 31, 2024, the company has a cash balance of Rs. 6.5 crore and DSRA balance of Rs. 6.6 crore.

## Rating sensitivities

**Positive factors –** ICRA could upgrade FEEPL's rating in case of a demonstrated track record of generation performance in line or above the P-90 PLF estimate on a sustained basis and timely payments from the offtakers, resulting in healthy credit metrics. The rating will also remain sensitive to the credit profile of the parent, i.e. Fourth Partner Energy Private Limited.

**Negative factors –** The rating could be downgraded in case of a significant underperformance in generation, adversely impacting the cash accruals. Specific credit metrics for downgrade include the cumulative DSCR on the project debt falling below 1.15 times. Further, any significant delays in receiving payments from the customers adversely impacting the liquidity profile of the company would be a negative trigger. The rating will also remain sensitive to the credit profile of the parent, i.e. Fourth Partner Energy Private Limited.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Power - Solar |
| **Parent/Group support** | The rating assigned factors in the presence of cash surplus sharing and cross-default linkages between the two SPVs of the group, namely FPEL Evergreen Energy Private Limited (FEEPL) and FP Zeus Private Limited (FPZPL).<br>Also, the rating factors in the implicit support from the ultimate holding company, FPEPL, with support expected to be forthcoming in case of any cash flow mismatch.<br>The rating for FEEPL has been arrived at by following the analytical steps:<br>1. An assessment of the standalone credit profile of FEEPL<br>2. An assessment of the Group's credit profile by undertaking a consolidated assessment of the two SPVs in view of the linkages between them, and then further notching up the Group's rating based on expectations of implicit support from the holding company, FPEPL<br>3. The final rating of FEEPL is arrived at by suitably notching up the standalone rating after duly considering the Group's rating and the linkages between the standalone entity and the Group |
| **Consolidation/Standalone** | The rating is based on the standalone financial profile of the rated entity |

## About the company

FEEPL is a special purpose vehicle (SPV) promoted by FPEPL, incorporated in April 2021, to set up rooftop/onsite ground solar power projects with an aggregate capacity of 29.19 MWp. All the projects have PPAs with reputed C&I customers with the tenor varying from 15-25 years and tariffs ranging from Rs 3.25 – 6.10 /kWh spread across various states of India. The O&M contract for the projects is in place with FPEPL.

### Key financial indicators (Audited)

| FEEPL Standalone | FY2023 | FY2024 |
|---|---|---|
| **Operating income** | 8.2 | 13.4 |
| **PAT** | -0.7 | -2.9 |
| **OPBDIT/OI** | 84.4% | 76.2% |
| **PAT/OI** | -8.2% | -21.9% |
| **Total outside liabilities/Tangible net worth (times)** | 7.2 | 7.8 |
| **Total debt/OPBDIT (times)** | 9.2 | 9.8 |
| **Interest coverage (times)** | 1.4 | 2.6 |

*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) | Dec 05, 2024 | Date | Rating | Date | Rating | Date | Rating |
| **Long term-unallocated-unallocated** | Long Term | 15.23 | [ICRA]A- (Positive) | 31-JAN-2024 | [ICRA]A- (Stable) | - | - | - | - |
| **Long term-term loan-fund based** | Long Term | 94.61 | [ICRA]A- (Positive) | 31-JAN-2024 | [ICRA]A- (Stable) | 16-DEC-2022 | [ICRA]A- (Stable) | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term – Fund-based – Term loan** | Simple |
| **Long-term – Unallocated** | Not Applicable |

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 – I** | Mar 2022 | - | Mar 2038 | 47.81 | [ICRA]A- (Positive) |
| **NA** | **Term loan – II** | May 2023 | - | Mar 2040 | 46.80 | [ICRA]A- (Positive) |
| **NA** | **Unallocated** | NA | NA | NA | 15.23 | [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

## ANALYST CONTACTS

**Girishkumar Kadam**
+91 22 6114 3441
girishkumar@icraindia.com

**Vikram V**
+91 40 4067 6518
vikram.v@icraindia.com

**Rachit Mehta**
+91 22 6169 3328
rachit.mehta2@icraindia.com

**Saurabh Gupta**
+91 22 6169 3359
saurabh.gupta@icraindia.com

**Arnav Gandhi**
+91 22 6169 3352
arnav.gandhi@icraindia.com

## RELATIONSHIP CONTACT

**L. Shivakumar**
+91 22 6114 3406
shivakumar@icraindia.com

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

## ICRA Limited

### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

### Branches