December 05, 2024

FPEL Beat Energy Pvt. Ltd.: 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	22.73	22.73	[ICRA]A- (Positive); reaffirmed; outlook revised to Positive from Stable
Total	**22.73**	**22.73**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook to Positive from Stable on FPEL Beat Energy Pvt. Ltd's (FBEPL) long–term rating follows the change in the 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 FBEPL will benefit from the management and financial support from its parent, which has an established track record in the renewable energy sector, in case of any requirement.

The rating continues to take comfort from the cash pooling mechanism available to FBEPL with six other fellow subsidiaries – FP Crysta Energy Pvt. Ltd., FPEL Sunrise Pvt. Ltd., FPEL Flash Energy Private Limited, FPEL Surya Pvt. Ltd., FP Eco Energy Pvt. Ltd. and FPEL Radiant Energy Pvt. Ltd. wherein any shortfall in debt servicing for FBEPL can be met through the cash surplus available with the other six special purpose vehicles (SPVs). Further, the seven SPVs have cross-default linkages with the parent, under the terms of the debt. The seven SPVs together have set up 63.2-MW wind-solar hybrid power capacity at Gondal in Gujarat, with PPAs tied up with multiple industrial customers. The projects of all the SPVs were commissioned in June 2023 and their generation performance has been satisfactory, post commissioning, resulting in adequate debt coverage metrics.

The rating continues to factor in the limited demand and tariff risks resulting from the presence of a long-term power purchase agreement (PPA) for 25 years with an industrial customer for its hybrid project of 5.0 MW at a fixed tariff under the captive mode. The tariff offered by the company is at a significant discount to the state grid tariff rates and would enable the customer to meet its renewable purchase/sustainability targets. The offtaker has a satisfactory credit profile, which has largely resulted in timely receipt of payments. Further, given the long term PPA at a reasonable tariff and the long tenure of the project debt, the debt coverage metrics are expected to be satisfactory with a cumulative debt service coverage ratio (DSCR) of over 1.2x.

The rating is, however, constrained by the sensitivity of generation to solar irradiation levels and wind power density along with equipment performance as the revenues are linked to the actual units generated, in view of the single-part tariff structure in the PPA. Any adverse variation in weather conditions and equipment performance can impact the generation levels and consequently the cash flows. The demonstration of generation performance in line or above the P-90 PLF levels on a sustained basis remains a key credit monitorable.

ICRA also notes that FBEPL's debt coverage metrics remain exposed to the interest rate movement, as the floating interest rates are subject to regular resets. The rating also factors in the risk of cash flow mismatch as the lock-in period of 15 years under the PPA is lower than the debt repayment tenure of 20 years. Also, the termination payments during the lock-in period would not cover for the entire debt outstanding. Nonetheless, comfort can be drawn from the highly competitive tariffs offered by the company to its customers against the HT industrial grid tariff and the track record of the sponsor in securing PPAs with large industrial and commercial customers. Further, the lender has the option to exercise cash sweep, wherein the surplus cash can be utilised to prepay the debt, thereby reducing the effective debt repayment tenure.

Further, the company's operations remain exposed to regulatory risks associated with forecasting & scheduling regulations, norms for captive projects and open access charges. While an increase in the open access charges or imposition of new charges would be borne by the offtaker under the terms of the PPA, this would impact the competitiveness of the tariff offered under the PPA and in turn the savings to the customer.

Key rating drivers and their description

Credit strengths

Cash pooling with fellow subsidiaries; operational and financial strengths by virtue of parentage - FBEPL is a subsidiary of FPEPL, which has an established track record in the renewable energy sector. FPEPL is backed by strong sponsors, which provides financial flexibility to the Group in securing equity and debt funding. FPEPL is expected to support FBEPL in case of any cash flow mismatch. Further, comfort is drawn from the cash pooling mechanism available with six fellow group subsidiaries in the Gondal project, under the terms of the project debt, wherein any shortfall in debt servicing for FBEPL can be met through the cash surplus available with the other SPVs in the pool.

Revenue visibility from long-term PPA at highly competitive tariff – FBEPL has signed a long-term PPA covering the entire capacity. The PPA tenor for the project is 25 years at a competitive tariff with a lock-in period of 15 years, thereby the limiting demand and tariff risks for the entire capacity.

Comfortable financial profile of customer – The payments from the customer have been largely timely, post commissioning, considering its satisfactory financial profile and the significant discount offered by the company through its tariff against the grid tariff for industrial customers. Also, the sourcing of power from FBEPL enables the customer to make progress in its sustainability initiatives.

Satisfactory debt coverage metrics – The company's debt coverage metrics are expected to be adequate with a projected cumulative DSCR of over 1.2x over the debt repayment tenure, supported by the long-term PPA at reasonable tariffs and the long tenure of the project debt.

Credit challenges

Vulnerability of debt coverage metrics to energy generation - The company's cash flows would be linked to the generation achieved by its solar-wind hybrid power project, given the single-part tariff under the PPA. The generation would be sensitive to weather conditions, equipment quality and O&M practices. The geographic concentration of the assets amplifies the generation risk. While comfort is drawn from the satisfactory performance, post commissioning in June 2023, a sustainable demonstration of generation performance in line or above the appraised P-90 PLF level remains a key credit monitorable.

Risk of cash flow mismatch owing to lower lock-in period under PPA in relation to debt tenure - The lock-in period under the PPA signed by FBEPL is 15 years, lower than the debt repayment tenure of 20 years, which could lead to the risk of cash flow mismatch. Also, the termination payments under the PPA do not fully cover for the debt outstanding. Nonetheless, comfort can be drawn from the highly competitive tariffs offered by the company to its customers against the HT industrial grid tariff, the track record of the sponsor in securing PPAs with large industrial and commercial customers and the notice period available at the time of PPA termination to enable the company to replace the customers. Further, the lender has the option to exercise cash sweep, wherein the surplus cash can be utilised to prepay the debt, thereby reducing the effective debt repayment tenure.

Interest rate risk and regulatory risks - The company's debt coverage metrics remain exposed to any movement in interest rate, given that the floating interest rates are subject to regular resets, and a leveraged capital structure. Further, the company's operations are exposed to regulatory risks pertaining to the scheduling and forecasting requirements of solar and wind power projects. Also, the company remains exposed to regulations related to captive power projects and the adverse variation in open access charges, which could impact the competitiveness of the tariff offered.

Liquidity position: Adequate

FBEPL's liquidity is adequate, aided by DSRA and timely payments from its customer. The revenue from the project is expected to adequately meet the debt servicing requirement and operational expenses. In addition to the DSRA of Rs. 1.74 crore, the cash and bank balance stood at Rs. 0.29 crore as on November 19, 2024. The liquidity is further supported by the cash pooling mechanism available with six other SPVs and the presence of a strong parent, FPEPL, which is expected to provide support to the company, if required.

Rating sensitivities

Positive factors – ICRA could upgrade the company's rating if it demonstrates a satisfactory generation performance above the P-90 estimates, along with timely payments by the customer, leading to an improvement in the debt coverage metrics. Further, an improvement in the credit profile of the parent, FPEPL, would be a positive trigger.

Negative factors – Pressure on the rating would arise if underperformance in generation by its solar & wind power projects weakens the cumulative DSCR for the project debt to less than 1.15 times on a sustained basis. Also, any delays in payments by the customer adversely impacting the liquidity position of the company would be a negative trigger. The rating will also remain sensitive to the credit profile of the parent (FPEPL) and the credit profile of the other SPVs of the pool.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar Power - Wind
Parent/Group support	ICRA has consolidated the financials of the seven SPVs - FP Crysta Energy Pvt. Ltd., FPEL Radiant Energy Pvt. Ltd., FPEL Sunrise Pvt. Ltd., FP Eco Energy Pvt. Ltd., FPEL Surya Energy Pvt. Ltd., FPEL Beat Energy Pvt. Ltd. and FPEL Flash Energy Private Limited. - to arrive at the notional group rating, after factoring in the support available from the parent, FPEPL. The notional group rating is used to notch up the individual SPV ratings, factoring in implicit support, given the expected fungibility of surplus cash among the SPVs
Consolidation/Standalone	The rating is based on the standalone financial profile of the rated entity

About the company

FBEPL is an SPV promoted by FPEPL. It was incorporated in May 2022 to set up a wind-solar hybrid power project at Gondal in Gujarat under the group captive mode. It has total capacity of 5.0 MW with a solar capacity of 2.3 MWp and wind capacity of 2.7 MW. As per the group captive norms, the offtaker has a 28.11% of shareholding in the company. The project got commissioned in June 2023.

Key financial indicators (audited)

	FY2024
Operating income	3.5
PAT	-0.6
OPBDIT/OI	90.4%
PAT/OI	-17.7%
Total outside liabilities/Tangible net worth (times)	5.8
Total debt/OPBDIT (times)	10.3
Interest coverage (times)	1.2

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

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years							
	Type	Amount Rated (Rs Crore)	Dec 05, 2024	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loans			[ICRA]A- (Positive)		[ICRA]A- (Stable)		[ICRA]BBB+ (Positive)		-		

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**	Sept 2022	-	Mar 2044	22.73	[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:

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.

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