December 05, 2024

Huoban Energy 9 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	24.25	24.25	[ICRA]A- (Positive); Reaffirmed and outlook revised to Positive from Stable
Total	**24.25**	**24.25**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook to Positive from Stable on Huoban Energy 9 Private Limited (Huoban 9) 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 has changed the rating approach to assessment of standalone credit profile of the entity with rating upliftment on the basis of support expected from its parent, in case of any requirement. Huoban 9 will benefit from strong operational and financial linkages with the ultimate parent -Fourth Partner Energy Private Limited which is also the engineering, procurement and construction (EPC) and operations and maintenance (O&M) contractor.

The rating also takes into account the satisfactory generation performance in FY2024 and H1FY2025 of the 6.66 MWp solar power project developed by Huoban 9 in Maharashtra. The rating is supported by minimal offtake and counterparty credit risk for the project as the entire generation capacity is tied up with a credit-worthy offtaker under a 25-year long-term power purchase agreement (PPA).

Additionally, the tariff competitiveness for the project remains superior with the company offering significant discount to the offtaker compared to the prevailing grid tariff. The project economics/debt service coverage metrics also remain satisfactory, aided by the long-tenured debt at an attractive interest rate. The project has been developed under a captive arrangement which insulates the company from the levy of cross-subsidy and additional surcharges.

ICRA notes that Huoban 9 - along with Huoban Energy 5 Private Limited, Huoban Energy 6 Private Limited, Huoban Energy 10 Private Limited, Huoban Energy 8 Private Limited, Huoban Energy 11 Private Limited and FP West Solar Private Limited – are part of a cash surplus pooling arrangement for which the intercompany agreement has been signed.

The standalone credit profile of the company is, however, constrained by the sensitivity of the cash flows and debt protection metrics to its generation performance, given the single-part tariff under the PPA. Any adverse variation in weather conditions and module performance may impact the PLF levels and consequently the cash flows. This is amplified by the geographic concentration of the asset as the entire capacity is in Maharashtra. The ability of the company to demonstrate generation in line with or above the design PLF levels on a sustained basis remains important.

Further, the company’s operations remain exposed to the regulatory risks associated with any changes in forecasting & scheduling regulations, captive project norms and open access charges. Any significant increase in open access charges or imposition of new charges would impact the competitiveness of the tariff offered under the PPA.

Key rating drivers and their description

Credit strengths

Revenue visibility with moderate counterparty - The company has tied up a long-term PPA (25-year) for its entire 6.66-MWp capacity at a fixed tariff with reputed commercial and industrial customer.

Superior tariff competitiveness – The PPA tariff offered by the company is at a significant discount to the state grid tariff rates, which enables the customer to realise significant savings. In addition, while the state grid tariffs are expected to show an inflationary trend, the tariff of the project is fixed and therefore expected to remain competitive over the project term.

Satisfactory debt coverage metrics - The company's debt coverage metrics are expected to remain comfortable with a cumulative DSCR of above 1.20x over the debt repayment tenure, supported by the long-term PPA at a remunerative tariff, the long tenure of the project debt and competitive interest rates.

Credit challenges

Limited track record of project performance - The project was commissioned in March 2023 and thus has a limited track record. The performance, going forward, will remain a key monitorable.

Cash flows exposed to risk of irradiance levels and interest rate environment - The power production and thus the cash flow generation for the solar power projects remain exposed to the irradiance levels. While the company does not have control over weather-related factors, the cash flows will face headwinds in a scenario of lower-than-expected irradiance because of the one-part nature of the tariff. The cash flows would also remain susceptible to the changes in interest rates for the loan contracted by the entity as the tariff is fixed in nature and the interest rates on the term loans are variable.

Liquidity position: Adequate

The company's liquidity profile is expected to remain adequate with significant buffer between the cash flows from the project and debt servicing obligations, supported by a satisfactory generation performance and timely realisation of payments. The liquidity is further by supported by free cash & bank balances of Rs. 0.73 crore, and a debt service reserve account (DSRA) of Rs. 1.48 crore as on November 20, 2024.

Rating sensitivities

Positive factors – ICRA could upgrade Huoban 9's rating if the actual generation level is higher than the P-90 estimate on a sustained basis, leading to an improvement in the credit metrics of the company. Also, the rating would remain sensitive to the credit profile of its ultimate parent, FPEPL.

Negative factors – Pressure on Huoban 9's rating could arise if the actual PLF remains lower than the P-90 estimate on a sustained basis, and/or the company is unable to maintain a cumulative DSCR of 1.15x on a sustained basis. Also, any weakening of the liquidity profile or the debt coverage metrics of the pool would be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power -Solar
Parent/Group support	Parent/Group Company: Fourth Partner Energy Private Limited. The rating assigned to the company factors in the high likelihood of its parent extending extraordinary financial support to it because of the close business linkages between them
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Huoban Energy 9 Private Limited (Huoban 9) is a subsidiary of Huoban Private Limited, which is a wholly-owned subsidiary of Fourth Partner Energy Private Limited. Huoban 9 has set up a 6.66-MW ground mounted solar power plant at Dhule, Maharashtra, under the group captive model, which was commissioned on March 31, 2023. The offtaker has signed a 25-year power purchase agreement (PPA) at a fixed tariff.

Key financial indicators (audited)

Huoban 9	FY2023	FY2024
Operating income	-	3.3
PAT	-0.1	0.8
OPBDIT/OI	-	82.4%
PAT/OI	-	25.4%
Total outside liabilities/Tangible net worth (times)	10.8	3.6
Total debt/OPBDIT (times)	NM	9.4
Interest coverage (times)	NM	5.9

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 project commenced operations in FY23 end.

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	Date	Rating
Long term-term loan-fund based	Long Term	24.25	[ICRA]A- (Positive)	06-MAY-2024	[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**	FY24	NA	FY43	24.25	[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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