

December 05, 2024

Huoban Energy 3 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	13.00	13.00	[ICRA]A- (Positive); reaffirmed and Outlook revised to Positive from Stable
Total	13.00	13.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook to Positive from Stable on Huoban Energy 3 Private Limited (Huoban 3) 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 Huoban 3 will benefit from strong operational and financial linkages with the ultimate parent - FPEPL which is also the engineering, procurement and construction (EPC) and operations and maintenance (O&M) contractor for the 4-MWp solar power project developed by the company in September 2022. Further, ICRA draws comfort from the financial flexibility arising from the company's parentage and the expected financial support from FPEPL, when required.

The rating factors in the satisfactory generation performance in FY2024 and H1FY2025 with limited demand risks due to the long-term power purchase agreement (PPA) with a creditworthy offtaker for a period of 25 years as well as the low regulatory risks as the project has been developed under the captive mode. The rating also considers the timely collections from the counterparty and the competitive PPA tariff which is at a significant discount to the state grid tariff rates. Further, comfort is drawn from the company's debt coverage metrics that are expected to remain comfortable over the debt repayment tenure.

The rating 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. The debt coverage metrics shall remain susceptible to the increase in interest rate over the life of project debt.

Key rating drivers and their description

Credit strengths

Strong financial flexibility and operational strengths by virtue of parentage – Huoban 3 is a subsidiary of Huoban Private Limited, which is a wholly-owned subsidiary of FPEPL that has an established track record in the solar power sector. FPEPL is

backed by strong sponsors which provides financial flexibility to the Group in securing equity and debt funding. In addition, ICRA expects FPEPL to extend support to the company in the event of any cash flow mismatches due to reduced generation or collections.

Competitive tariff at a discount to grid tariff – 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 is therefore expected to remain competitive over the project term.

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

Credit challenges

Limited track record of project performance - The project was commissioned in September 2022 and, thus, has a track record of less than three years till June 2024. The performance, going forward, will remain a key monitorable.

Counterparty credit risk from single offtaker - The company has tied up a long-term PPA (25-year) for the entire 4-MWp capacity at a fixed tariff with an industrial consumer located in Maharashtra and hence remains exposed to delays in payments by the offtaker on account of payment issues/disputes/deterioration in credit profile. Hence, the credit profile of the counterparty will continue to be a 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 remains 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.

Unfavourable changes in regulations may pose risks to cashflows - The solar power project has been set up under the captive model wherein the power produced by the company is exempt from the levy of cross-subsidy surcharge/additional surcharge. Given such exemptions, the current landed tariff for the offtaker remains competitive against the grid tariff. However, the tariff remains exposed to regulatory changes which may result in such charges being levied, going forward. While the provisions of the PPA ensure the pass-through of the charges to the offtaker, the competitiveness of the project's tariff vis-à-vis the grid tariff will moderate. It may result in a renegotiation of the tariff, post the expiry of the lock-in period.

Liquidity position: Adequate

The liquidity is expected to remain adequate, aided by positive cash flow from operations. The long-term PPA at a fixed rate for the solar power project and expectation of timely receipt of payments from the customer on the back of its good credit profile is expected to ensure a steady cash flow. The liquidity is further supported by free cash & bank balances of Rs. 1.09 crore, and a debt service reserve account (DSRA) of Rs. 1.24 crore as on November 20, 2024.

Rating sensitivities

Positive factors – ICRA could upgrade Huoban 3 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 for the company. Also, the rating would remain sensitive to the credit profile of its ultimate parent, FPEPL.

Negative factors – Pressure on Huoban 3 rating could arise if the actual PLF remains lower than the P-90 level on a sustained basis, and/or the company is unable to maintain a cumulative DSCR of 1.15x on a sustained basis. The rating could also be

revised downwards if the linkages with the parent weaken, and/or the credit profile of its ultimate parent i.e., FPEPL, deteriorates.

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 Huoban 3 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 3 is an SPV of Huoban Pvt. Ltd., which in turn is a wholly-owned subsidiary of FPEPL. The company was incorporated in July 2021 to set up a 4-MWp (DC) solar power project at Dhule, Maharashtra. The project was commissioned on September 30, 2022, with a long-term PPA for 25 years signed with reputed customer, which is also the offtaker for the entire capacity. To comply with the captive regulations, the customer has subscribed to the shareholding of the company.

Key financial indicators (audited)

Huoban 3	FY2023	FY2024
Operating income	1.1	2.3
PAT	-0.4	-0.6
OPBDIT/OI	62.9%	82.5%
PAT/OI	-36.0%	-27.1%
Total outside liabilities/Tangible net worth (times)	14.8	27.9
Total debt/OPBDIT (times)	25.2	9.2
Interest coverage (times)	0.9	1.1

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	Date	Rating
Long term-term loan-fund based	Long Term	13.00	[ICRA]A-(Positive)	24-SEP-2024	[ICRA]A-(Stable)	14-JUN-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	Long-term fund-based – Term loan	March 2023	NA	June 2040	13.0	[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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