January 03, 2025

Zenataris Renewable Energy Private Limited: [ICRA]BBB+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	1,436.00	[ICRA]BBB+ (Stable); assigned
Total	**1,436.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating factors in the limited demand and tariff risks for the 231.7-MWac (Solar:103-MWac/ 155-MWdc, Wind: 128.7-MWac) renewable power project of Zenataris Renewable Energy Private Limited (ZREPL) because of the long-term power purchase agreements (PPAs) for the entire capacity at fixed tariffs under the group captive mode with reputed commercial and industrial (C&I) customers. The entire capacity is being constructed under two phases (Phase – I: 66-MWac wind capacity, Phase – II: 62.7-MWac wind capacity and 103-MWac solar capacity). The rating draws comfort from the presence of strong counterparties which is expected to result in timely receipt of payments for the company. These factors, along with the tariff competitiveness of the project, mitigate the counterparty credit risk for the company.

The rating also factors in the expected managerial and financial support from the parent – Fourth Partner Energy Private Limited (FPEPL; rated [ICRA]A-(Positive)/[ICRA]A2+) - in case of any requirement. FPEPL has an established track record in developing renewable energy power projects. As of September 2024, FPEPL has a total up-capacity (operating & under construction) of 1.9 GWp under various SPVs, of which 1,050-MWp (solar –923 MWp & wind –127 MW) has been commissioned and the balance capacity is under various stages of development. These projects are developed under the distributed and open access mechanisms. FPEPL is currently backed by Norfund and the RISE Fund (TPG), who have infused an aggregate equity of Rs. 1,597 crore till date. Further, FPEPL has recently secured $275-million equity funding from the International Finance Corporation (IFC), Asian Development Bank (ADB) and Deutsche Investitions-und Entwicklungsgesellschaft (DEG, a subsidiary of KfW Group) consortium.

Further, the rating considers the modest funding risk for the project (Phase 1 and Phase 2) as the entire debt funding (Rs. 1,436.0 crore) has been tied up with a long maturity profile and with ~76% of the required promoter contribution (including off-takers contribution) infused till date. Post commissioning, the company's debt coverage metrics are expected to be adequate with the cumulative debt service coverage ratio (DSCR) at ~1.2x over the debt tenure, supported by the long-term PPAs, the long tenure of the debt and a competitive interest rate.

The rating is, however, constrained by the moderate execution risks, given the under-construction status of the project with delay in commissioning of both the phases. The delay in commissioning is primarily on account of heavy monsoon rains in 2024 impacting construction activity and delay in the receipt of some approvals from relevant authorities. ICRA notes the completion of wind turbine generator (WTG) installation for phase-I along with the advance progress in the construction of the transmission line, pooling substation and bay extension work at the grid substation. Phase-I is now expected to be operational from March 2025. Further, Phase-II is expected to be operational from September 2025 with 84% of the land acquisition complete and WTG/solar module installation currently under progress. Hence, a timely completion of the pending land acquisition for Phase-II, installation/construction work for both phases and receipt of the pending approvals remain important from a credit perspective. ICRA notes that the termination penalty under the PPAs remain relatively low in case of event of default. Nonetheless, comfort can be drawn from the strong counterparties and competitive tariff offered by the company.

The rating is also constrained by the vulnerability of the company's cash flows and debt protection metrics to its generation performance, post commissioning. Any adverse variation in weather conditions and module/WTG performance may impact the PLF levels and consequently affect the company's cash flows, given the single-part fixed tariff under the PPAs. Additionally, the company remains exposed to asset concentration risk as the entire capacity is located at a single site in Kudligi, Karnataka.

Therefore, the ability of the project to achieve the design P-90 PLF, post commissioning, on a sustained basis remains crucial from a credit perspective.

Further, the project credit metrics would remain exposed to the movement in interest rates, given the fixed tariff under the PPA, a leveraged capital structure with the project cost being funded through debt to equity of ~75:25 and a floating interest rate. Further, the company's operations remain exposed to the regulatory risks associated with forecasting & scheduling regulations and norms for captive projects and open access charges. Any significant increase in the open access charges or imposition of new charges would impact the competitiveness of the tariff offered under the PPAs.

The Stable outlook assigned to the long-term rating of the company factors in the expected commissioning of the project as per the revised timelines, supported by the long-term PPAs with strong counterparties, thereby providing revenue visibility, post commissioning.

Key rating drivers and their description

Credit strengths

Strong financial flexibility and operational strengths by virtue of parentage - ZREPL is a subsidiary of FPEPL that 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. In addition, ICRA expects FPEPL to extend support to the company in the event of any cash flow mismatch.

Revenue visibility from long-term PPAs at competitive tariffs - ZREPL has signed long-term (25-year) PPAs with C&I consumers for the entire capacity under group captive regulations at a competitive fixed tariff, providing high revenue visibility and ensuring low offtake risks. The tariff offered by the project remains competitive, which is at a good discount to the state grid tariff.

Strong credit profile of customers - The rating draws comfort from the presence of strong counterparties which is expected to result in timely receipt of payments for the company. Further, the PPAs have a lock in period of 15-20 years, which provides additional comfort.

Adequate debt coverage metrics and liquidity profile - The company's debt coverage metrics are expected to be adequate with the cumulative DSCR estimated at ~1.2 times over the debt tenure, supported by the availability of long-term PPAs, the long tenure of the debt and competitive interest rates. Notwithstanding this, the capital structure will remain leveraged in the near term owing to the debt-funded nature of the project. The liquidity profile of the company is expected to be supported by the presence of a debt service reserve over the tenure of the term loan, post commissioning. Additionally, FPEPL is expected to extend funding support in case of any cash flow mismatch.

Credit challenges

Moderate execution risks - The project is exposed to moderate execution risk, given the under-construction status of the project with delay in commissioning of both the phases. The delay is primarily on account of heavy monsoon rains in 2024 impacting construction activity and delay in the receipt of some approvals from the relevant authorities. ICRA notes the completion of wind turbine generator (WTG) installation for phase–I along with the advance progress in the construction of the transmission line, pooling substation and bay extension work at the grid substation. Phase-I is now expected to be operational from March 2025. Further, Phase-II is expected to be operational from September 2025 with 84% of the land acquisition complete and WTG/solar module installation currently under progress. Hence, a timely completion of the pending land acquisition for Phase-II, installation/construction work for both phases and receipt of the pending approvals remain important from a credit perspective.

Debt metrics of project sensitive to PLF variation - The company's revenues and cash flows would remain sensitive to the variation in weather conditions and seasonality, post commissioning, because of the single-part fixed tariff under the PPA. Any adverse variation in weather conditions and/or WTG/module performance may impact the power generation and consequently the cash flows. The geographic concentration of the asset amplifies the generation risk. Therefore, the ability of the project to achieve the design P-90 PLF on a sustained basis remains crucial.

Exposed to interest rate risk - The capital structure of the company is leveraged, evident from the debt-funded capex deployed to set up the project. Therefore, the debt coverage metrics remain exposed to the interest rate movement, given the fixed tariff under the PPAs.

Regulatory risks - The company's operations remain exposed to regulatory risks associated with forecasting & scheduling regulations and norm for captive projects and open access charges. Any significant increase in the open access charges or imposition of new charges would impact the competitiveness of the tariff offered under the PPAs.

Liquidity position: Adequate

The liquidity position of the company is supported by the entire debt tie-up for the project and infusion of ~76% of the required promoter contribution (including offtakers' contribution) till date. Further, the promoter/parent is expected to bring in pending funds as the project progresses and additional funds in case of cost overruns. Post commissioning, the liquidity of the company is expected to be supported by the presence of a two-quarter debt service reserve, with one quarter being funded upfront. Also, post commissioning, the company is expected to generate adequate cash flow from operations to meet the annual debt repayment obligations.

Rating sensitivities

Positive factors – ICRA could upgrade the ZREPL's rating if the project achieves commissioning without any significant cost overruns, along with the demonstration of generation performance in line or above the P-90 estimates, post commissioning, resulting in comfortable debt coverage metrics. Further, ICRA could upgrade ZREPL's rating if the credit profile of the parent improves.

Negative factors – The rating could be downgraded if there are significant delays in commissioning the project, resulting in significant cost overruns, or if the generation performance remains below the P-90 level, post commissioning, adversely impacting the debt coverage metrics. A specific credit metric for downgrade is the cumulative DSCR falling below 1.15 times on a sustained basis. The rating could also be revised downwards if the credit profile of the parent weakens.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar Power - Wind
Parent/Group support	Parent Company: Fourth Partner Energy Private Limited The rating assigned to ZREPL factors in the implicit support from FPEPL, in case of any requirement
Consolidation/Standalone	The rating is based on the standalone financials of the company

About the company

ZREPL is setting up a 231.7-MWac wind-solar hybrid power project (Phase – I: 66-MWac wind capacity, Phase – II: 62.7-MWac wind capacity and 103-MWac/155-MWdc solar capacity) at Kudligi in Vijayanagara district, Karnataka. The project is being developed under the group captive model with long-term PPAs signed with strong counterparties. Phase-I is expected to be operational from March 2025 and Phase-II from September 2025. The company also plans to build an additional 279.1-MWdc hybrid renewable energy capacity under phase-III, for which the signing of the PPA and financial closure is still pending.

Key financial indicators (audited): Not meaningful as project is under construction

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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jan 03, 2025	-	-	-
1	Term loans	Long term	1,436.00	[ICRA]BBB+ (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**	June - 2024	NA	FY2045	1,436.00	[ICRA]BBB+ (Stable)

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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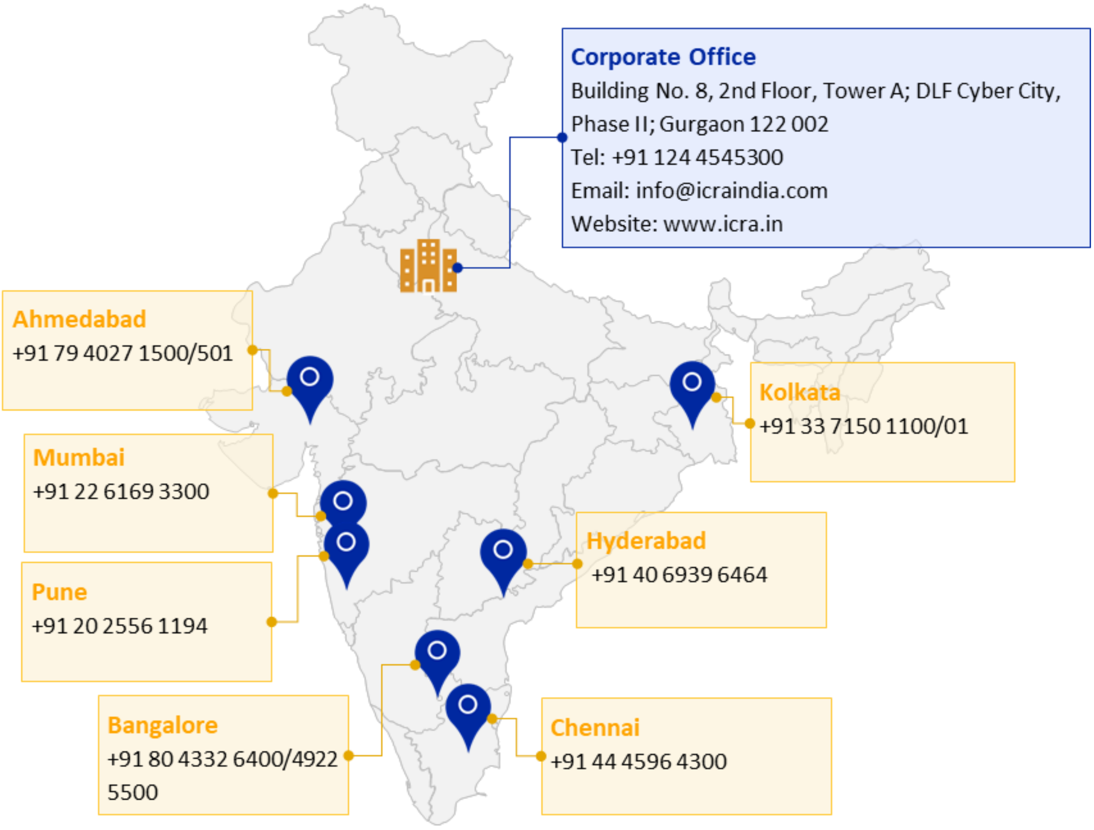

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