March 21, 2025

SAEL Solar MHP2 Private Limited: [ICRA]BBB(Stable) assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Long-term fund based – Term loan	1,100.00	[ICRA]BBB(Stable); assigned
Total	**1,100.00**	

**Instrument details are provided in Annexure I*

Rationale

The assigned rating factors in the high revenue visibility and low offtake risk for the 300-MW (AC) solar power project of SAEL Solar MHP2 Private Limited (SSMHP2) because of the long-term (25 years) power purchase agreement (PPA) with Solar Energy Corporation of India Ltd (SECI; rated [ICRA] AAA/Stable/[ICRA]A1+) for the entire capacity at a fixed tariff of Rs. 2.6 per unit. The rating draws comfort from the PPA with a strong counterparty, i.e., SECI, which is relatively superior against the state policy PPAs. SECI is an intermediary counterparty and has signed power supply agreements (PSAs) with the state-owned distribution utilities (discoms) of Gujarat. The PPA, along with the superior tariff competitiveness of the project, mitigates the counterparty credit risk for the company.

The rating also factors in expected managerial and financial support from the parent, SAEL Industries Limited (SIL), if required. SIL is promoted by the Awla family and has investments from the Norwegian Investment Fund and the US Development Finance Corporation Fund. SIL has a diversified renewable portfolio consisting of solar and waste-to-energy projects. As of February 2025, SIL through its various subsidiaries has an operational portfolio of ~470.03 MW (364.53 MW solar and 105.5-MW waste-to-energy projects) and under construction/under-development portfolio of ~5.83 GW (5769 MW solar and 60-MW waste-to-energy projects).

Further, the rating positively considers the low funding risk for the project as the entire debt funding (Rs. 1,100.0 crore) has been tied up with a long maturity profile and with 100% promoter contribution (~Rs. 450.0 crore) 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 1.2-1.3x over the debt tenure, supported by the long-term PPA, the long tenure of the debt and a competitive interest rate.

The rating is, however, constrained by the high execution risks associated with the project, given that acquisition of 20% of the required land, solar module installation and construction of the pooling substation and transmission line are pending. Overall, the project has achieved 44.2% completion as of January 2025. The scheduled commercial operations date (SCOD) for the project, as per the PPA, is June 30, 2025. Hence, the project has to make significant construction progress over the next few months to be commissioned as per the SCOD. The timely completion of the pending work along with the evacuation infrastructure remains a key monitorable for the company.

Post commissioning, the company's revenues and cash flows would remain sensitive to the variation in weather conditions and seasonality because of the fixed tariff under the PPA. Additionally, the company remains exposed to asset concentration risk as the entire capacity is located at a single site in Andhra Pradesh. 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's credit metrics would remain exposed to the movement in interest rates, given the fixed tariff under the PPA, the floating interest rates and a leveraged capital structure with the project cost being funded through debt to equity of 71:29. Also, the company remains exposed to the regulatory challenges of implementing the scheduling and forecasting framework for the solar power sector.

The Stable outlook assigned to the long-term rating factors in the expected timely commissioning of the project without any cost overruns, supported by the long-term PPA with a strong counterparty, i.e., SECI, thereby providing revenue visibility, post commissioning.

Key rating drivers and their description

Credit strengths

Experienced parent with a demonstrated track record in developing and operating renewable assets – SSMHP2 is a 100% subsidiary of SIL. SIL is promoted by the Awla family and has received investments from the Norwegian Investment Fund and the US Development Finance Corporation Fund. The company has a qualified and experienced management team with a track record in developing and operating renewable power projects across the country. As of February 2025, SIL through its various subsidiaries has an operational portfolio of ~470.03 MW (364.53 MW solar and 105.5-MW waste-to-energy projects) and under construction/under-development portfolio of ~5.83 GW (5769 MW solar and 60-MW waste-to-energy projects).

Revenue visibility from long-term PPA with SECI at competitive tariff rate – SSMHP2 has signed a long-term (25 years) power purchase agreement (PPA) with SECI for the entire capacity at a fixed tariff of Rs. 2.60 per unit, providing high revenue visibility and ensuring low offtake risk for the 300-MW (AC) solar power project. The tariff offered by the project remains highly competitive in relation to the average power purchase cost of SECI.

Low counterparty risk – The rating draws comfort from the presence of a strong counterparty like SECI and the payment security mechanism under the PPA, with a provision for letter of credit equal to average one-month billing. SECI is an intermediary counterparty and has signed power supply agreements (PSAs) with the state-owned distribution utilities (discoms) of Gujarat. Further, the additional provisions in the PPA related to compensation in case of grid curtailment or backdown and the termination liability provide comfort. These factors, along with the superior tariff competitiveness of the project, mitigate the counterparty credit risk for the company.

Adequate debt coverage metrics and liquidity profile – SSMHP2's debt coverage metrics are expected to be adequate with the cumulative DSCR estimated at 1.2-1.3 over the debt tenure, supported by the availability of a long-term PPA, the long tenure of the debt and competitive interest rates. The liquidity profile of the company is expected to be supported by the presence of a two-quarter debt service reserve over the tenure of the term loan, post commissioning. Additionally, SIL is expected to extend funding support in case of any cash flow mismatch/cost overruns.

Credit challenges

Project execution risks – SSMHP2 remains exposed to high execution risks as the acquisition of 20% of the required land, solar module installation and construction of the pooling substation and transmission line are pending. SSMHP2 will be responsible for the construction of the pooling substation and transmission line till Kurnool substation. The bay extension at the substation is under the scope of Power Grid Corporation of India Limited. Overall, the project has achieved 44.2% completion as of January 2025. The SCOD for the project, as per the PPA, is June 30, 2025. Hence, the project needs to make significant construction progress over the next few months to be commissioned as per the SCOD. A timely completion of the pending work along with the evacuation infrastructure remains a key monitorable for the company.

Debt metrics of solar projects sensitive to PLF levels – 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 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 risks – The capital structure of the company is leveraged, evident from the debt-funded capex deployed for setting up the project. Therefore, the debt coverage metrics remain exposed to the interest rate movement, given the fixed tariff under the PPA.

Regulatory risks – The company's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for renewable energy projects, given the variable nature of solar power generation.

Liquidity position: Adequate

The liquidity position of the company is supported by the infusion of equity/promoter contribution and the debt tie-up for the project. The entire promoter contribution of ~Rs. 450 crore has been infused in the company. Also, the company has drawn ~41% of the sanctioned term debt, with the balance ~59% available to meet the pending capital cost. Further, the parent is expected to bring in additional funds in case of any cost overrun. Moreover, the company does not have any debt repayment obligation in FY2025 and is expected to generate adequate cash flow from operations against an annual debt repayment obligation of ~Rs. 55 crore in FY2026.

Rating sensitivities

Positive factors – ICRA could upgrade the company's rating if the project achieves timely commissioning without any cost overruns, along with the demonstration of generation performance in line or above the 90 estimates, post commissioning, resulting in comfortable debt coverage metrics. Further, ICRA could upgrade the company'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 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 1.10 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 9 Bold	Corporate Credit Rating Methodology Power - Solar
Parent/Group support	Parent Company: SAEL Industries Limited ICRA expects SSMHP2's parent, SAEL Industries Limited, to extend financial support to SSMHP2, should there be a need.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

SSMHP2 is a wholly-owned subsidiary of SAEL Industries Limited. The SPV is developing a 300 MW (AC) solar power project at Diguvakalavatala in the Cuddapah district of Andhra Pradesh and has signed a 25-year PPA at Rs. 2.60/unit with SECI for power offtake. The project is expected to be commissioned by June 2025.

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

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Mar 21, 2025	Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	1,100	[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**	December 2024	NA	FY2045	1,100.00	[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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