April 09, 2025

FP Eco Energy Pvt. Ltd.: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term fund based – Term loan	24.62	27.25	[ICRA]A- (Positive): reaffirmed and assigned for enhanced amount
Total	**24.62**	**27.25**	

**Instrument details are provided in Annexure I*

Rationale

The rating action for FP Eco Energy Private Limited (FEEPL) factors in the refinancing of its outstanding debt facilities with a new term loan at a lower interest rate and with back-ended repayments. The company has also taken a top-up debt which has been used for upstreaming to its parent company - Fourth Partner Energy Private Limited (FPEPL; rated [ICRA]A-(Positive)/ [ICRA]A2+). While the additional debt availed by the company impacts its debt coverage metrics, this has been partially offset by the lower interest rate. Further, ICRA has changed the rating approach for FEEPL to a standalone credit profile assessment of the entity with rating upliftment based on implicit support from the parent company - FPEPL. Prior to the refinancing, ICRA had followed a standalone credit profile assessment of the entity with rating upliftment based on a consolidated assessment of the pool of seven SPVs[1] and implicit support from FPEPL, based on the availability of a cash flow pooling mechanism with cross-default linkages. While the loan agreement for the refinanced debt has a cash pooling mechanism with six other fellow subsidiaries pursuant to which lender may exercise the right of cash pooling, however as per ICRA policy the use of the term 'may' is constructed as right but not an obligation, hence rating has been done on standalone basis with implicit support from FPEPL.

The rating factors in the managerial and financial support from its parent – FPEPL - which has an established track record in the renewable energy (RE) sector, with an operating RE portfolio of ~1,050 MW as of September 2024 and is backed by strong sponsors. ICRA expects FPEPL to support FEEPL in case of any cash flow mismatch. The rating continues to consider the satisfactory generation performance by the 5.4-MW wind-solar hybrid power plant of FEEPL at Gondal, Gujarat since commissioning in June 2023. The PLF performance in FY2024 and 9M FY2025 has remained in line with the P-90 estimates.

The rating also takes comfort from the limited demand and tariff risks owing to presence of a long-term power purchase agreement (PPA) for 25 years with an industrial customer for the entire capacity at a fixed tariff under the captive mode. The offtaker has a satisfactory credit profile, which has resulted in timely receipt of payments. Further, 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 obligation (RPO) and sustainability targets. While the top-up debt availed by the company as part of the recent refinancing of its external debt is expected to moderate the debt coverage metrics, they are expected to be satisfactory over the debt repayment tenure with a cumulative DSCR of ~1.2x, supported by the long-term PPA, the long tenure of project debt and competitive interest rate.

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

[1] FP Crysta Energy Pvt. Ltd., FPEL Sunrise Pvt. Ltd., FPEL Surya Pvt. Ltd., FPEL Flash Energy Pvt. Ltd., FP Eco Energy Pvt. Ltd., FPEL Radiant Energy Pvt. Ltd. and FPEL Beat Energy Pvt. Ltd.

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 notes that FEEPL's debt coverage metrics remain exposed to the interest rate movement, as the floating interest rates are subject to regular resets. ICRA also notes that the termination payments under the PPA during the lock-in period would not cover for the entire debt outstanding. Nonetheless, comfort can be drawn from the highly competitive tariff offered by the company to its customer against the 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.

The outlook on the long-term rating for FEEPL remains Positive due to expected improvement in the credit profile of the parent company, following the equity raise from reputed investors such as International Finance Corporation (IFC), Asian Development Bank (ADB) and Deutsche Investitionsund Entwicklungsgesellschaft (DEG, a subsidiary of KfW Group) consortium. Further, the company would also benefit from the long-term PPA, expectations of a satisfactory generation performance and timely collections from the offtaker.

Key rating drivers and their description

Credit strengths

Operational and financial strengths by virtue of parentage - FEEPL 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 FEEPL in case of any cash flow mismatch.

Revenue visibility from long-term PPA at highly competitive tariff – FEEPL 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 limiting the demand and tariff risks for the entire capacity.

Comfortable financial profile of customer – The offtaker has a comfortable credit profile, which has resulted in timely receipt of payments. Further, 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 RPO and sustainability targets.

Satisfactory debt coverage metrics – While the top-up debt availed by the company as part of the recent refinancing of its external debt is expected to moderate the debt coverage metrics, they are expected to be satisfactory over the debt repayment tenure with a cumulative DSCR of ~1.2x, supported by the long-term PPA, the long tenure of the project debt and competitive interest rates.

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 FEEPL is 15 years, lower than the debt repayment tenure of ~19 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 rates, as 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 vulnerable 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

FEEPL's liquidity is adequate, aided by positive cash flow from operations and presence of a one-quarter debt service reserve account (DSRA). The cash flow from operations is expected to be ~Rs. 1.5 crore in FY2026 against a debt repayment obligation of Rs. 0.81 crore, providing adequate buffer. In addition to the DSRA of Rs. 0.84 crore, the cash and bank balance stood at Rs. 1.92 crore as on December 30, 2024. Additionally, FPEPL is expected to extend funding support to the company, in case of any cash flow mismatch.

Rating sensitivities

Positive factors – ICRA could upgrade the rating, if the company 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 project 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. Further, the rating will remain sensitive to credit profile of the parent (FPEPL).

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar Power - Wind
Parent/Group support	Parent/Group Company: Fourth Partner Energy Private Limited. ICRA expects FEEPL's parent, FPEPL, to be willing to extend financial support to FEEPL, should there be a need
Consolidation/Standalone	The rating is based on the standalone financial profile of the rated entity

About the company

FEEPL is an SPV promoted by FPEPL. It was incorporated in February 2022 to set up a wind-solar hybrid power project at Gondal in Gujarat under the group captive mode. It has a total capacity of 5.4 MW with a solar capacity of 2.7 MWp and wind capacity of 2.7 MW. As per the group captive norms, the offtaker has a 34.41% of shareholding in the company. The project got commissioned in June 2023.

Key financial indicators (audited)

FEEPL(Standalone)	FY2024
Operating income	3.5
PAT	-0.9
OPBDIT/OI	90.2%
PAT/OI	-26.0%
Total outside liabilities/Tangible net worth (times)	6.1
Total debt/OPBDIT (times)	10.7
Interest coverage (times)	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

Instrument	Current (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
	Type	Amount rated (Rs. crore)	Apr 09, 2025	Date	Rating	Date	Rating	Date	Rating
Term Loan	Long term	27.25	[ICRA]A- (Positive)	Dec 05, 2024	[ICRA]A- (Positive)	04-May-23	[ICRA]BBB+ (Positive)	-	-
				26-Jul-24	[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**	Nov 2024	-	Mar 2044	27.25	[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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