

January 29, 2020

Solar Energy Corporation of India Ltd: Ratings reaffirmed; outlook revised to Stable; rated amount enhanced

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Unallocated limits	250.0	550.0	[ICRA]AA+(Stable) / [ICRA]A1+; rating reaffirmed with revision in outlook to Stable from Positive
Total	250.0	550.0	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook primarily factors in the significant delays in the receipt of payments from state-owned discoms in states, mainly Andhra Pradesh, Rajasthan and Karnataka, which has resulted in high debtors and has led to high utilisation of the available payment security fund (PSF) that has been significantly dipped into at present. The outlook revision also reflects the concerns on the financial position of the state-owned distribution utilities in many states, arising out of lower-than-expected reduction in aggregate technical and commercial (AT&C) loss level, tariff inadequacy and inadequate subsidy support. Further, Solar Energy Corporation of India Ltd (SECI) does not have any additional PSF beyond the level that is allocated through budgetary support for National Solar Mission, Phase 2, Batches 1, 3, 4 schemes and will have to either utilise its own funds to manage mismatch in payments and collections if any, or take external borrowings. However, as per the amendments done by Ministry of New and Renewable Energy (MNRE) in the solar bidding guidelines in October 2019, developers will have to deposit Rs. 5 lakh per MW on commissioning of assets, which would be utilised as a PSF by SECI. While the same is valid for solar tenders floated under Standard Bidding Guidelines (SBG) from Tranche 5 onwards, all wind auctions under bidding guidelines and solar auctions (conducted before October 2019) do not have the benefit of any PSF.

However, the ratings continue to draw comfort from the strong parentage of SECI [100% owned by the Government of India (GoI)] and its strategic role in promoting the solar and wind energy sector in India, which is a thrust area of the Government. The ratings also factor in the benefits available to the company by virtue of its inclusion as a beneficiary of the tripartite agreement (TPA) signed between Central Government, state governments and the Reserve Bank of India (RBI). Nearly all states/UTs have either already signed the TPA or have provided in-principle approval. ICRA favourably considers the fact that SECI, which signs power purchase agreements (PPA) with developers, enters into back-to-back power sale agreements (PSA) with discoms, thus mitigating any risks related to demand, execution or operations. ICRA also positively factors in the trend exhibited by the majority of the discoms in opening the requisite letter of credit (LCs) as payment security in favour of SECI, post notification of the LC requirement in August 2019 by the Ministry of Power (MoP), GoI. Further, an improved tariff competitiveness of both wind and solar energy is a positive from the discom's perspective, given that weighted average PSA tariff for the projects awarded through SECI under SBG for a tendered capacity of 18+ GW averages close to Rs. 2.7 per unit, which is much lower than the average power purchase cost (APPC) for most discoms. The rating is also supported by the low risk and high margin fee-based income stream of SECI, wherein it gets a fixed percentage of the funds disbursed either for viability gap funding (VGF) or central financial assistance (CFA)-based schemes of the GoI and/or receives success fee on signing of PPA with developers. ICRA also notes the satisfactory performance of SECI's own 10-MW solar power plant, wherein the counterparty is NVVN. Moreover, ICRA

continues to factor in the company's strong financial profile as reflected by an increasing scale of operations, healthy cash accruals, debt-free capital structure and strong debt protection indicators.

Nevertheless, the company remains exposed to state-owned discoms, most of which have weak financial health. ICRA also takes note of the CERC order dated November 20, 2019, wherein CERC refused to approve the trading margins of Rs. 7 paise per unit for SECI for the duration of the PPA/PSA and instead put the onus on both the parties to mutually decide about the trading margins. The company's ability to sign the PSA agreements with the discoms as per its expectation, i.e. at 7 paise per unit remains important and any decline in the same may affect SECI's profitability and return metrics. Finally, ICRA notes that the company is in the process of setting up various projects over the long term on its own balance sheet, depending upon the receipt of Government approvals. This would, however, expose it to execution-related risks (time and cost overrun) and even leverage its capital structure.

The Stable outlook on the [ICRA]AA+ rating reflects ICRA's opinion that SECI will continue to benefit from the strong policy focus of the Government on the renewable energy sector and beneficiary under TPA mechanism. Nonetheless, the progress over the receipt of pending overdues in key states, adequacy of PSF for the capacity awarded and tariff payment behaviour by discoms remain key monitorables in the near term.

Key rating drivers

Credit strengths

Strong sponsor strength as SECI is 100% owned by GoI – SECI is under the administrative control of the Ministry of New and Renewable Energy (MNRE), GoI and was set up on September 20, 2011, under the Companies Act 1956 as an implementation and facilitation institution dedicated to solar energy sector. It is implementing the National Solar Mission (NSM or JNNSM) on behalf of the GoI. The Government's demonstrated support to solar initiatives lends strategic importance to the company.

SECI's inclusion in TPA and its subsequent signing by most state governments – SECI has been included as a beneficiary in the TPA to be executed between the Central Government, state governments and the RBI. The TPA, which has currently been signed by 29 states/UTs. While there has been no precedence of any TPA invocation so far, the same is expected to act as a key deterrent for the discoms, which should ensure their ability to honour the PSAs.

Presence of PSF envisioned to cover three months of payment delays by discoms under NSM Phase II for aggregate commissioned capacity of ~5 GW – Of the Rs. 1,500 crore requested by SECI for PSF, the MNRE has sanctioned and released Rs. 500 crore for the capacity to be set up under NSM to cover for payment delays by discoms. The total available fund balance in PSF came down to Rs. 247 crore as on November 2019 from Rs. 537 crore as on May 2019 due to payment delays from utilities in the states of Andhra Pradesh, Karnataka and Rajasthan. Although the PSF provides liquidity cushion it may be noted that its coverage currently does not include any other program except NSM (Phase 2 Batch 1,3 and 4). Hence, capacities awarded of 16+ GW under ISTS auctions under the Standard Bidding Guidelines (SBG) is outside the purview of such PSF, which is backed by budgetary allocation.

SECI as nodal agency is an intermediary – For its power trading business, SECI is an intermediary that has entered into PPAs with developers as well as PSAs with offtakers, i.e. state-owned distribution utilities. SECI, therefore, keeps a fixed trading margin of Rs. 0.05–0.07/unit. By virtue of the PSAs signed, it is largely insulated from any market risk, execution risk and operational risk as most terms in the PPA signed with developers and PSA signed with discoms are back to back. In the event of any delays from the PSA counterparties/state discom, the payment security measures available in PSA such as availability of LC and power supply regulation provide the mitigating factors to a large extent.

Availability of one-month LCs for most power currently being sold – The MoP had issued guidelines, making it mandatory for discoms to open and maintain adequate Letters of Credit (LC) as the payment security mechanism under PPAs. Against a monthly requirement of ~Rs. 386 crore in November 2019, SECI received LCs of ~Rs. 300 crore from various discoms, which provides additional payment security for the company.

Improved tariff competitiveness of renewable power to benefit offtakers – An improved tariff competitiveness of both wind and solar energy is a positive from the discom's perspective, given that weighted average PSA tariff for the projects awarded through SECI under SBG for a tendered capacity of 18+ GW averages close to Rs. 2.7 per unit, which is much lower than the average power purchase cost (APPC) for most discoms.

Comfortable financial profile – The company has a comfortable financial profile as reflected by increasing scale of operations, healthy cash accruals, debt-free capital structure and strong debt protection indicators. Moreover, it has healthy cash balances resulting in a comfortable liquidity position.

Credit challenges

Credit quality of most counterparties remains weak – ICRA takes into account the high counterparty credit risks arising from exposure to state-owned discoms, most of which are in weak financial health. The same has been manifested by delay in payments from Andhra Pradesh, Rajasthan and Karnataka. Overall, the financial position of the state-owned distribution utilities in many states has remained weak, arising out of lower-than-expected reduction in aggregate technical and commercial loss (AT&C) level, tariff inadequacy and inadequate subsidy support.

Unavailability of PSF (backed by budgetary support) for new schemes – At present, the PSF is available only for the capacities tendered under NSM Phase 2, Batch 1, 3 and 4. The company does not have funds available for the capacities auctioned under SBG tenders and will have to either use its internal funds or take external borrowings to meet shortfall if any. However, as per the amendments done by MNRE in the solar bidding guidelines in October 2019, developers will have to deposit Rs. 5 lakh per MW on commissioning of assets, which would be utilised as a PSF by SECI. But the same is valid for solar tenders floated under SBG from Tranche 5 onwards and all wind auctions under SBG and solar auctions (conducted before October 2019) do not have the benefit of any PSF at present.

Trading margin for SECI is subject to mutual negotiation as per CERC order – In an order dated November 20, 2019, CERC while approving the tariffs determined through competitive bidding, refused to approve the trading margins of Rs. 7 paise per unit for SECI for the duration of the PPA/PSA. It instead put the onus on both the parties to mutually decide on the quantum of trading margins. Thus far, there have been no prominent issues in this respect. Going forward, however, in case incremental PSAs are signed at a lower margin, it will adversely impact SECI's profitability and return metrics.

Execution risks for underlying projects which are in development stage – At present, SECI is operating 11 MW of projects on its own balance sheet and is in advanced stages of completing another 10 MW project for DRDO. Moreover, SECI has obtained approval for various other projects having a significant capacity, which are currently in early stages of discussion/implementation. Once the company starts progress on these projects, it would be exposed to risks related to setting up a greenfield project such as time and cost overrun risks, funding risks, etc. as well as technology-related risks. ICRA also notes that earlier SECI was in the process of setting up a 160-MW wind-solar hybrid project in Andhra Pradesh, which has been delayed.

Liquidity Position: Strong

The liquidity profile of SECI is **strong** as reflected by availability of surplus funds, including free cash balances and cushion available in PSF. Over and above this, SECI has encumbered cash balances for providing grants/subsidies/VGF and PGDs are earmarked separately, which ensures availability of adequate funds. Total cash balance of the company as on FY2019 and the end of H1 FY2020 was Rs. 1,674 crore and Rs. 1,502, respectively. The company also has LCs available from discoms, which can be encashed to improve liquidity. Moreover, SECI is a party to the tripartite agreement, which can be invoked by it in case of continuous delays by a state government discom. The future cash flows of the company are expected to remain adequate to meet the internal requirements and ICRA does not envisage a cash flow mismatch for it. Further, ICRA takes comfort from the fact that SECI is a 100% GoI entity and is strategic for the Government's plan to install renewable energy capacity in the country. ICRA expects the support from the Government for SECI to be forthcoming in case of any requirement.

Rating sensitivities

Positive triggers: The positive triggers would include sustainable improvement in the financial position of the PSA counterparties, i.e. state-owned distribution utilities and timeliness in their payment behaviour in a sustained manner; timely creation and availability of PSF for all the ISTS tranche-based schemes; reinstatement of PSF for the existing schemes (Phase II – Batch I, III and IV), supported by receipt of all the pending overdues in a timely manner.

Negative triggers: The ratings could be downgraded in case of any delays in receipt of pending overdues beyond the next four to six months and continuation of payment delays from the counterparty discoms thereafter; any significant regulatory challenges in seeking tariff adoption for PPA and PSAs ; any material increase in the leveraging on the books of the company to fund the project requirements; and any change in promoter profile or any change in form/extent of policy support from the MNRE, GoI.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent/Group Company: Government of India/MNRE The support from the parent group is explicit and is in the form of periodic equity infusions, providing payment security fund, SECI's inclusion in the tripartite agreement etc.
Consolidation / Standalone	The rating is based on standalone financials of the company

About the company

Solar Energy Corporation of India Ltd. (SECI) is under the administrative control of the MNRE, GoI and was set up in 2011, under the Companies Act 2013 (erstwhile Companies Act, 1956) as an implementation and facilitation institution dedicated to the renewable energy sector.

- SECI is the implementing agency for many of the GoI's schemes, such as the commissioned 680-MW Grid Connected Solar PV Project under Phase II Batch I of JNNSM, 2000 MW Phase II Batch III and 5000 MW Phase II Batch IV, wind and solar power projects connected to inter-state transmission system (ISTS), wind solar hybrid projects, manufacturing linked solar programme, Rooftop Solar PV Programme, Solar Parks, CPSU scheme, canal top/bank scheme, Solarization of Indo-Pak Border etc.

- SECI acts as an offtaker of power under Phase II Batch I/III/IV and wind/solar ISTS tenders (except first wind ISTS tender where PTC India Ltd is the offtaker) and subsequently sells it to state discoms under long-term power sale agreements.
- SECI owns a 10-MW solar power plant in Jodhpur, which was commissioned in March 2016 and sells solar power to NTPC Vidyut Vyapar Nigam Ltd under a 25-year PPA at a fixed tariff. SECI has also set up a 1-MW solar rooftop project at different locations in Andaman and Nicobar island and sells the power to Andaman and Nicobar Administration at a tariff of Rs 4.64/unit. This project was set up in FY2018.
- SECI undertakes project management and consultancy-based projects for CPSUs/Government entities looking to set up solar power projects.
- SECI has entered into a number of 50:50 JVs with various state agencies for the development of solar power parks.

Key financial indicators (audited)

	FY2018	FY2019	H1 FY2020*
Operating Income (Rs. crore)	1,158.2	3235.1	2187.7
PAT (Rs. crore)	64.7	129.4	81.6
OPBDIT/OI (%)	7.7%	5.5%	5.1%
RoCE (%)	42.3%	64.8%	62.7%
Total Debt/TNW (times)	0.00	0.00	0.00
Total Debt/OPBDIT (times)	0.00	0.00	0.00
Interest coverage (times)	137.08	66.65	35.61

*Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2020)				Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
				29 January 2019	27 June 2019	04 February 2019	16 March 2018	23 December 2016
1	Term loan	Long Term	Nil					[ICRA]AA-(Stable)
2	LC/BG	Short term	Nil					[ICRA]A1+
3	Unallocated	Long/Short Term	550.0	-	[ICRA]AA+(Stable)/A1+	[ICRA]AA+(Positive)/A1+	[ICRA]AA+(Positive)/A1+	[ICRA]AA+(Positive)/A1+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated	NA	NA	NA	550.0	[ICRA]AA+(Stable)/A1+

Source: SECI

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Jatin Arya
+91 124 4545313
jatin.arya@icraindia.com

Girishkumar Kadam
+91 22 6114-3441
girishkumar@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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