July 31, 2020

Suprasanna Solaire Energy Private Limited: Rating continues to remain on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	112.00	112.00	[ICRA]BBB+ &; Rating continues to remain on watch with developing implications
Total	**112.00**	**112.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating on the bank lines of Suprasanna Solaire Energy Private Limited (SSEPL) continues to remain under watch with developing implications. SSEPL, is a wholly-owned subsidiary of Solairedirect Energy India Private Limited (SEIPL), which in turn is a step-down subsidiary of France-based utility major ENGIE. ICRA takes a note of Engie's strategic partnership with Edelweiss Infrastructure Yield Plus (EIYP) for divestment of 74% stake in its solar assets in India, aggregating to 813 MWp of operating capacity. The divestment, announced on January 22, 2020, is yet to be concluded, pending the completion of conditions precedent. ICRA will continue to monitor the development on the transaction and take a rating action post its completion and subsequent discussion with the new sponsors (EIYP) to understand its strategic plans in the solar sector, as well as support and funding commitments towards the company.

The rating takes into account the healthy operational track record of the project since its commissioning in January 2017. The average PLF level at 21.08% in FY2020, was higher than the estimated P-90 level of 20.71%, although the same was lower than 22.20% recorded in the previous year, due to lower solar irradiation. The demand risk of the project remains limited because of the long-term power purchase agreement (PPA) of 25 years with Telangana Southern Power Distribution Company Limited (TSSPDCL). Moreover, the long maturity of debt, the presence of sanctioned working capital facility of Rs.9.41 crore, the debt service reserve account (DSRA) provision of one quarter of principal and interest servicing (Rs.2.95 crore as on June 30, 2020) in the form of Fixed Deposit (FD) provide comfort from the credit perspective. The rating also takes into account the experienced promoter group, Solairedirect Group[1], which has a long track record of developing solar assets.

The rating, however, is constrained by the exposure to counterparty credit risk pertaining to the sole off-taker, TSSPDCL, as reflected by substantial delays in receiving payments in the past. ICRA notes that the overdue receivable position of the company has improved from ten months to around six months, as TSSPDCL cleared dues of four months (with the last bill pertaining to generation of December 2019) in July 2020 using the funds received from Power Finance Corporation (PFC)/ Rural Electrification Corporation (REC) as a part of the recently launched liquidity infusion scheme of the Central Government. Nonetheless, the exposure to counterparty credit risk continues and timely collection of payments from TSSPDCL on a sustained basis will be a key monitorable, given the adverse impact on the revenue profile of the off-taker utility post lockdown restrictions since April 2020 amid Covid-19 outbreak. The project is also exposed to the risk of any reduction in off-take by TSSPDCL, given that the PPA tariff of Rs.6.59/Kwh is higher than the competitively-

[1]Solairedirect Group with a renewable power portfolio of 815 MW (AC) of which 615 MW (AC) is operational as on date

bid tariff rates for sourcing of solar energy as well as the average power purchase cost of the off-taker utility. Nonetheless, the company has not faced any grid availability issues from TSSPDCL till date. The rating also factors the high leverage level, given the highly capital-intensive nature of the project. While majority of the promoter's contribution is met through unsecured loans and fully and compulsorily convertible debentures (FCCDs), they remain sub-ordinate to external debt as per the cash flow waterfall mechanism as specified in the loan agreement. The rating is further constrained by the company's exposure to the risk of variability in solar generation as well as interest rate risk, owing to the fixed and single-part nature of the competitively bid tariff and the exposure to the geographical asset concentration risk. ICRA, nevertheless, notes that the variance in cash flows because of the variation in solar irradiance level is lower for solar PV-based projects than that of other renewable source-based projects. The rating also draws comfort from the warranty cover taken from Original Equipment Manufacturer (OEM) suppliers on the performance of PV modules as well as a third-party insurance cover to mitigate the risk of warranty not being honoured by OEM suppliers. However, the extent to which the warranty and the insurance would be honoured remains to be seen in the long run. The rating further takes into account the exposure to interest rate risk, owing to the single-part nature of the competitively bid tariff, as well as the risk associated with geographical asset concentration. The rating remains tempered by the exposure of its operations to regulatory challenges associated with the implementation of scheduling and forecasting framework, given the limited experience of the Indian industry players in this field and the variable nature of solar energy generation.

Key rating drivers and their description

Credit strengths

Healthy operational track record since commissioning in January 2017 - SSEPL is operating a 20-MW (AC) /24-MW (DC) grid connected solar PV project in Telangana, which got commissioned on January 2017. The performance of the plant has remained healthy with plant load factor (PLF) levels in excess of the P-90 estimate over the last three and half years. Also, the PLF levels in FY2018 and FY2019 were higher than the P-75 estimate.

Low demand risk because of long-term PPA with TSSPDCL – The demand risk for the project remains limited because of the long-term PPA of 25 years with the Telangana Southern Power Distribution Company Limited (TSSPDCL) at a tariff of Rs.6.59/Kwh.

Long tenure debt and DSRA availability – The company has long tenure debt availability with a door-to-door maturity of 14.75 years. The availability of DSRA of one quarter of principal and interest (Rs.2.95 crore as on June 30, 2020 in the form of FD) along with working capital facility of Rs.9.41 crore, provide additional comfort.

Experienced promoter group with long track record of developing solar assets – SSEPL is presently a wholly-owned subsidiary of Solairedirect Energy India Private Limited (SEIPL), which in turn is a part of one of the largest European integrated utilities group named Engie. The Group has a portfolio of ~1093 MW of assets (813 MW operational assets and an under-construction project of 280 MW) and has demonstrated a strong track record in commissioning and operations of solar projects. While in January 2020, the Engie group announced divestment of 74% stake in all the operating solar assets in India to Edelweiss Infrastructure Yield Plus, the same is yet to be completed. Nonetheless, post the stake sale, the operation and maintenance of all solar assets would continue to be serviced by the Engie group entity, Solairedirect India LLP.

Credit challenges

Weak cost competitiveness of PPA tariff – SSEPL remains exposed to the risk of future reduction in offtake/grid curtailment by TSSPDCL, given the relatively high PPA tariff (Rs.6.59/Kwh) against the average power purchase cost of the state distribution utility and the competitively bid tariff rates for sourcing solar energy.

Exposure to counterparty credit risk – The company's operations remain exposed to the counterparty credit risk of TSSPDCL, as it is the sole off taker. The company was facing delays in receipt of payments from TSSPDCL and had overdue receivables of ten months till June 2020. However, payments till generation of December 2019 were cleared by TSSPDCL on July 15, 2020, reducing the overdue receivable position to around six months. The company's receivables stand at Rs.13.29 crore as on date. Nonetheless, the exposure to counterparty credit risk remains and timely collection of payments from TSSPDCL on a sustained basis will be a key monitorable from the credit perspective.

High leveraging level – The company's leveraging level remains high, given the high capital intensity for the project. While majority of the promoter's contribution is met through unsecured loans and fully and compulsorily convertible debentures (FCCDs), the same remains sub-ordinate to external debt as per the cash flow waterfall mechanism as specified in the loan agreement. The project's debt-to-equity ratio stood at ~6.6 times (assuming unsecured loans from the holding company as debt) and 3.0 times (assuming unsecured loans as equity), respectively. The loan facility of Rs.115.50 crore has a door-to-door tenure of 14.75 years, with a ballooning debt repayment schedule. Further, DSRA is maintained in the form of fixed deposit for one quarter of debt servicing, which provides comfort.

Risk associated with single asset; risk amplified by geographical concentration of plant in one location – SSEPL is entirely dependent on power generation from the solar power project for its revenues and cash accruals to service the debt. Timely debt servicing from project cash flows remains contingent on the plant achieving its targeted PLF levels and the company receiving timely payments from the offtaker. The risk is amplified by the geographical concentration of the plant at a single location. However, low variance in solar irradiation levels provides comfort to some extent.

Vulnerability to variation in weather conditions and interest rate risk – The key factors that may impact the operations of the solar plant are solar radiation levels, losses in PV systems due to climatic conditions, design parameters of the plant, inverter efficiency and module degradation. However, the variance in solar irradiance levels has historically been much lower than the variation in other sources of renewable energy, such as wind and hydropower projects. Further, the coverage metrics, on an overall basis, are exposed to interest rate risk, given the fixed and single part nature of tariff.

Regulatory risks associated with implementation of scheduling and forecasting framework for solar sector – The regulatory challenges arising from the proposed implementation of scheduling & forecasting framework for solar power projects in Telangana pose a risk, given the limited experience in scheduling and forecasting of industry players in India and the variable nature of solar energy generation.

Liquidity position: Adequate

The liquidity position of the company remains adequate. As on June 30,2020, the company had unencumbered cash, bank balance and liquid investments of Rs.2.72 crore and unutilised fund based working capital limits of Rs.9.41 crore as on June 30, 2020. The company has also maintained DSRA balance of Rs.2.95 crore in the form of fixed deposits, equivalent to one quarter of principal and interest obligations.

Rating sensitivities

Positive triggers – The factors that could lead to an upgrade of SSEPL's rating include (a) sustained improvement in collection pattern from Telangana state discom and/or (b) debt refinancing with a lower interest rate resulting in improvement in DSCR on project debt greater than 1.25 times on a sustained basis

Negative triggers – Negative pressure on SSEPL's rating may arise in case (a) there is any material underperformance in generation from the current level leading to weakening of annual DSCR on project debt to less than 1.10 times or (b) accumulation of receivables from the discom adversely affecting the liquidity position

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers
Parent/Group Support	-
Consolidated / Standalone	The ratings are based on standalone financial profile of the company

About the company

Suprasanna Solaire Energy Private Limited (SSEPL), is a wholly-owned subsidiary of Solairedirect Energy India Private Limited (SEIPL), which in turn is a step-down subsidiary of France-based utility major ENGIE. The company has set-up a 20.0 MW (AC) / 24 MW (DC) grid connected solar PV project at Medak district in Telangana, won through competitive bidding under the Telangana State Solar Policy. The company has signed a PPA with TSSPDCL for the entire capacity. The plant is operational since January 2017.

In FY2019, the company reported a net profit of Rs. 0.84 crore on an operating income (OI) of Rs.25.42 crore compared to a net profit of Rs. 1.13 crore on an OI of Rs.26.12 crore in the previous year.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	26.12	25.42
PAT (Rs. crore)	1.13	0.84
OPBDIT/OI	91.85%	91.27%
PAT/OI	4.32%	3.32%
Total Outside Liabilities/Tangible Net Worth (times)	16.81	12.50
Total Debt/OPBDIT (times)	6.53	6.79
Interest Coverage (times)	1.49	1.52

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
				July 31, 2020	January 31, 2020	January 21, 2019	August 02, 2017
Term Loans	Long Term	112.00	96.26	[ICRA]BBB+ &	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)

& - Under rating watch with developing implications

* As on March 31, 2020

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
-	Term Loan	September 2015	-	FY2031	112.00	[ICRA]BBB+ &

Source: SSEPL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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