June 04, 2021

Sprng Energy Pvt. Ltd.: Rating upgraded to [ICRA]A (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Non-fund Based Facilities	600.00	600.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Total	**600.00**	**600.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the significant increase in aggregate operational renewable capacity under various subsidiaries of Sprng Energy Private Limited (SEPL; Sprng)—1023.5 MW as of April 2021 from 641.5 MW as of March 2020—and the consequent reduction in the execution risks. The operational capacity as of April 2021 includes partly commissioned capacities of Sprng Agnitra Private Limited (229 MW) and Sprng Renewable Energy Private Limited (153 MW), both of which are expected to be fully commissioned by June 2021 and August 2021, respectively, thereby increasing the operational capacity of the Sprng platform to 1191.5 MW. This in turn would enhance the geographic diversification and reduce the exposure to relatively weak discoms for the platform's operating portfolio. Furthermore, the Sprng Group has demonstrated a healthy operational track record, with PLF remaining above the P90 estimate, for majority of the operational projects and ensured timely payments from most of the counterparties. Also, the Group has benefited from the cost reimbursement incurred for safeguard duty and Goods & Services Tax (GST), pursuant to change in law for 250 MW project, given the favourable orders issued by the Central Electricity Regulatory Commission (CERC).

This apart, the rating continues to favourably factor in the benefits arising from the company's association with Actis Capital (Actis), a leading private equity player with an established track record of successfully executing and monetising renewable energy projects in India. The rating also favourably notes the committed capital of US$ 475 million (~Rs. 3,373 crore)[1] by Actis Capital via Actis 4 Funds (AE4)[2] and the availability of shareholder support agreement for majority of the non-fund based limits[3] required towards developing renewable energy projects in India under the Sprng energy platform. Further, the rating draws strength from the limited offtake risks due to the presence of long-term power purchase agreements (PPAs) at cost competitive tariffs (Rs.3.01/unit at a portfolio level) for the entire capacity of 1661.5 MW (operational and under-construction projects). Moreover, most of its PPAs (about 79.60%) are with relatively strong counter-parties such as NTPC[4], SECI[5], GUVNL[6] and DMRC[7], which are accompanied with relatively superior payment security mechanism. The intermediary counterparties namely NTPC and SECI, in turn, have power sale agreements (PSAs) with the ultimate off-takers comprising primarily the state-owned distribution utilities. In addition, the absence of fund-based debt at SEPL's standalone level and the long tenure of debt availability with door-to-door maturity profile of 18-20 years for the operational project special purpose vehicles (SPVs) and the presence of Debt Service Reserve Account (DSRA) and working capital facilities provide comfort from the credit perspective. The rating is supported by the presence of a highly qualified and professional management team, which comprises experienced technocrats and investment/finance professionals. ICRA notes that the Group has terminated the PPA signed by Sprng Vayu Vidyut Private Limited (200 MW wind project) with NTPC because of delay in receiving tariff adoption approval from Punjab State Electricity Regulatory Commission on procurement of contracted capacity. Similarly, the Kerala Electricity Regulatory Commission has not approved the PSA for the 100 MW capacity under Sprng Wind Energy Private Limited, even

1 Exchange rate of USD to INR is considered at Rs.71; However, actual funds are called at the exchange rate prevailing at that time
2 Fund for setting up wind and solar power projects in India
3 As per terms of the latest sanction letter by the company's lender
4 NTPC – National Thermal Power Corporation Limited
5 SECI – Solar Energy Corporation of India Limited
6 GUVNL – Gujarat Urja Vikas Nigam Limited
7 Delhi Metro Rail Corporation

after a lapse of 23 months from the effective date of the PPA with SECI. Consequently, the company has filed a petition with CERC for termination of the PPA. ICRA also takes note that Arinsun Clean Energy Private Limited (ACEPL) (250-MW solar SPV), was earlier not considered for the preparation of consolidated financial statements of SEPL since it held 48.02% shareholding in ACEPL. The shareholding increased to 51% during FY2021. By virtue of the increase in shareholding, ACEPL has become a subsidiary of SEPL, and would now be included in the consolidated financials of SEPL.

The rating, however, remains constrained by the project execution risks associated with the under-construction projects totalling 638 MW (38.4% of total portfolio). The timely commissioning of the under-construction projects within the budgeted cost remains critical given that any delays in the same may result in risk of invocation of performance bank guarantee facilities given by SEPL to the off-takers, on behalf of the SPVs. ICRA, however, takes note of the limited equity funding risks for the under-construction projects owing to the presence of adequate funding commitment from Actis 4 Funds. While the impact of cost overrun in case of any delays is mitigated by the presence of fixed-price turn key contracts with the EPC contractors, any additional cost arising from higher interest costs and any additional leveraging to meet such cost over-runs and/or any other cash flow mismatches / shortfalls remain as key rating sensitivity. The rating further remains tempered by the continued payment delays from Telangana discoms for 144-MW solar capacity, with the receivable position of about eight months as on date, though improved from last year, exposing it to high counterparty credit risk. ICRA, however, notes that the exposure to Telangana discoms constitutes to only 8.7% of the total group's portfolio. Moreover, adequate liquidity is available in the SPVs with Telangana exposure, with buffer in working capital limits and two quarters of DSRA in the form of a bank guarantee from SEPL providing comfort to timely servicing of debt obligations. Also, the Group's cash flows remain exposed to the risk of variation in weather conditions such as solar irradiance and wind speed, given the single part tariff under the PPA. Further, the coverage metrics, on an overall basis, are exposed to the interest rate risk, given the fixed and single part nature of tariff. Nonetheless, the Group has benefited from a reduction in interest rates in FY2021.

The Stable outlook reflects ICRA's expectations that SEPL will continue to benefit from the demonstrated operating track record as well as the presence of long-term PPAs at cost competitive tariffs with strong counterparties for a major portion of the company's portfolio on a consolidated basis. Going forward, the Group's ability to commission the under-construction projects in a timely manner and within the budgeted costs while achieving healthy PLF levels for its operational projects would be important from the credit perspective.

Key rating drivers and their description

Credit strengths

Group' established track record in developing renewable energy assets; highly qualified and professional management team – SEPL has been promoted by Actis, which is a leading private equity player. Actis has raised US$ 19 billion since its inception and has an asset under management (AUM) of US$ 12 billion at present. It is a global platform offering a multi-asset strategy through the asset classes across energy, infrastructure and real estate with a demonstrated track record in developing and monetising renewable energy projects in India. SEPL was setup by Actis Fund 4 with equity commitment of US$ 450 mn (later increased to US$ 475 mn) in March 2017 for investments in renewable sector in India. Actis is managed by an experienced, highly qualified and professional management team comprising technocrats and investment/finance professionals

Limited offtake risks due to presence of long-term PPAs for entire capacity; additional tariff approved by regulators for cost incurred on safeguard duty and GST in case of ACEPL – The off-take risk for SEPL's portfolio is limited due to the presence of long-term PPAs for the entire capacity of 1661.5-MW. One of the solar SPVs, ACEPL, received a favourable order from CERC for pass through of safeguard duty compensation, resulting in an inflow of ~Rs.270 crore (Rs.153.84 crore plus interest) as annuity payments over a period of 13 years on a monthly basis. Further, the company is receiving GST claim of Rs. 44.28 crore from its off-takers as per an order received in November 2020.

Presence of relatively strong counterparties for dominant share of the portfolio – The counterparty credit risk for the portfolio remains low as counterparties for dominant share (79.60% of the portfolio) are NTPC, SECI, GUVNL and DMRC, which have a relatively stronger credit profile. These strong counterparties also lead to timely receipt of payments in the operational projects. NTPC and SECI are the intermediary counter-parties of SEPL which, in turn, have PSAs with state owned distribution companies. The PPAs have better payment security as evident from the presence of payment security fund which is equivalent to three months of tariff receivables, backed by budgetary support from the Ministry of New and Renewable Energy (MNRE) and letter of credit equivalent to one-month billing. This apart, NTPC and SECI also benefit from the presence of tri-partite agreement with Government of India, State Governments and Reserve Bank of India.

Superior tariff competitiveness and satisfactory operational performance by majority of the Sprng's portfolio – Of the total capacity, 1023.5 MW (~61.6%) is operational as of April 2021 with capacity weighted average track record of 2.4 years. The tariff competitiveness is superior for most of the company's projects for the ultimate off-takers with a weighted average tariff of Rs.3.01/unit at a portfolio level. The PLF performance of all the operational projects remained satisfactory in FY2021 for except the 250 MW project under ACEPL, wherein the generation was impacted by the strong monsoon at plant site and lower irradiation levels.

Equity commitment from sponsor mitigates funding risk for under-construction projects – The total corpus of Actis 4 Funds amounts to about US$ 2.75 billion, out of which it has allocated US$ 475 million towards setting up wind and solar power plants in India through the Sprng Energy platform. The objective of the fund is to set up an aggregate renewable energy capacity of ~2.3 GW. The funding commitment remains adequate to meet the equity requirements of the ongoing projects under SEPL.

Shareholder Support Agreement by Actis Energy – SEPL enjoys a shareholder support agreement (SSA) by Actis Energy 4 LP, Actis Energy 4 A LP, Actis Energy 4 Co-Investment LP, Actis Energy 4 Co-Investment (2) LP, Actis Energy 4 Co-Investment Scheme LP and Actis Energy 4 (Lev) Co-Investment Scheme LP (Actis 4 Funds) for majority of the non-fund based limits (DSRA BG, performance bank guarantee (PBG), Bid Bond Guarantee as per terms of the latest sanction letter by the company's lender). The SSA is applicable from the date of its signing and will terminate on the earlier of the date, at which SEPL has unconditionally satisfied its obligations under the facility or the expiry of the facility with no amounts due.

Long-tenure debt availability – The project SPVs (operational as well as under-construction projects where debt is tied up) have long tenure debt availability with a door-to-door maturity profile of 18-20 years. The availability of DSRA of one/two quarters of principal and interest for all the SPVs along with working capital limit availability (for five of the six fully operational (SPVs), provide additional comfort.

Credit challenges

Execution risks associated with under-construction projects totalling 638 MW (38.4% of portfolio) – As on date, SEPL has 638-MW of under-construction capacity (38.4% of the portfolio). However, comfort can be drawn from the advanced progress in construction for Sprng Agnitra Private Limited (229 MW commissioned as on date out of 250 MW solar project in Andhra Pradesh with full commissioning by June 2021) and for Sprng Renewable Energy Private Limited (153 MW commissioned as on date out of 300 MW wind project in Tamil Nadu with full commissioning by August 2021), thereby taking the operational capacity to 1191.5 MW. The company has terminated one wind project, Sprng Vayu Vidyut Private Limited (200 MW) owing to delays in PSA tariff adoption by Punjab State Electricity Regulatory Commission. The company has also filed petition with the CERC for termination of PPA of another wind project, Sprng Wind Energy Private Limited (100-MW) owing to delays in tariff adoption by Kerala State Electricity Regulatory Commission. There has not been any progress in Sprng Soura Kiran Private Limited (250 MW solar project) due to delays in land handover (Kadapa Solar Park) from the state authorities. The SCoD for the project is 21 months from the land handover date. The recently awarded 120-MW solar project in Gujarat, Sprng Ujjvala Energy Private Limited (PPA signed in Apr'21) is in a nascent stage of execution. Overall, the execution risks remain limited to the balance capacity under Sprng Agnitra Private Limited and Sprng Renewable Energy Private Limited and the 120 MW capacity under development under Sprng Ujjvala Energy Private Limited.

Exposure to cost over-run for under-construction projects – The timely commissioning of the under-construction projects and within the budgeted cost remains critical. Any delays in the commissioning may result in invocation of performance bank guarantee facilities given by SEPL to the off-takers, on behalf of the SPVs. While the impact of cost overrun in case of any delays is mitigated by the presence of fixed-price turn key contracts with the EPC contractors, any additional cost arising from higher interest costs and any additional leveraging to meet such cost over-runs and/or any other cash flow mismatches / shortfalls remain as key rating sensitivity. However, the Group has a demonstrated track record of commissioning projects within the estimated timelines.

Counterparty credit risks arising from exposure to Telangana discoms – The Group has exposure to Telangana discoms for 144-MW capacity across three SPVs. Delays have been observed in receiving payment from Telangana discoms. Nonetheless, the exposure to Telangana discoms (in capacity share) is limited (8.7%) for the Group on overall basis. While the receivable cycle has reduced from 10-12 months to eight months, the exposure to counterparty credit risk continues. However, adequate liquidity is available in the SPVs with Telangana exposure (Solren, Transform and Suryoday), with buffer in working capital limits, and two quarters of DSRA in the form of a bank guarantee providing comfort towards timely servicing of debt obligations.

Vulnerability to variation in weather conditions and interest rate risk – The Group's cash flows remain exposed to the risk of variation in weather conditions such as solar irradiance and wind speed, given the single part tariff under the PPA. Further, the coverage metrics, on an overall basis, are exposed to the interest rate risk, given the fixed and single part nature of tariff.

Liquidity position: Adequate

SEPL's liquidity position is adequate as reflected in unencumbered cash, bank balance and liquid investments of Rs.194.32 crore as on April 09, 2021 at the standalone level. It does not have any external debt at the standalone level. At a consolidated level, all the six operational SPVs have DSRAs available in the form of bank guarantee/cash. In addition, five of the six operating SPVs have sanctioned working capital limits with sufficient cushion available in terms of undrawn limits. Actis4 Funds have committed US$ 475 million for Sprng Energy platform to set up ~2.3-GW capacity renewable energy projects in India. Through SEPL, the funds have already infused ~Rs.1974 crore, out of the total fund size of USD 475 million, mainly towards equity requirement of the under-construction SPVs and the acquisition of 194-MW capacity from the Shapoorji Pallonji Group. The equity requirement for the under-construction projects can be met from the committed equity from Actis4, cash available at SEPL and surplus cash flows that will be up streamed from the SPVs.

Rating sensitivities

Positive factors – The rating can be upgraded in case of a) sustained performance of the operational projects at P90 or above levels, leading to healthy cash flow generation at a consolidated level and b) commissioning of under-construction projects without any significant cost and/or time overrun along with stabilisation of operations.

Negative factors – The outlook may be revised to negative or rating can be downgraded in case of a) delay in commissioning of projects beyond the SCOD leading to higher capital cost and delay in cash flow generation or b) significant decline in the PLF below P-90 levels leading to stretched liquidity position for the operational assets or c) significant delays in payment from discoms in the near term impacting the liquidity position of the SPV(s). Also, any significant increase in dependence on debt funding at the SEPL level would be another trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach Rating Methodology for Wind Power Producers Rating Methodology for Solar Power Producers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financial profile of SEPL. The list of companies that are consolidated to arrive at the rating are given in Annexure 2 below.

About the company

Incorporated in December 2016, SEPL is a 100% owned entity of Solenergi Power Private Limited (SPPL, a Mauritius-based entity). SPPL is, in turn, 100% owned by Actis Solenergy Limited (ASL, another entity based out of Mauritius). SEPL is a renewable energy platform created to invest US$ 475 million raised by Actis Energy through its Actis 4 Funds with the objective of installing ~2.3-GW capacity renewable energy projects in India. In addition to the 194 MW commissioned solar power capacity acquired from Shapoorji Pallonji Group, the company has commissioned 1023.5 MW capacity as on date, while the under-construction capacity is 638-MW.

Key financial indicators (audited)*

SEPL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	10.09	294.73
PAT (Rs. crore)	-6.19	-138.78
OPBDIT/OI (%)	-19.33%	84.67%
PAT/OI (%)	-61.35%	-47.09%
Total Outside Liabilities/Tangible Net Worth (times)	1.58	3.14
Total Debt/OPBDIT (times)	NM	13.29
Interest Coverage (times)	NM	1.41

**Ratios are as per ICRA's computation; PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation*
Operating income does not include other income (interest income on term deposits with bank); NM: Not Meaningful
Interest coverage computation does not include other income; Capital creditors have been included in Total Outside Liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Jun 04, 2021	Apr 17, 2020	Aug 30, 2019	Apr 08, 2019	Jan 22, 2019
1	Non-fund based limits	Long term	600.00	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (S) (Negative)	[ICRA]A- (S) (Stable)	[ICRA]A-(S) (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Non-Fund based Limits	Very 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, is available on ICRA's 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	Long Term Non-Fund Based Facilities	August 2018	-	-	600.00	[ICRA]A (Stable)

Source: *Sprng Energy Private Limited*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sprng Transform Sun Energy Private Limited	100.00%	Full Consolidation
Sprng Solren Private Limited	100.00%	Full Consolidation
Sprng Suryoday Energy Private Limited	100.00%	Full Consolidation
Sprng Photovoltaic Private Limited	100.00%	Full Consolidation
Sprng Ujjvala Energy Private Limited	100.00%	Full Consolidation
Sprng Wind Energy Private Limited	100.00%	Full Consolidation
Sprng Soura Kiran Private Limited	100.00%	Full Consolidation
Sprng Agnitra Private Limited	100.00%	Full Consolidation
Sprng Renewable Energy Private Limited	100.00%	Full Consolidation
Sprng Alt Energy Private Limited	100.00%	Full Consolidation
Arinsun Clean Energy Private Limited	51.00%	Full Consolidation

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

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

Vikram V
+91 40 4067 6518
vikram.v@icraindia.com

Abhilash Dash
+91 22 6169 3358
abhilash.dash@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

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches