

August 06, 2021

Focal Energy Solar India Private Limited: Ratings placed on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based term loans	26.00	26.00	[ICRA]BBB&; placed on watch with developing implications
Unallocated limits	2.00	2.00	[ICRA]BBB&; placed on watch with developing implications
Total	28.00	28.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA has placed its ratings of [ICRA]BBB on the bank lines of Focal Energy Solar India Private Limited (FESI or the company) on watch with developing implications as the promoters of the Focal group have entered into an agreement with Terra Asia Holdings II Pte Ltd (a part of KKR group) (TAHPL) for the sale of FESI. ICRA will continue to monitor the developments in terms of consummation of the transaction and change in promoter, followed by assessment of credit profile of the new promoters and factoring in their strategic plans for the company, along with their philosophy of support and funding commitments towards the company.

The rating continues to factor in the long-term power purchase agreement (PPA) with Punjab State Power Corporation Limited (PSPCL), the satisfactory operational performance of the 4-MW solar power plant of FESI since its commercial operations date (COD) and the timely payments from PSPCL so far. The PPA has been signed with PSPCL at Rs. 8.30/kWh for 25 years from the COD. The project was awarded through competitive bidding under state policy. The rating also takes comfort from the operational track record of the project as it was commissioned in March 2015; the power generation from the solar project has been satisfactory.

Nevertheless, the rating is constrained by the vulnerability of the company's cash flows to weather conditions as tariffs are linked to actual generation. However, FESI has a satisfactory generation track record since COD, which mitigates this risk to some extent. ICRA acknowledges that the high cost of power generation makes the project unviable in case of third-party sales. Though the payments have been timely so far, the project remains exposed to counterparty credit risk as the PPA is signed with PSPCL, which has a moderate financial profile. The rating is also constrained by the high leverage and moderate coverage indicators, considering the capital-intensive nature of the project and as most of the equity infusion is in the form of compulsorily convertible debentures (CCDs). The company is also exposed to interest rate risk, given the single-part and fixed nature of the tariff.

Key rating drivers and their description

Credit strengths

Long-term PPA mitigates offtake risk - FESI has signed a PPA with PSPCL for 25 years from the COD at a tariff of Rs. 8.30/kWh, mitigating the offtake risk.

Satisfactory generation track record since COD - The project has been operational since March 2015. The project has demonstrated satisfactory operational track record with an average PLF of 17.43% in FY2021, 16.05% in FY2020 and 17.27% in FY2019 as against P90 PLF estimate of 16.90% and P50 PLF estimate of 18.62%. The generation track record helps partly

mitigate the resource variability risk. The operation and maintenance contract was signed with Mahindra Susten for a period of three years, starting May 2018.

Liquidity supported by cash and liquid investments including presence of two-quarter DSRA - The liquidity profile of the company is supported by cash and liquid investments of Rs. 3.47 crore as on June 30, 2021 including DSRA for two quarters of debt servicing of Rs 1.72 crore.

Credit challenges

Operating risk associated with dependence on solar irradiation - FESI is entirely dependent on power generation from the solar-power project for its revenues and cash accruals. Given the single-part nature of the tariff, the company may lose revenues and profits in case of non-generation of power. The single location and single-asset nature of its operations have increased this risk, though the same is mitigated to an extent by satisfactory operational performance since COD.

Counterparty credit risk is moderate as PPA is signed with PSPCL although payments timely so far - PSPCL has a moderate financial profile. The entity was assigned A grade on a scale of A+ to C in the Ninth Integrated Rating for State Power Distribution Utilities under the Ministry of Power, Government of India. Nonetheless, under the PPA, PSPCL has made timely payments so far (within 77 days in FY2019 and FY2020 and 69 days in FY2021). Moreover, the PPA with PSPCL does not have any termination payment in case of termination by PSPCL. Timely payment from PSPCL shall remain a key rating monitorable

High leverage considering capital-intensive nature of project and infusion of equity in form of CCDs - The leverage level of the company is high, considering the capital-intensive nature of solar power projects, which are funded through debt and equity. Moreover, most of equity is infused in form of CCDs, which are subordinate to term loan. Interest on CCDs or their redemption can be only from surplus funds after servicing of term loan, and subject to approval from lenders. Interest on CCDs is non-cumulative in nature.

Risk of grid back down, given relatively higher tariff level for project - Risk of grid back down is high since the PPA tariff for the project is higher than the average power purchase cost of the offtaker utility, i.e. PSPCL. Absence of any termination penalty clause in PPA in case of discom's event of default or compensation in case of grid curtailment accentuates the risk. However, it may be noted that the grid availability remained satisfactory in the past and the plant has not faced grid backing down.

Exposure to interest rate risk, given single-part nature of tariff - The tariff for the project is single part in nature and fixed for the tenor of PPA. Hence, the project is exposed to variation in interest rate, given the floating nature of the term loan's interest rate.

Liquidity position: Adequate

Liquidity of the company is adequate. Generation from the 4 MW solar power project in FY2021 has been satisfactory and payments from PSPCL have been timely, with payments received within 69 days on average from date of billing during the period. Presence of DSRA for two quarters of debt servicing supports the liquidity. The company has term loan repayment of Rs 1.22 crore in FY2022. The company had cash and liquid investments of Rs. 3.47 crore as on June 30, 2021 including DSRA for two quarters of debt servicing of Rs 1.72 crore.

Rating sensitivities

Positive factors – The ratings may be upgraded in case of satisfactory generation performance of the project in line with P75 PLF estimates resulting in improvement in debt coverage metrics on sustained basis. An improvement in payments from the counterparty on a sustained basis could also lead to an upward rating review.

Negative factors-The ratings may be under pressure in case of lower generation performance of the project as compared to P90 PLF estimates on sustained basis. The ratings may also be downgraded in case of deterioration in payments from the counterparty on a sustained basis and/or material increase in debt levels.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers
Parent/Group Support	Not applicable
Consolidation/Standalone	Rating is based on standalone financial statements of the rated entity.

About the company

FESI has set up a 4-MW solar project in Punjab, which was awarded through competitive bidding under state policy. The company has entered into a 25-year PPA with PSPCL at tariff of Rs. 8.30/KWh. The project has been operational since March 2015.

The company is a part of the Focal Group. Focal group has entered into an agreement for stake sale in FESI to Terra Asia Holdings II Pte Ltd (part of the KKR group).

Key financial indicators (audited)

Focal Energy Solar India Private Limited- Standalone	FY2020	FY2021
Operating Income (Rs. crore)	4.7	5.1
PAT (Rs. crore)	(0.6)	(0.6)
OPBDIT/OI (%)	89.6%	88.0%
PAT/OI (%)	-12.6%	-11.4%
Total Outside Liabilities/Tangible Net Worth (times)*	(34.94)	(26.14)
Total Debt/OPBDIT (times)*	14.36	13.26
Interest Coverage (times)**	0.88	1.07

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note: Amount in Rs. crore; All calculations are as per ICRA research, *total debt includes CCD of Rs 37.7 crore in FY2020 and FY2021 subscribed by promoter,

**interest expenses includes interest on CCD subscribed by promoter

Source: Focal Energy Solar India Private Limited, ICRA research

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	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					August 06, 2021				
1	Term Loan	Long-term	26.0	21.4	[ICRA]BBB&	[ICRA]BBB(Stable)	-	[ICRA]BBB(Stable)	
2	Unallocated limits	Long-term	2.0	--	[ICRA]BBB&	[ICRA]BBB(Stable)	-	[ICRA]BBB(Stable)	

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Term Loan	Simple
Long-term unallocated limits	Not Applicable

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 analyzing 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/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	FY2017	10.5%	FY2035	26.0	[ICRA]BBB&
NA	Unallocated limits	-	-	-	2.0	[ICRA]BBB&

Source: Company, &= under watch with developing implications

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

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