

August 13, 2021

Palimarwar Solar Project Private Limited: Rating upgraded to [ICRA]AA- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	24.20	20.66	[ICRA]AA- (Stable); upgraded from [ICRA]A (Stable)
Total	24.20	20.66	

*Instrument details are provided in Annexure-1

Rationale

ICRA's rating action factors in the healthy generation performance of the 10-MW solar power project under Palimarwar Solar Project Private Limited (PSPPL) along with the reduction in leverage level and the strong debt coverage metrics. The project has reported an average PLF of 22.37% since commissioning in April 2015, higher than the P-50 estimate. Moreover, the PLF improved to 23.14% in FY2021 from 21.86% in FY2020. Further, the leverage level for the company has improved with external debt to OPBDITA at 2.4x as on March 31, 2021 against 2.8x as of March 2020 led by ongoing debt repayment, including the last instalment of debt linked to viability gap funding (VGF) from its off-taker. Also, the debt coverage metrics for the company remain strong with the cumulative DSCR over the balance tenure of project debt expected to remain above 2.0x. This apart, the rating continues to draw comfort from the limited offtake risks on account of presence of a long-term (25-year) power purchase agreement (PPA) with Solar Energy Corporation of India (SECI, rated [ICRA]AA+ (Positive)/[ICRA]A1+), which is an intermediary counterparty and has signed a power supply agreement (PSA) with the state-owned distribution utilities in Rajasthan—the ultimate off-takers. Further, the rating positively factors in the low counterparty credit risks on account of the strong credit profile of SECI along with the presence of a payment security fund (PSF, which is equivalent to three months of receivables) supported by budgetary allocation of the Ministry of New and Renewable Energy (MNRE), Government of India under the National Solar Mission (NSM) policy framework. ICRA notes that the realisation of payments from SECI has been timely at 60-70 days for the company.

The rating, however, remains constrained by the vulnerability of its cash flows to module performance and weather conditions, as the revenues are linked to the actual units generated and exported, given the single part and fixed nature of tariff. Further, the company remains exposed to movement in interest rates, considering the fixed tariff rates under the long-term PPA; nonetheless, the interest rate remains fixed till February 2023. Additionally, PSPPL remains exposed to asset concentration risk, as the entire capacity is located at a single site in Rajasthan. While the variation in generation remains lower than the solar PV-based projects compared to other renewable source-based projects, ICRA notes that the company's operations are vulnerable to regulatory risk arising from the implementation of scheduling and forecasting framework by Rajasthan Electricity Regulatory Commission (RERC) in Rajasthan. However, the impact of the same on profitability has been minimal so far.

ICRA also notes that a portion of the promotor contribution for the project under PSPPL is in the form of unsecured loans, which remain subordinated to the project debt from lenders, and payments on the promotor loan are subject to the restricted payment conditions stipulated in the loan agreement.

The Stable outlook on the [ICRA]AA- rating for PSPPL reflects ICRA's opinion that PSPPL will continue to benefit from availability of long-term PPA, healthy generation performance and timely payments expected from SECI.

Key rating drivers and their description

Credit strengths

Strong operating track record of plant since commissioning - PSPPL has reported a strong operating performance since its commissioning in April 2015, with PLF being higher than the P50 PLF. The average PLF of the plant since commissioning is 22.37%.

Long-term PPA with SECI mitigates demand and pricing risks - The company has signed a long-term PPA with SECI (rated [ICRA]AA+ (Positive)/[ICRA]A1+) as an intermediary procurer, which in turn has signed power supply agreements with Rajasthan discoms (which are ultimate off-takers) at a fixed tariff rate of Rs. 5.45 per unit for the entire capacity for a period of 25 years, which limits the demand and pricing risk.

Low counterparty credit risk - Counterparty credit risks remain low with SECI being the off-taker and the presence of Payment Security Fund (PSF) (which is equivalent to three months of receivables) supported by budgetary allocation of the Ministry of New and Renewable Energy (MNRE), Government of India under the NSM policy framework; realization of payments from SECI remains timely.

Strong debt coverage metrics over the long tenure of debt - PSPPL is expected to report strong debt coverage metrics supported by healthy operating performance, modest leverage level (external debt/OPBDITA at 2.4x in FY2021), long-tenure of the project debt (15 years) and competitive interest rate; projected cumulative DSCR to remain above 2.0x over the balance tenure of the debt for the company.

Credit challenges

Variance in cash flows because of changes in solar irradiance and/or module performance – Debt metrics for solar projects remain sensitive to PLF levels, given the one-part tariff structure; any adverse variation in weather conditions and/or module performance may impact PLF and consequently the cash flows. This risk is amplified by the asset concentration as the entire capacity is in a single site in Rajasthan. Nonetheless, comfort is drawn from the PLF track record demonstrated by the company so far.

Exposure to interest rate risk – The company remains exposed to the interest rate risk, given the single part fixed tariff in PPA; nonetheless, the loans carry a fixed interest rate till February 1, 2023, with applicability of reset clause thereafter.

Challenges associated with implementation of forecasting and scheduling regulations – The company remains exposed to regulatory challenges pertaining to the implementation of scheduling and forecasting framework by RERC for solar power projects in Rajasthan. However, the impact of the same has remained minimal so far.

Liquidity position: Strong

The liquidity position of the company is expected to be **strong** supported by healthy operating performance and timely realisation of payments from the off-taker. The company has annual debt repayment obligations of Rs.1.81 crore (excluding VGF linked payment) and Rs. 2.16 crore in FY2022 and FY2023, respectively, against expected cash flow from operations of more than Rs. 4.5 crore. There are no capex plans also. Additionally, the presence of DSRA equivalent to ensuing two quarter principal and interest obligation provides additional support.

Rating sensitivities

Positive factors - The rating could be upgraded in case of sustained healthy operational performance of the company with generation remaining higher than P50 levels along with timely realisation of payments from counterparty and significant reduction in leverage level.

Negative factors - The rating could be downgraded in case of below-par operational performance and material additional leveraging, which could lead to fall in cumulative DSCR on external debt to less than 1.40 times. Also, significant increase in receivables from counterparty, which would impact the company's liquidity position would be another negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Energy Projects
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

PSPPL, incorporated in February 2013, is a special purpose vehicle (SPV) promoted by the Lakshmi Niwas Bangur (LNB) Group for setting up a solar power project in Rajasthan. The LNB Group has interests in tea plantations, textiles, corporate farming, agriculture supply chain management solutions, renewable energy, financial services, health and wellness. PSPPL operates a 10-MW grid connected solar photovoltaic (PV) power plant in Pokhran, Jaisalmer district of Rajasthan. The project has been developed under Phase-2, Batch-1 of the Jawaharlal Nehru National Solar Mission (JNNSM) of Government of India (GoI) and the company commenced commercial operations (COD) from April 13, 2015 (against scheduled COD of April 28, 2015). The plant was set up at a total cost of Rs. 90.81 crore. The project is eligible for Viability Gap Funding of Rs. 21.64 crore by SECI. PSPPL has signed a PPA with SECI for its entire capacity at a tariff of Rs. 5.45 per unit for a period of 25 years.

Key financial indicators

PSPPL Standalone	FY2020 (Audited)	FY2021 (Audited)
Operating Income (Rs. crore)	10.52	11.05
PAT (Rs. crore)	-4.13	1.75
OPBDIT/OI (%)	85.4%	84.5%
PAT/OI (%)	-39.2%	15.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.58	2.21
Total Debt/OPBDIT (times)*	4.27	3.59
Interest Coverage (times)*	2.02	2.39

*Includes promoter's contribution in the form of unsecured loans

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 Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Aug 13, 2021	Jul 31, 2020	Apr 22, 2019	-	
1	Term Loan	Long-term	20.66	20.66	[ICRA]AA-(Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
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 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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	Jul 2014	-	Feb 2029	20.66	[ICRA]AA-(Stable)

Source: PSPPL

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

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

Vinayak Ramesh
+91 98402 74435
r.vinayak@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



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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