

January 31, 2022

Sembcorp Green Infra Limited: Long-term rating reaffirmed; short-term rating reaffirmed & withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	300.0	-	[ICRA]A1+; reaffirmed and withdrawn
Long term - non-fund based limits-Bank Guarantee	150.0	150.0	[ICRA]AA (Stable); reaffirmed
Short term - fund based/non-fund based limits [^]	150.0	-	[ICRA]A1+; reaffirmed and withdrawn
Total	600.0	150.0	

*Instrument details are provided in Annexure-1; [^]LC/BG/OD/FCNR limits of Rs. 150 crore

Rationale

ICRA's reaffirmation of the ratings assigned to Sembcorp Green Infra Limited (SGIL) factors in its strong parent, Sembcorp Utilities Pte Limited (SUPL), which is in turn held by Sembcorp Industries Pte Limited (~49.5% held by Temasek Holdings (Private) Limited; rated AAA by Moody's), and its well-diversified renewable power portfolio with a satisfactory operating track record. SGIL is the holding company for a renewable capacity of 2.3 GW (comprising 1.9 GW wind and 0.4 GW solar power projects with 1.7 GW under operations and 0.58 GW under development) across different SPVs and states, which results in geographic and counterparty diversification.

ICRA takes note of the petition filed before the National Company Law Tribunal (NCLT) to merge SGIL with Green Infra Wind Energy Limited (GIWEL), one of its subsidiaries, which will make GIWEL as the holding company for the renewable platform of the Sembcorp Group in India. GIWEL would then become a 100% subsidiary of SUPL. This merger is being undertaken as GIWEL remains the main vehicle for the renewable investments of the Sembcorp Group in India and it holds majority of the renewable assets of the Group on its books as well as through its subsidiaries. The transaction follows the restructuring that the Group is undertaking with greater focus towards environmental, social and governance (ESG) factors and larger potential for the renewable business in India, wherein Sembcorp Energy India Limited (SEIL) divested its stake in SGIL to its parent SUPL in December 2021.

ICRA continues to factor in the presence of an experienced management and execution team at Sembcorp with a proven track record. Further, the generation performance of SGIL's projects has improved in 8M FY2022 on a year-on-year (Y-o-Y) basis led by an improved wind season and commissioning of new assets with higher PLF. Moreover, about 89% of the Group's asset portfolio¹ has long-term power purchase agreements (PPA) at fixed tariffs with state distribution utilities and central nodal agencies/intermediaries such as Solar Energy Corporation of India Limited (SECI, [ICRA]AAA (Stable)/[ICRA]A1+), PTC India Limited ([ICRA]A1+) and NTPC Vidyut Vyapar Nigam Limited (NVVN), limiting demand and pricing risks. Within the balance portfolio, about 9% is tied up with Group captive consumers, which have PPAs for shorter durations and the balance 2% is related to a 40-MW asset, wherein the PPA tied-up with Maharashtra State Electricity Distribution Company Limited (MSEDCL) expired in FY2021 and the same has been extended on a short-term basis at a lower tariff. The PPAs contracted with MSEDCL (~7% of portfolio) have a shorter PPA tenure of 13 years against 20-25 years tied up with other discoms and central nodal agencies. Additionally, the PPA for the recently awarded 180-MW wind power project is expected to be signed shortly. ICRA

¹ Excluding the recently awarded 180 MW wind power project

favourably takes note of the presence of central counterparties for a majority of the portfolio, the competitive tariffs offered by the recently commissioned projects and the adequate liquidity buffer for the Group in the form of debt service reserve accounts (DSRA) at the SPV level and working capital facilities (overdraft and short-term loans) at GIWEL's level. All these factors are expected to result in comfortable debt coverage metrics for the Group at a consolidated level. Also, the Group is eligible to receive carbon credits for generation from the wind and solar power projects. The recent revival in the market for carbon credits is expected to aid the Group's profitability and cash flows in the near term.

However, the ratings are constrained by counterparty credit risks pertaining to the exposure to the state distribution utilities of Rajasthan, Maharashtra, Andhra Pradesh and Madhya Pradesh as is evident from the delay in payments in the past. The ratings are also constrained by the vulnerability of the company's revenues and cash flows to the seasonality and variance in wind and solar power generation owing to the weather conditions. This is because the revenues are linked to actual generation as the PPA tariff is single-part in nature. Further, the ability of the Group to demonstrate satisfactory operational performance for the recently commissioned and under construction projects post commissioning remains critical, given the large sized nature of projects and the fine tariffs quoted under the bids.

ICRA also takes note of the issues over machine availability faced by the projects using machines from Regen. This requires replacement of machinery for ~19% of SGIL's operating portfolio over the next few years. The Group is expected to have adequate buffer to fund the cost of such replacement from its internal accruals.

ICRA also takes note of the execution risks associated with the 400 MW solar and 180 MW wind power capacity under development, wherein any delays in execution could lead to cost escalation, attract liquidated damages from customers and impact the tariff viability. Moreover, the 400 MW solar asset is facing uncertainty over execution timelines in view of the recent Supreme Court order to convert the overhead transmission lines used for evacuating power from renewable power projects to underground cables in the habitat area of Great Indian Bustard (GIB) in Rajasthan and Gujarat. Therefore, the ability of the company to secure additional time remains important. Also, the company's operations at the Group level remain exposed to interest rate risk due to the fixed nature of the PPA tariff for the portfolio along with regulatory risks associated with the implementation of scheduling and forecasting norms for the underlying SPV subsidiaries and the risk of adverse amendments in captive policy for the Group captive projects.

The Stable outlook on the [ICRA]AA rating reflects ICRA's opinion that the company's overall business profile would benefit from the operational status of majority of the portfolio with a satisfactory track record, asset diversity, long-term PPAs as well as demonstrated ability to execute the projects within timelines/budgeted costs.

The short-term rating assigned to SGIL has been reaffirmed and withdrawn in accordance with ICRA's policy on withdrawal of credit ratings and as there is no amount outstanding against the commercial paper and short-term bank facilities.

Key rating drivers and their description

Credit strengths

Strong sponsor and experienced management team - SGIL is a step-down subsidiary of Sembcorp Industries Pte Limited through SUPL. Sembcorp Industries Pte Ltd is ~49.5% held by Temasek Holdings (Private) Limited (rated AAA by Moody's). The companies within the Sembcorp Group are managed by a team of experienced technocrats and investment/finance professionals who have a long track record of project execution and operations. The Group has a portfolio of 2.3 GW renewable power projects in India out of which 1.7 GW is operational in nature.

Long-term power purchase agreements in for majority of the portfolio - About 89% of the Group's portfolio has long-term power purchase agreements at fixed tariffs with state distribution utilities and central nodal agencies/intermediaries such as Solar Energy Corporation of India Limited (SECI, [ICRA]AAA (Stable)/ [ICRA]A1+), PTC India Limited ([ICRA]A1+) and NTPC Vidyut Vyapar Nigam Limited (NVVN), limiting demand and tariff risks. The balance portfolio is tied up with Group captive customers

with tariffs at a discount to the grid tariffs and PPAs of shorter tenures. The PPAs signed with central nodal intermediary agencies are superior by virtue of a better payment security mechanism, additional safeguards and the tripartite agreement with SECI. SECI and PTC India Limited are stronger counterparties which reduce the overall counterparty credit risk for the portfolio.

Well-diversified asset base - SGIL, through its network of subsidiaries, has an operating portfolio of 1.7 GW renewable energy assets in seven states – Karnataka, Tamil Nadu, Maharashtra, Rajasthan, Madhya Pradesh, Gujarat and Andhra Pradesh. The company also has an under-development capacity of 580 MW, comprising 400 MW solar power project and 180 MW wind power project.

Long operational track record for majority of the operational portfolio - The entire operational portfolio of 1.7 GW has an operational track record of more than one year and ~68% of the portfolio has a track record of more than three years, providing comfort on the generation performance. The weighted average track record of operational capacity was 5.3 years as of December 2021. While the performance of the assets was impacted by a weak wind season in FY2021, it has improved in 8M FY2022 on a YoY basis.

Satisfactory liquidity at Group level - At the Group level, the liquidity position remains comfortable with healthy cash flows from operations, very low utilisation of the working capital limits of Rs. 150 crore and short-term loan facilities of Rs. 900 crore at GIWEL level. This apart, GIWEL had cash & bank balances (including DSRA) of Rs. 335.87 crore as of November 2021. Further, the Group is eligible to receive carbon credits for generation from its renewable power projects. The recent revival in the market for carbon credits is expected to aid the profitability and cash flows of the Group in the near term.

High tariff competitiveness of projects won through competitive bidding - The Group won three wind power projects - 249.9 MW SECI-I at Rs 3.46/kWh, 252.0 MW SECI-II at Rs 2.65/kWh and 300 MW SECI-III at Rs 2.44/kWh - which are operational. Further, GIWEL won a 400-MW solar power project at a tariff of Rs 2.0/kWh in a bidding conducted by SECI in November 2020. Also, the company won a 180-MW wind power project under SECI's 1.2 GW ISTS Tranche XI tender in September 2021 at a tariff of Rs. 2.69 per unit. While the wind and solar energy generation has a must-run status, the tariff competitiveness of such bid tariff based projects from the offtaker's perspective is superior and mitigates the risk of grid curtailment to a large extent.

Credit challenges

Counterparty credit risks arising out of exposure to state utilities - SGIL's counterparty profile includes exposure to Group captive customers, central counterparties such as SECI, PTC India and NRVN and state distribution utilities, including those of Gujarat, Karnataka, Tamil Nadu, Madhya Pradesh, Rajasthan, Maharashtra and Andhra Pradesh. The distribution utilities of Madhya Pradesh, Rajasthan, Andhra Pradesh and Maharashtra have delayed payments in the past, which underscore their modest financial profile. However, this is partly offset by the timely payments from the central counterparties and the state utilities of Gujarat.

Limited income stream as SGIL is holding company - SGIL is the holding company of all the renewable projects of the Sembcorp Group in India and has limited income stream in the form of management fee, development fee, facility sharing fee and interest income on loans to subsidiaries.

Vulnerability to weather conditions affecting wind & solar generation – For wind and solar power plants, the revenue and cash flows are directly linked to the prevalent wind conditions and irradiation levels at sites. The tariff under the PPAs is single part in nature. The risk is, however, mitigated to some extent by the operational track record of the projects.

Execution risks associated with under-construction/under-development projects - In November 2020, GIWEL won one solar power project of 400 MW through competitive bidding by SECI. This project was won at a tariff of Rs. 2.0 per unit and the scheduled COD of the project is July 2022. However, the project is facing uncertainties over execution timelines owing to the recent Supreme Court order on conversion of existing and future overhead lines to underground cables in the habitat area of

the Great Indian Bustard. This would have cost implications for the developers as well as for the central/state transmission utilities. Also, the increase in module prices in the last 12 months adversely impacts the economics of this project. Further, GIWEL emerged as a winning bidder for a 180 MW wind power project under SECI’s 1.2 GW ISTS Tranche XI tender in September 2021 at a tariff of Rs. 2.69 per unit. The ability of the Group to commission these projects without major cost and time overruns shall be critical. Along with the execution progress of under-construction projects, the timely adoption of PPA and PSA tariff by the appropriate regulatory commission bodies (CERC/SERCs) remains important and a key monitorable.

Ability to maintain machine availability for self O&M - The Group has opted for self O&M for wind power projects by terminating the contracts with some O&M contractors. The machine availability for most of these projects has improved compared to the past trends. However, the machine availability for the projects using machines from Regen remains sub optimal. The issues can be rectified by replacing the machinery for ~19% of SGIL’s operating portfolio over the next few years. The Group is expected to have adequate buffer to fund the cost of such replacement from its internal accruals. Going forward, the ability of the Group to maintain machine availability for wind power projects remains critical as revenue and cash flows are linked to actual generation.

Interest rate risk and regulatory risks – As the tariff for majority of the Group’s projects are fixed in nature for the tenor of the PPA, the projects are exposed to the variation in interest rates, given the floating nature of the interest rate for several loans. The projects also remain exposed to the risks associated with the implementation of scheduling and forecasting norms.

Liquidity position: Adequate

SGIL, being a holding company, does not have any operations and depends on management fee, dividend and interest income from its subsidiaries, which are used to meet its costs. The company does not have any debt repayment obligations and the working capital limits availed by the company are being shifted to GIWEL as part of the change in the Group structure. The performance of the operating entities under SGIL remains satisfactory with healthy cash flows from operations. The funding requirement for the upcoming projects under the subsidiaries is met through equity from the parent, the internal accruals of the Group and debt funding at the subsidiary level.

Rating sensitivities

Positive factors: The rating can be upgraded in case of improvement in the credit profile of the parent, timely commissioning of the under-development projects without major cost overrun, generation performance of the projects stays above the appraised estimates and if SGIL’s consolidated leverage level declines.

Negative factors: The rating can be downgraded in case of a material decline in the generation performance of the renewable capacity, adversely impacting the credit metrics of the Group. Specific credit metric for a downgrade include the cumulative DSCR falling below 1.30 times on a consolidated basis. Also, any deterioration in the credit profile of the parent would be a rating sensitivity. Significant delays in commissioning the under-development projects with major cost overruns could be another negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Policy on Withdrawal of Credit Ratings Rating Methodology for Solar Power Producers Rating Methodology for Wind Power Producers Rating Approach - Consolidation Impact of Implicit Support from Parent or Group

Parent/Group Support	Parent Company –Sembcorp Utilities Pte Ltd Rating is based on implicit support from parent company/Group which is expected to extend support in case of cash flow mismatches
Consolidation/Standalone	The rating is based on the consolidated financials of the entities mentioned in Annexure-2

About the company

SGIL was incorporated in April 2008 as Green Infra Ltd. by IDFC PE Fund-II & Fund-III to develop/acquire, own and operate renewable energy projects. It was a 100% subsidiary of SEIL until recently, when SEIL divested its stake in SGIL to its parent SUPL. It is now a step-down subsidiary of Sembcorp Industries Pte Limited, which is ~49.5% held by Temasek Holdings (Private) Limited (rated AAA by Moody's).

SGIL, through its network of subsidiaries, has an operating portfolio of 1,729.7 MW renewable energy assets, which includes 1,694.7 MW wind power projects and 35-MW solar power projects in seven states – Karnataka, Tamil Nadu, Maharashtra, Rajasthan, Madhya Pradesh, Gujarat and Andhra Pradesh. The company also has an under-development capacity of 580 MW, comprising 400 MW solar power project and 180 MW wind power projects. Both these projects have been won through the competitive bidding route from SECI. SGIL does not have any operating assets on its books on a standalone basis.

Key financial indicators

	Standalone		Consolidated	
	FY2020	FY2021	FY2020	FY2021
Operating Income (Rs. crore)	43.7	26.4	1,352.9	1,388.5
PAT (Rs. crore)	69.8	53.6	189.5	(28.3)
OPBDIT/OI (%)	33.4%	15.6%	81.0%	79.3%
PAT/OI (%)	159.7%	203.2%	14.0%	(2.0%)
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.0	2.5	2.5
Total Debt/OPBDIT (times)	13.0	6.1	6.4	6.2
Interest Coverage (times)	3.0	0.4	1.8	1.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest +

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 on December 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019		
				Jan 31, 2022	Jan 05, 2021	Mar 11, 2020	Feb 14, 2019	Aug 21, 2018	
1	Commercial Paper	Short-term	300.0	0.00	[ICRA]A1+; reaffirmed and withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Long term - non-fund based limits- Bank Guarantee	Long-term	150.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)
3	Short term - fund based/non-fund based limits*	Short-term	150.0	-	[ICRA]A1+ reaffirmed and withdrawn	[ICRA]A1+	-		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper	Very Simple
Long term - non-fund based limits- Bank Guarantee	Simple
Short term - fund based/non-fund based limits*	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^^	Commercial Paper	NA	NA	7-365 days	300.0	[ICRA]A1+; reaffirmed and withdrawn
NA	Long term - non-fund based limits- Bank Guarantee	NA	NA	NA	150.0	[ICRA]AA (Stable)
NA	Short term - fund based/non-fund based limits	NA	NA	NA	150.0	[ICRA]A1+; reaffirmed and withdrawn

^^ There are no commercial papers outstanding

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Green Infra Wind Energy Limited	100.00%	Full Consolidation
Green Infra Corporate Solar Limited	100.00%	Full Consolidation
Green Infra Wind Power Generation Limited	71.16%	Full Consolidation
Green Infra Wind Ventures Limited	100.00%	Full Consolidation
Green Infra Wind Assets Limited	100.00%	Full Consolidation
Green Infra Wind Farms Limited	60.93%	Full Consolidation
Green Infra Wind Power Projects Limited	69.06%	Full Consolidation
Green Infra Wind Generation Limited	70.55%	Full Consolidation
Green Infra Solar Energy Limited	100.00%	Full Consolidation
Green Infra Solar Farms Limited	100.00%	Full Consolidation
Green Infra Solar Projects Limited	100.00%	Full Consolidation
Green Infra Wind Energy Asset Limited	100.00%	Full Consolidation
Green Infra Wind Farm Assets Limited	100.00%	Full Consolidation
Green Infra Wind Power Limited	100.00%	Full Consolidation
Green Infra Corporate Wind Limited	100.00%	Full Consolidation
Green Infra Wind Energy Project Limited	100.00%	Full Consolidation
Green Infra Renewable Energy Limited	100.00%	Full Consolidation
Green Infra BTV Limited	90.46%	Full Consolidation
Green Infra Wind Energy Theni Limited	73.02%	Full Consolidation
Green Infra Wind Power Theni Limited	73.21%	Full Consolidation
Mulanur Renewable Energy Limited	67.30%	Full Consolidation
Green Infra Wind Solutions Limited	100.00%	Full Consolidation
Green Infra Wind Technology Limited	100.00%	Full Consolidation
Green Infra Wind Limited	100.00%	Full Consolidation
Green Infra Clean Wind Energy Limited	100.00%	Full Consolidation
Green Infra Renewable Projects Limited	100.00%	Full Consolidation

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