August 23, 2022

Capsol Energy Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based TL	36.94	32.26	[ICRA]A-(Stable); reaffirmed
Total	**36.94**	**32.26**	

**Instrument details are provided in Annexure-1*

Rationale

The rating affirmation continues to take into account the financial flexibility and managerial strength that Capsol Energy Private Limited (CEPL) derives from its parent, Radiance Renewables Private Limited (RRPL), which is backed by Green Growth Equity Fund (GGEF). The National Investment and Infrastructure Fund (NIIF) and Department of International Development (DFID), Government of UK are the anchor investors in GGEF.

CEPL has setup a 9.66 MW/11.97 MWp solar power project in Tamil Nadu which was commissioned in June 2019. CEPL has signed long term power purchase agreement with group captive consumers (Rane Group entities) mitigating the offtake and price risks to some extent. CEPL's operational performance has remained satisfactory with a track record of operations over the last three years. The credit quality of the counter parties of the PPAs is satisfactory, evident from the timely payment track record with a collection efficiency of 100.7% in FY2022.

The rating is, however, constrained by the vulnerability of the company's cash flows to weather conditions as the revenue is linked to the actual generation. The solar power project is exposed to regulatory risk due to changes in transmission/ wheeling charges or losses or any other regulations which may impact the landed cost of electricity for the group captive consumers. The tariff as per the PPA, is lower than the respective grid tariff, resulting in saving for per unit of electricity consumed by the group captive consumers, which provides a comfort. Moreover, CEPL is exposed to interest rate risk as the tariff is fixed while the interest rate is floating in nature.

The rating is also constrained by the risks associated with the implementation of scheduling and forecasting norms. ICRA notes that the existing repayment schedule and prevailing interest rates will keep the debt service coverage ratio (DSCR) under stress going forward. However, ICRA takes comfort from the presence of a strong parent – RRPL, which is committed to support the company's debt servicing in case of any cash flow mismatches emanating from lower generation or delay in payments from customers.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that the operational performance of CEPL's solar power project shall be satisfactory and the payments from the counterparties shall be timely.

Key rating drivers and their description

Credit strengths

Strong parent offers superior financial flexibility & managerial strengths – CEPL is a subsidiary of RRPL which is the holding company of the Radiance Group (installed capacity of 300 MW+) and is backed by GGEF. GGEF counts NIIF and DFID, UK Government among its anchor investors. GGEF is managed by EverSource Capital, which is a joint venture of EverStone Capital and Lighthouse BP. The management of the Radiance Group has experience in setting up renewable power projects in India. GGEF has capital commitments from anchor investors for investing in RRPL, apart from Ayana Renewables, Green Cell Mobility and other platform companies. RRPL has extended corporate guarantee for the term loan of CEPL.

Satisfactory operational track record – Capsol was commissioned in June 2019 and hence has an operational track record of over three years. The generation performance in the last three years has been satisfactory with 18 MU generated in FY2021 and 17.7 MU in FY2022. The PLF for the project has remained slightly lower than the P90 estimates. However, adjusting for weather related variations, the project performed close to the P50 level in FY2022. The ability of the company to demonstrate a satisfactory generation performance remains critical as the revenue is linked to the actual generation.

Long-term power purchase agreement with group captive consumers mitigates offtake and price risks – CEPL's solar power project has signed a long term PPA for 25 years with a lock-in period of 10 years with Rane Group entities under the group captive mode, which mitigates the offtake and price risks to some extent. The tariff is lower than the grid tariff leading to cost saving for every unit of electricity purchased by the group captive consumers. The PPAs also have termination payment clauses in case of default by customer/developers.

Satisfactory credit quality of counterparties; timely payments translate into low receivable days - The credit quality of CEPL's counter parties is satisfactory, evident from the financial profile of these entities and timely payments from them with a collection efficiency of 92.3% in FY2021 and 100.7% in FY2022.

Credit challenges

Seasonal nature of operation and unpredictable PLFs of solar power projects – CEPL's solar power project is exposed to the risks associated with the seasonal nature of the operations and the unpredictability in PLF as the revenue is linked to the actual generation. The seasonality of generation is lower in solar power projects compared to wind or hydro power projects.

Regulatory risk due to changes in transmission/ wheeling charges or losses or any other regulations - The solar power project of Capsol set up under group captive norms is exposed to regulatory risk on account of changes in transmission/wheeling charges or losses/ banking norms etc which may impact the landed cost of electricity or the tariff competitiveness for group captive consumers. The risk is mitigated to some extent by the non-levy/ pass through of such charges/losses to the group captive consumers in the PPAs. However, in case of any upward revision in these charges/losses or adverse change in regulations, the landed cost of power for the group captive consumers will increase which may lead to tariff negotiation after the lock-in period. The PPA tariff for the company's solar power is at a discount for the group captive customers (Rane Group entities) relative to the grid tariff, thus providing an economic benefit to them and offers a comfort.

Interest rate risk as tariff for majority of projects in PPAs is fixed – CEPL is exposed to interest rate risk as the tariff is fixed while the interest rate is floating in nature.

Liquidity position: Adequate

The liquidity profile of the company is **adequate**, reflected in the availability of surplus cash of Rs. 2.6 crore (provisional) which includes one-quarter DSRA of Rs. 1.6 crore maintained in fixed deposits as on March 31, 2022. Going forward the internal cash flow generation from the project is expected to be sufficient to meet the debt servicing obligations with generation close to the P90 estimates. In case of a shortfall in cash flow generation, ICRA expects the parent, Radiance Renewables Private Limited, to meet the cash flow mismatch if any.

Rating sensitivities

Positive factors - ICRA could upgrade Capsol's rating if the actual generation level is in line with the P90 estimates on a sustained basis leading to healthy cash accruals for the company. Moreover, a correction in the elongated receivable position or a DSCR above 1.20 times on a sustained basis will favour an upgrade. The ratings could also be upgraded if the credit profile of the parent, Radiance Renewables Private Limited, improves.

Negative factors - Negative pressure on Capsol's rating could arise if the actual PLF remains low on a sustained basis and/or there is further deterioration in the receivable cycle, adversely impacting the liquidity position of the company. Also, the rating could be revised downwards if the linkages with the parent or the credit profile of its parent. i.e., Radiance Renewables Private Limited, weakens.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Implicit Parent or Group Support
Parent/Group Support	Parent – Radiance holds 70% stake in Capsol while the remaining is held with Rane Group The assigned rating derives comfort from the strong parent support of Radiance which is expected to meet the funding requirements or cash flow mismatches of Capsol, as and when required
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

Capsol Energy Private Limited (CEPL) is a subsidiary of Radiance Renewables Private Limited (RRPL) which is the holding company of Radiance Group and is backed by Green Growth Equity Fund (GGEF). GGEF has NIIF and DFID, UK Government as its anchor investors. GGEF is managed by EverSource Capital which is 50:50 joint venture of EverStone Capital and Lighthouse BP. RRPL had acquired CEPL in August 2020.

CEPL has setup a 9.66 MW/ 11.97 MWp solar power project in Tamil Nadu under the group captive mode which was commissioned in June 2019. The long term PPAs are signed with Rane Group entities for a lock-in period of 10 years out of a PPA duration of 25 years. Radiance holds 70% while the Rane Group entities hold the remaining 30% in CEPL as on March 31, 2022.

Key financial indicators (Provisional)

	FY2020 (Audited)	FY2021 (Audited)	FY2022 (Provisional)
Operating income (Rs. crore)	5.0	7.3	7.7
PAT (Rs. crore)	-1.2	1.0	1.2
OPBDIT/OI (%)	87%	85%	85.5%
PAT/OI (%)	-24.3%	14%	15.5%
Total outside liabilities/tangible net worth (times)	2.6	2.3	2.0
Total debt/OPBDIT (times)	0.0	5.7	4.9
Interest coverage (times)	1.0	2.4	2.2

Status of non-cooperation with previous CRA: Not Available

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					23-Aug-2022	11-Nov-2021	10-Sep-2020	-
1	Long term - Fund based TL	Long Term	32.26	32.26	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term - Fund based TL	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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Aug 2020	9.15%	FY2030	32.26	[ICRA]A-(Stable)

Source: *Company*

Annexure II: 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.

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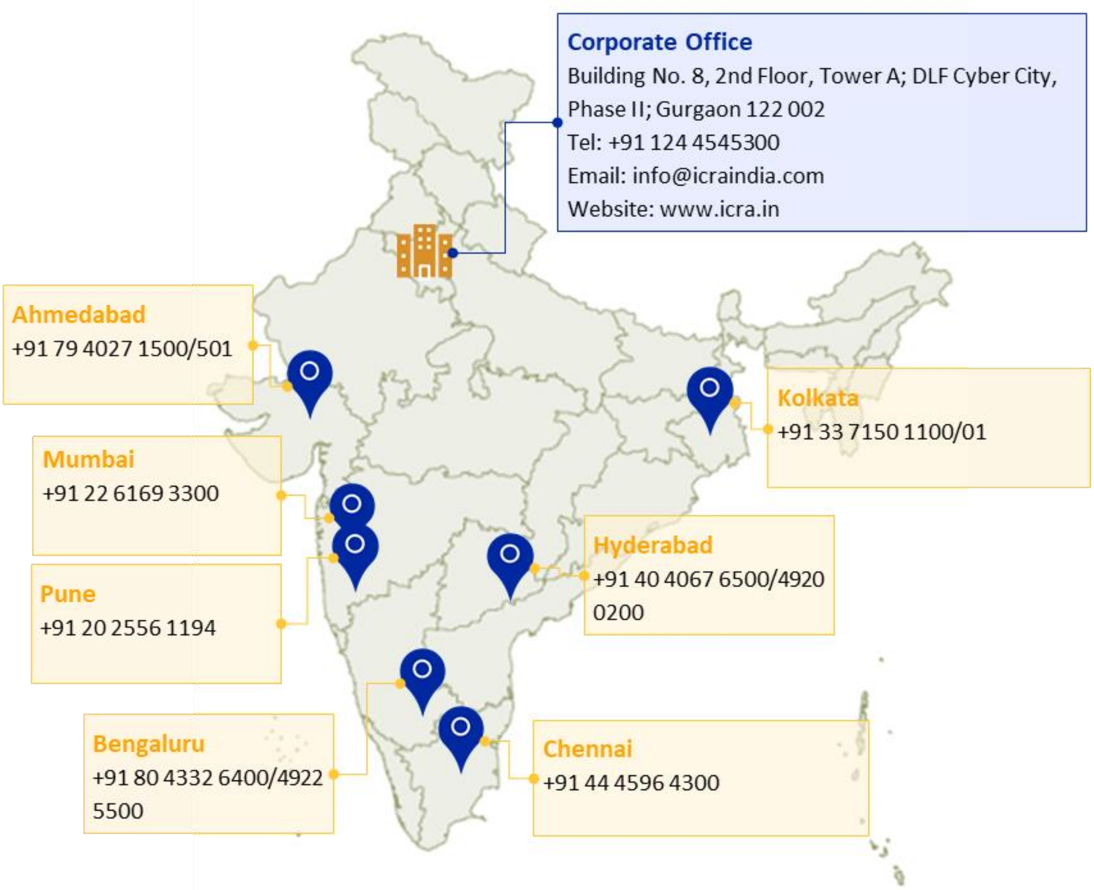

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