October 31, 2022

Divine Solren Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based term Loans	258.00	258.00	[ICRA]AAA(CE) (Stable); reaffirmed
Long term/Short term – Unallocated	27.00	27.00	[ICRA]A+ (Stable)/[ICRA]A1; reaffirmed
Total	**285.00**	**285.00**	

**Instrument details are provided in Annexure-1*

Rating without Explicit Credit Enhancement	[ICRA]A+ / [ICRA]A1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]AAA(CE) (Stable) rating

The [ICRA]AAA(CE) (Stable) rating is based on the strength of the corporate guarantee provided by Apraava Energy Private Limited (AEPL; formerly known as CLP India Private Limited), the parent company of Divine Solren Private Limited (DSPL), for the rated term loan limits. The rating draws comfort from AEPL's established track record of owning and operating renewable power, thermal power and power transmission assets in India, its healthy financial profile and the strong profile of the ultimate shareholders – CLP Holdings Limited {rated Moody's A2 (Stable); 60% shareholding} and Caisse de dépôt et placement du Québec {CDPQ; rated Moody's Aaa (Stable); 40% shareholding}. ICRA notes that CLP Holdings is in the process of selling its 10% stake in AEPL to CDPQ. Post this transaction, the shareholding would be held equally by the two promoters. The transaction is expected to be completed by December 2022.

The generation and transmission assets of AEPL have healthy revenue visibility, supported by the availability of long-term offtake agreements. The rating also considers AEPL's exposure to financially weaker distribution companies (discoms) for the operational power generation capacities, which poses counterparty credit risk pertaining to delayed payments. Payment delays have been prominent in the case of the state discoms of Maharashtra, Telangana and Rajasthan where AEPL's exposure is particularly high for its renewable (RE) assets. Nonetheless, the diversity in the offtaker base and the strong liquidity profile are the mitigating factors against this risk. Also, the receivable position for the RE portfolio is expected to ease with the receipt of payments from the discoms under the instalment scheme as notified by the Ministry of Power, Government of India.

The rating also takes into account the implementation risk for the ongoing greenfield wind power project at Sidhpur, Gujarat, of 252 MW capacity. The funding for this project would be met through the available liquidity and internal accruals. Further, AEPL's consolidated repayments in the medium term are sizeable, which may lead to refinancing requirements. Nonetheless, its healthy financial flexibility, demonstrated refinancing ability in the past, healthy surplus cash generation and sufficiently long tail period for the assets requiring refinancing offer comfort. The rating also takes note of the company's modest return indicators on a consolidated basis.

Adequacy of credit enhancement

ICRA's rating on DSPL notes the corporate guarantee provided by AEPL for its term loans availed from banks. The guarantee is legally enforceable, irrevocable, unconditional and covers the entire amount and tenor of the rated instrument. While the guarantee does not have a well-defined payment mechanism, the guarantor undertakes that in case of insufficiency of funds in the escrow account, it shall, at least one day prior to the due date, infuse amounts equivalent to the insufficiency into the borrower (viz. DSPL) and ensure that the borrower is in compliance with its debt servicing obligations on the due date. Given these attributes, the guarantee provided by AEPL is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]AAA(CE) against the rating of [ICRA]A+ without explicit credit enhancement. In case the credit profile of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility (term loans)

1. Borrower to maintain minimum debt service coverage ratio (DSCR) of 1.15 times and minimum fixed asset cover (FACR) of 1 times
2. Debt to equity ratio of the guarantor to not exceed 3 times

For the [ICRA]A+ (Stable)/[ICRA]A1 ratings

The reaffirmation of the ratings considers DSPL's strong parentage as it is a wholly-owned subsidiary of AEPL, providing it with healthy operational and financial flexibility. The ratings also take into account the healthy plant load factor (PLF) performance of the project as well as the limited offtake risk because of the long-term power purchase agreement (PPA) with Telangana State Northern Power Distribution Company Limited (TSNPDCL) for the entire generation capacity. While the plant PLF has moderated in FY2022 and 5M FY2023 and the interest rate on one of the loans has increased, the debt metrics for the company are expected to remain comfortable with the cumulative DSCR on the project debt estimated to remain above 1.40 times during the debt tenure, supported by adequate generation performance and competitive interest rates.

The ratings, however, are constrained by DSPL's exposure to counterparty credit risks pertaining to the sole offtaker, TSNPDCL, evident from the substantial delays in receiving payments in the past. As on September 30, 2022, the company's overdue receivables stood at 17 months. Going forward, the timely collection of payments from TSNPDCL on a sustained basis will be a key rating monitorable. In this context, the company undertakes to maintain a debt service reserve equivalent to two quarters of debt obligations. Moreover, ICRA draws comfort from the available cash balances of Rs. 55 crore, which provides coverage for close to two years of debt servicing. The PPA tariff of Rs. 5.5949/unit for the project is higher than the latest competitively-bid tariff rates for sourcing solar energy as well as the average power purchase cost of the offtaker utility. While this exposes it to the risk of grid curtailment, DSPL has not faced any grid availability issues from TSNPDCL till date.

Further, the ratings are constrained by the vulnerability of the cash flows to weather conditions and module performance, considering the single part and fixed nature of the tariff under the PPA. ICRA also notes that the company is exposed to refinancing risks, given the put option provided to one of the lenders at the end of five years and as the tenure for the loan availed from the second lender is five years. Nonetheless, the long residual PPA tenure (PPA valid till February 16, 2041) and the strong financial flexibility as a part of the Apraava Group offer comfort.

The Stable outlook reflects ICRA's expectation that DSPL's operating performance would remain healthy and its overall liquidity buffer for servicing its debt obligations would remain adequate in the near to medium term.

Key rating drivers and their description

Credit strengths

Diversified asset profile, healthy financial profile and strong parentage – AEPL has an operating generation capacity of 2.49 GW across seven states and has tied up long-term PPAs with state distribution utilities, offering healthy revenue visibility. The ratings draw comfort from AEPL's established track record of owning and operating power generation and transmission assets, its healthy financial profile and strong liquidity position. Further, AEPL enjoys superior financial flexibility because of its strong parentage, with 60% held by CLP Holdings Limited and the remaining 40% held by CDPQ (through CDPQ Infrastructure Asia II Pte Ltd).

Strong parentage provides DSPL with operational and financial flexibility; term loans backed by corporate guarantee from parent – The strong parentage offers DSPL healthy operational and financial flexibility, reflected in the competitive interest rates on its external term loans. It also enjoys strong explicit financial support from AEPL in the form of a corporate guarantee on its term loans.

Healthy operational track record of the project under DSPL – The 50-MW (AC)/59-MW (DC) solar power plant has a satisfactory track record since its commissioning in July 2017. The project PLF, over the years, remained higher than the P90 generation estimate.

Revenue visibility with long-term PPA with TSNPDCL – DSPL has signed a PPA with TSNPDCL at an average feed-in tariff of Rs. 5.5949 per unit for the entire generation capacity. This limits the demand and pricing risks and provides revenue visibility as well.

Comfortable debt coverage metrics supported by healthy operating performance and competitive interest rates – DSPL's debt coverage indicators are expected to remain comfortable over the debt tenure, given the competitive interest rates and healthy PLF performance.

Credit challenges

Exposure to counterparty credit risk; long delays in receiving payments – DSPL's operations remain exposed to the counterparty credit risk of TSNPDCL as it is the sole offtaker. TSNPDCL's credit profile is modest owing to inadequate tariffs in relation to the cost of supply and the high subsidy dependence. As on September 30, 2022, payments till the generation of February 2021 were cleared by TSNPDCL, indicating an overdue receivables position of 17 months. Nonetheless, DSPL's liquidity position is supported by healthy cash balances. The company undertakes to maintain a liquidity cover of at least the next two quarters' debt servicing requirements till the tenure of the term loans, which offers comfort against the delay in payments by the discom.

Weak cost competitiveness of PPA tariff – DSPL remains exposed to the risk of grid curtailment by TSNPDCL, given the relatively high PPA tariff (Rs. 5.5949/unit) against the average power purchase cost of the state distribution utility and the recent competitively-bid tariff rates for sourcing solar energy. Nevertheless, no such instances of grid curtailment have been witnessed by the project so far.

Variation in cash flows due to changes in solar irradiance, given single location of the project – The key factors that may impact the operations of the solar plant are solar radiation levels, losses in photovoltaic (PV) systems due to temperature and climatic conditions, design parameters of the plant, inverter efficiency and module degradation due to ageing. Given the single-part tariff structure, any underperformance in generation would impact the cash accruals and, in turn, the debt coverage metrics. The risk of variability in cash flows is amplified by the geographical concentration of the plant. However, the variation in solar irradiance levels has historically been much lower than other sources of renewable energy (RE), such as wind and hydropower projects.

Exposure to financially weak offtakers – There is significant exposure at the consolidated level to financially weaker discoms for the operational power generation capacities, which poses counterparty credit risks pertaining to delayed payments. Around 94% of the operational RE capacity is tied up with the state discoms of seven states through long-term PPAs, while the remaining 6% is tied up with Solar Energy Corporation of India (SECI). Over the past 15-18 months, payments from all the state discoms, except Gujarat, have witnessed delays. The delays have been prominent, especially in the case of Maharashtra (18% of RE capacity), Telangana (15% of RE capacity), Tamil Nadu (8% of RE capacity) and Rajasthan (22% of RE capacity). The thermal capacity of 1,320 MW under Jhajjar Power Limited is tied up with Haryana discoms, wherein the payment track record has remained satisfactory. Nonetheless, the diversity in the offtaker base and the strong liquidity profile are the mitigating factors against this risk. Also, the receivable position for the RE portfolio is expected to ease with the receipt of payments under the instalment scheme from the discoms.

Implementation risk for ongoing project and refinancing requirement in medium term; modest return indicators – AEPL faces implementation risk for its ongoing greenfield wind power project of 252 MW capacity at Sidhpur at an approximate cost of Rs. 2,000 crore. The equity requirement for this project is expected to be funded by cash balances and internal accruals. The consolidated debt repayments towards the existing loans and additional loan for this project is significant over the medium term and may require refinancing. However, the Group's healthy financial flexibility, its demonstrated refinancing ability in the past, healthy surplus cash balances and sufficiently long tail period for the assets requiring refinancing offer comfort. While AEPL's consolidated financial profile remains healthy, its return indicators are modest on account of the significant cost overrun incurred at the Jhajjar power plant. This has led to sub-optimal returns, given the non-escalable nature of the capacity charges under the PPA.

Liquidity position

For [ICRA]AAA(CE) (Stable) rating: Strong

AEPL's liquidity position is strong. As on July 31, 2022, it had cash balances of Rs 629.33 crore at the consolidated level. The liquidity is further supported by undrawn working capital limits of approximately Rs. 300 crore as on March 31, 2022 at AEPL (standalone level). The consolidated cash flows are expected to be adequate to service the total term loan repayment obligations over the medium term. While there are refinancing requirements in FY2024 given the large repayments, the company's healthy financial flexibility, its demonstrated refinancing ability in the past, healthy surplus cash available at the Group level and sufficiently long tail period for the assets requiring refinancing offer comfort.

For [ICRA]A+ (Stable)/[ICRA]A1 ratings: Adequate

DSPL's liquidity position is adequate. The cash flow from operations along with the available liquidity is expected to remain adequate for servicing the debt obligations in the near to medium term. The company's liquidity profile is supported by cash balances of Rs. 55.0 crore as on September 30, 2022. Additionally, it has strong funding support from the parent, AEPL, in the form of an unconditional and irrevocable corporate guarantee for its entire external term debt.

Rating sensitivities

Positive factors

For CE rating: Not applicable

For non-CE ratings: A sustained improvement in the collection pattern from the Telangana state discom, along with the continuation of a healthy generation performance above the appraised estimates could lead to a rating upgrade.

Negative factors

For CE and non-CE ratings: Pressure on the ratings could emerge in case of a downward movement in the credit profile of the parent, AEPL. Further, any material underperformance in generation by DSPL from the current level, leading to a fall in the annual DSCR on the project to less than 1.35 times on a sustained basis, or the accumulation of receivables from the discom adversely affecting the liquidity may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Approach for Rating Debt Instruments Backed by Third Party Explicit Support Rating Approach – Implicit Support from Parent or Group
Parent/Group Support	Parent / Group: AEPL The assigned ratings factor in the high likelihood of the parent extending financial support to DSPL, if needed, because of the close business linkages between them. The support is further demonstrated by the presence of a corporate guarantee from AEPL for the term loans availed by the company.
Consolidation/Standalone	The ratings are based on the standalone financials of DSPL.

About the company

DSPL, incorporated in May 2015, DSPL was set up as a wholly-owned subsidiary of Mahindra Renewables Private Limited (MRPL) for the development and operation of a ground mount solar power plant of 50-MW (AC) capacity in Mallapur village (Telangana). The project achieved the commercial operation date (COD) on July 22, 2017. The entire capacity of the project is tied up with a 25-year long-term PPA with Telangana State Northern Power Distribution Company Limited at a fixed tariff of Rs. 5.5949/unit. In April 2020, AEPL acquired the entire 100% equity stake in DSPL from MRPL for Rs. 124.47 crore.

About the guarantor

AEPL is promoted by Hong Kong-based CLP Group and CDPQ. AEPL started its India operations in FY2003 by acquiring a 655-megawatt (MW) gas-fired combined cycle power plant at Paguthan, near Bharuch, from Torrent Power. The company forayed into renewable energy projects by developing a 50.4-MW wind power project at Khandke, Maharashtra, under its wholly owned SPV. Over the years, it added more renewable projects through organic and inorganic ways, under various SPVs with AEPL serving as the holding company. Currently, AEPL has a diversified presence across the renewable power generation (wind and solar) and the thermal power segments (coal and gas). It also forayed into the power transmission business by acquiring an operational intra-state transmission project (240-km, 400-kV transmission line) set up in Madhya Pradesh, under Satpura Transco Private Limited (STPL), in November 2019. Later, in December 2021, AEPL acquired Kohima Mariani Transmission Limited (KMTL; an inter-state transmission asset which operates 254 km 400kV transmission lines in Manipur, Nagaland and Assam).

As on September 30, 2022, AEPL had a total capacity of 3,401.2 MW. This included an operational capacity of 2,494.2 MW, comprising 1,320 MW of coal-based thermal (42%) and 924.2 MW of wind (29%) and 250 MW of solar (8%) capacities. The non-operational capacity included gas-based thermal power capacity of 655 MW (non-operational since December-2018 post expiry of its long-term PPA), while 252 MW of wind capacity is under construction.

On a standalone basis, AEPL owns and operates the 655-megawatt (MW) gas-fired combined cycle power plant at Paguthan, near Bharuch, a 50.40-MW wind farm at Samana in Gujarat and a 100-MW solar power plant in Veltoor, Telangana. It is also developing a 252-MW wind power project at Sidhpur, Gujarat.

Key financial indicators (audited)

	DSPL		AEPL - Standalone		AEPL - Consolidated	
Particulars	FY2021	FY2022	FY2021	FY2022	FY2021	FY2022
Operating income (Rs. crore)	52.38	56.52	138.61	142.74	3439.44	4617.57
PAT (Rs. crore)	7.86	18.94	56.86	-1010.67	337.33	131.33
OPBDIT/OI (%)	93.24%	92.39%	33.17%	30.78%	41.61%	31.53%
PAT/OI (%)	15.00%	33.51%	41.02%	-708.07%	9.81%	2.84%
Total outside liabilities/Tangible net worth (times)	2.64	2.15	0.14	0.19	0.74	0.92
Total debt/OPBDIT (times)	5.23	4.70	17.80	19.51	3.31	3.81
Interest coverage (times)	2.25	2.89	0.91	0.92	3.59	3.62

Source: Company data, ICRA Research 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 (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Jul 31, 2022 (Rs. crore)	Date & rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					October 31, 2022	August 26, 2021	-	-
1	Fund based – Term loans	Long Term	258.00	244.52	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	-	-
2	Unallocated	Long/Short Term	27.00	-	[ICRA]A+ (Stable) /[ICRA]A1	[ICRA]A+ (Stable) /[ICRA]A1	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based Term Loan	Simple
Long / Short-term Unallocated	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 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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Term loan I**	Jan-2021	-	Mar-2037	129.00	[ICRA]AAA(CE) (Stable)
-	**Term loan II**	Nov-2020	-	Jan-2026	129.00	[ICRA]AAA(CE) (Stable)
-	**Unallocated**	-	-	-	27.00	[ICRA]A+ (Stable)/ [ICRA]A1

Source: *Company data*

Please click here to view details of lender-wise facilities rated by ICRA

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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