

March 27, 2023

ABREL Solar Power Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term loan	228.00	[ICRA]AA (Stable); assigned
Total	228.00	

*Instrument details are provided in Annexure-1

Rationale

The rating assigned to ABREL Solar Power Limited (ABReSPL) factors in the company's strong parentage as a part of the Aditya Birla Group (ABG). ABReSPL is a subsidiary of Aditya Birla Renewables Limited (ABReL), which is, in turn, 100% held by Grasim Industries Limited (GIL; rated [ICRA]AAA (Stable)/ [ICRA]A1+), ABG's flagship company. The Group has an operational renewable (RE) power capacity of 747 MW and assets under construction and development of over 1,300 MW, with large plans to grow the RE platform, going forward. ABReSPL benefits on the financial, operational and managerial front because of its strong parentage.

ICRA positively factors in the presence of long-term power purchase agreements (PPA) with Grasim Industries Limited (GIL) under the captive mode for the entire 60.3-MW (DC) capacity, including 25-MW operational solar assets and the 35.3-MW under-construction hybrid project of ABReSPL. The tariff rates offered by ABReSPL remain highly competitive against the grid tariffs. ICRA also takes note of GIL's strong credit profile and expects timely payments from GIL. The power sourced from ABReSPL would enable GIL to meet its renewable purchase obligation (RPO)/sustainability targets. Further, ICRA factors in the competitive cost of debt and the long tenure of debt availed by ABReSPL, which is likely to result in adequate debt coverage metrics for the company.

The rating, however, is constrained by the under-construction status for 35.3 MW capacity under ABReSPL and the limited track record of generation for the 25-MW operational solar capacity, which was commissioned between June 2022 and January 2023. Nonetheless, ICRA draws comfort from the limited execution challenges for the 35.3-MW capacity scheduled to be commissioned by March 31, 2023, with the required land and connectivity approvals in place and the advance progress in construction. Further, the rating is constrained by the vulnerability of the company's cash flows and debt protection metrics to its generation performance. Any adverse variation in weather conditions and module performance may impact the PLF levels and consequently affect its cash flows, given that the PPA tariff is single part in nature. The demonstration of generation performance in line or above the appraised estimate remains important to achieve the desired return metrics. Given the debt equity mix of 80:20 for the projects, ABReSPL is expected to have a leveraged capital structure and the debt coverage metrics would remain exposed to adverse interest rate movements, as seen in the current fiscal.

The Stable outlook assigned to the long-term rating factors in the steady cash flow visibility, aided by the long-term PPA and timely collections expected from the customer along with the benefits of being part of ABG.

Key rating drivers and their description

Credit strengths

Strong financial, operational and managerial support as part of Aditya Birla Group – ABReSPL is a subsidiary of ABReL, which is a 100% subsidiary of GIL, ABG's flagship entity. The Group has an operational solar power portfolio of ~747 MW (including ~81 MW is housed under another promoter entity but managed by ABReL), with assets under construction and development

of over 1,300 MW. It is focused on increasing its presence in the renewable energy segment, with large growth plans. The Group has already infused equity capital of over Rs. 550 crore for the RE platform and the same will increase further as more capacity is added. GIL has significant control over the operations of the renewable arm. With ~33% of the operational capacity procured by the Group entities and common centralised resources, the linkages between GIL and ABReL are very strong. The Group remains committed to providing need-based support to ABReL's assets. ABReL also benefits on account of the strong financial flexibility of ABG, reflected in the cost-competitive rate of funding for its various projects.

Revenue visibility from long-term PPA with GIL; superior tariff competitiveness – ABReSPL has signed PPAs with GIL for 22 years for its entire 60.3-MW capacity. The weighted average tariff for the full capacity is Rs. 3.38 per unit, which is fixed for a period of 22 years. The long-term PPA provides revenue visibility and mitigates the offtake risks for ABReSPL. The tariffs offered by these projects is significantly cheaper than the grid tariff rates offered by the state discoms. Moreover, the power sourced from ABReSPL will help the GIL in meeting its RPO targets.

Presence of strong counterparty and timely payments – The presence of a strong counterparty like GIL is expected to result in timely payments for the company. Moreover, comfort can be drawn from the presence of a termination payment clause in the PPA, ensuring takeover of the project debt by GIL and equity compensation linked to the fair market value of ABReSPL. Also, the PPA has a deemed generation clause ensuring payments to ABReSPL in case of a disruption in generation due to reasons attributable to GIL.

Long tenure of project debt and cost-competitive debt likely to result in healthy debt coverage metrics – The company's leverage level is expected to remain relatively high as the projects are funded through debt and equity in the ratio of 80:20. However, the coverage metrics are likely to remain adequate with cumulative DSCR above 1.25 times, supported by the long tenure of project debt and highly competitive cost of debt.

Credit challenges

Execution risk for under-construction projects and limited track record of generation for operational projects – The 25-MW capacity under ABReSPL was commissioned between June 2022 and January 2023. Hence, there is limited track record of generation. Further, 35.3-MW capacity under ABReSPL is in a construction phase, exposing it to execution risk. Nonetheless, comfort can be drawn from the advanced progress in construction for the 35.3-MW project, thereby limiting execution related challenges.

Vulnerability of cash flows to variation in weather conditions – As the tariffs are one part in nature, the company may book lesser revenues in the event of non-generation of power due to variation in weather conditions or equipment performance. This, in turn, would affect the company's cash flows and debt servicing ability. ABReSPL's ability to ensure a satisfactory operational performance in line with the expected PLF level post the commissioning of the projects remains important from a credit perspective.

Leveraged capital structure and exposure to interest rate risk – The projects are being funded in a debt-to-equity ratio of 80:20. As a result, the company's capital structure is leveraged. Given the single-part nature of the tariff in the PPA and floating interest rates, its profitability and debt coverage metrics remain exposed to the variation in interest rates.

Regulatory risks – The company's operations are exposed to regulatory risks pertaining to the scheduling and forecasting requirements of solar and wind power projects. Also, the company remains exposed to regulations related to captive power projects and adverse variation in open access charges, which could impact the competitiveness of the tariff offered.

Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate with expected cash flows from operations of Rs. 9.0-12.0 crore over FY2024 and FY2025 against repayment obligations of Rs. 4.60 and Rs. 8.90 crore, respectively. As on December 31, 2022, the outstanding cash balance was Rs. 22.63 crore. The funding for the 35.3-MW under-construction asset is tied up through equity from sponsor and debt funding. ICRA also draws comfort from the fact that this entity belongs to the Aditya Birla Group and support from the Group will be forthcoming in case of a cash flow requirement.

Rating sensitivities

Positive factors – ICRA could upgrade ABReSPL’s rating if the credit profile of its parent, i.e., Aditya Birla Renewables Limited, improves.

Negative factors – The rating could be downgraded in case of any major time/cost overruns in commissioning the under-construction projects impacting the company’s coverage metrics. Also, the rating may be affected if the generation performance is lower than the estimated levels, bringing down the cumulative DSCR below 1.20 times, or if there are delays in payments from the offtaker impacting its liquidity position. Further, any weakening of linkages with the parent or weakening of the credit profile of the parent will be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Rating Methodology for Wind Power Producers Rating Approach - Implicit parent or group support
Parent/Group Support	ICRA expects ABReSPL’s parent, ABReL, to be willing to extend financial support to ABReSPL, should there be a need, given the high strategic importance that ABReSPL has for ABReL
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

ABReSPL is a 74% subsidiary of ABReL with the remaining 26% shareholding held by GIL. ABReSPL is setting up 60.3-MW renewable energy (RE) capacity (solar and wind) across the states of Odisha and Gujarat. Of the 60.3 MW, 8.34-MW solar capacity of Ganjam phase-I (Odisha) got operational in June 2022 and 16.66-MW solar capacity of Ganjam phase II (Odisha) got operational on January 21, 2023. The balance 35.3-MW hybrid project (comprising 21-MW wind capacity and 14.3-MW solar capacity) is under-construction in Gujarat, with expected commissioning by March 31, 2023. All the operational and under-construction projects are set up/being set up under the group captive mode wherein the counterparty is GIL.

Key financial indicators (Standalone)*

ABReSL Standalone	FY2021 (Audited)	FY2022 (Audited)
Operating income (Rs. crore)	NM	NM
PAT (Rs. crore)	NM	NM
OPBDITA/OI (%)	NM	NM
PAT/OI (%)	NM	NM
Total outside liabilities/Tangible net worth (times)	NM	NM
Total debt/OPBDITA (times)	NM	NM
Interest coverage (times)	NM	NM

*Ratios are as per ICRA’s computation; PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation, NM – The company was in project phase; hence, the financials are not meaningful (NM)

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 Dec 31, 2022 (Rs. crore)	Date & rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Mar 27, 2023	-	-	-
1 Term loan	Long term	228.00	76.97	[ICRA]AA (Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
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 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: [Click Here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
-	Term loan	September 2022	-	June 2043	228.00	[ICRA]AA (Stable)

Source: Company

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

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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