May 04, 2023

FPEL Flash Energy Private Limited: Rating assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Long term – Fund based - Term loan	21.73	[ICRA]BBB+ (Positive); assigned
Total	**21.73**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's assigned rating for FPEL Flash Energy Private Limited (FFEPL) factors in the limited demand and tariff risks resulting from the presence of long-term power purchase agreements (PPA) with industrial customers for its hybrid project of 7.4 MW (revised from 4.9 MW earlier) at a fixed tariff under the third-party mode. The offtakers – SKF Engineering and Lubrication (India) Pvt Ltd and PI Industries Limited - have comfortable credit profiles, which is expected to result in timely receipt of payments, post commissioning. Further, given the long term PPAs at reasonable tariffs and the long tenure of the project debt, the debt coverage metrics are expected to be satisfactory with the cumulative debt service coverage ratio (DSCR) over 1.30x.

The rating also factors in the company's strong parent – Fourth Partner Energy Private Limited (FPEPL; rated [ICRA]A-(Stable)/[ICRA]A2+) – which has an established track record in the renewable energy sector with an operating portfolio of ~700 MWp. FPEPL is backed by The RISE Fund (TPG) and Norfund, the Norwegian investment fund for developing countries. Further, ICRA takes note of the cash pooling mechanism available to FFEPL with six other fellow subsidiaries – FP Crysta Energy Pvt. Ltd., FPEL Sunrise Pvt. Ltd., FPEL Surya Pvt. Ltd., FP Eco Energy Pvt. Ltd., FPEL Radiant Energy Pvt. Ltd. and FPEL Beat Energy Pvt. Ltd. - wherein any shortfall in debt servicing for FFEPL can be met through the cash surplus available with the other six SPVs. Also, the seven SPVs have cross-default linkages with the parent under the terms of the project debt. The seven SPVs together are setting up 63.2 MW (revised from 60.7 MW planned earlier) hybrid capacity at Gondal in Gujarat, with PPAs tied up with multiple industrial customers. The incremental cost pertaining to the increase in capacity of FFEPL is being funded through promoter contribution. This would be subsequently replaced through additional debt from the lender.

However, the rating is constrained by the risks associated with the timely completion of pending construction work and the receipt of approval for long-term open access. While the scheduled commercial operations date (SCOD) of the entire capacity at Gondal was March 31, 2023, the SPVs are now expected to commission the capacity by June 19, 2023, given that the work related to the internal transmission line is in progress and the pending receipt of the open access approvals. Nonetheless, comfort is drawn from the availability of the required land and the advance progress made in construction work with all the 13 wind turbine generators (WTG) erected and ~99.5% of the solar modules installed. Also, the company has received the approval for charging the pooling sub-station. The completion of pending work and the receipt of open access approvals remain the key monitorables for the company.

Post commissioning, the company's cash flows and debt protection metrics would remain sensitive to its generation performance, given the single-part tariff under the PPAs. Any adverse variation in weather conditions and equipment performance can impact the generation levels and consequently the cash flows. The demonstration of generation performance in line or above the appraised P-90 PLF levels remains another key credit monitorable.

ICRA also notes that FFEPL's debt coverage metrics remain exposed to the interest rate movement as the floating interest rates are subject to regular resets. The rating also factors in the risk of cash flow mismatch as the lock-in period under the PPAs is lower than the debt repayment tenure of 20 years. Nonetheless, comfort can be drawn from the competitive tariffs offered by the company to its customers against the HT industrial grid tariff and the track record of the sponsor in securing PPAs with large industrial and commercial customers. Further, the lender has the option to exercise cash sweep, wherein the surplus cash can be utilised to prepay the debt, thereby reducing the effective debt repayment tenure.

Further, the company's operations remain exposed to the regulatory risks associated with forecasting & scheduling regulations and open access charges. While the increase in the open access charges or imposition of new charges would be borne by the offtakers under the terms of the PPAs, this would impact the competitiveness of the tariff offered under the PPAs and in turn the savings to the customers.

The Positive outlook on the rating factors in the expected improvement in the credit profile of the company post the commissioning and stabilisation of the capacity, providing steady cash flow visibility aided by the long-term PPAs and timely collections expected from the offtakers.

Key rating drivers and their description

Credit strengths

Cash pooling with fellow subsidiaries; operational and financial strengths by virtue of parentage – FFEPL is a wholly-owned subsidiary of FPEPL, which has an established track record in the renewable energy sector with an operating portfolio of ~700 MWp. FPEPL is backed by The RISE fund (TPG) and Norfund with an equity commitment of ~Rs. 1,247 crore. The presence of strong sponsors provides strong financial flexibility to the Group in securing equity and debt funding. FPEPL is expected to support FFEPL in case of any cash flow mismatch. Further, comfort is drawn from the cash pooling mechanism available with the six fellow group subsidiaries in the Gondal project, under the terms of the project debt, wherein any shortfall in debt servicing for FFEPL can be met through the cash surplus available with the other SPVs in the pool.

Revenue visibility due to long-term PPA at highly competitive tariff - FFEPL has signed long-term PPAs covering the entire capacity with SKF Engineering and Lubrication (India) Pvt Ltd and PI Industries Limited. The PPA tenor is 12 years for 2.85 MW with a lock-in period of 3 years (tied up with SKF Engineering and Lubrication (India) Pvt Ltd) and 25 years for the remaining capacity of 4.55 MW (tied up with PI Industries Limited) with a lock-in period of 10 years, thereby limiting the demand and tariff risks for the capacity. Moreover, comfort is drawn from the significant discount offered by FFEPL to the customers against the grid tariff.

Comfortable financial profile of customers expected to result in timely payments – Post commissioning, the payments from the customers are expected to be timely, considering their comfortable financial profiles and the significant discount offered by the company through its tariffs against the grid tariff for industrial customers. Also, the sourcing of power from FFEPL would enable the customers to make a progress in their sustainability initiatives.

Satisfactory debt coverage metrics expected post commissioning – The company's debt coverage metrics are expected to be adequate with a projected cumulative DSCR of over 1.30x over the debt repayment tenure, supported by the long tenure of the project debt and the availability of PPAs at attractive tariffs. The company is in discussion with the existing lender for the sanction of the debt component of the incremental cost corresponding to the increase in capacity compared to the earlier envisaged capacity; meanwhile, the incremental cost will be funded through additional promoter contribution.

Credit challenges

Risks from pending construction work and open access approvals – The Gondal project constituting the seven SPVs aggregating to 63.2 MW (revised from 60.7 MW planned earlier on back of the increase in capacity under FPEL Flash Energy to 7.4 MW from 4.9 MW) hybrid capacity is currently under construction. The project is delayed from the scheduled CoD of March 31, 2023 owing to the delays in receiving certain approvals and the pending construction work. Nonetheless, comfort can be drawn from the availability of land, receipt of all the equipment at the site and the advance progress in construction. As on

April 26, 2023, the SPVs have completed erection of all the 13 WTGs and ~99.5% of the solar modules have been installed. However, part of the work on the internal transmission line is in progress. The project is expected to achieve CoD by June 19, 2023. The completion of the balance work, receipt of open access approval and commissioning within this timeline remain the key credit monitorables for the SPVs.

Vulnerability of debt coverage metrics to energy generation – Given the single-part tariff under the PPAs, the company's cash flows would be linked to the generation achieved by its solar-wind hybrid power projects. The generation would be sensitive to weather conditions, equipment quality and O&M practices. The geographic concentration of the assets amplifies the generation risk. The demonstration of generation performance in line or above the appraised P-90 PLF levels remains a key credit monitorable, post commissioning.

Risk of cash flow mismatch owing to lower lock-in period under PPA in relation to debt tenure – The lock-in period under the PPAs signed by FFEPL is lower than the debt repayment tenure of 20 years, which could lead to the risk of cash flow mismatch. Nonetheless, comfort can be drawn from the competitive tariffs offered by the company to its customers against the HT industrial grid tariff, the track record of the sponsor in securing PPAs with large industrial and commercial customers and the notice period available at the time of PPA termination to enable the company to replace the customers. Further, the lender has the option to exercise cash sweep, wherein the surplus cash can be utilised to prepay the debt, thereby reducing the effective debt repayment tenure.

Interest rate risk – The company's debt coverage metrics remain exposed to any movement in interest rate, given the floating interest rates being subject to regular resets and a leveraged capital structure. Also, the lenders have a put option at the end of seventh year from the date of first drawdown and every five years thereafter, exposing the company to refinancing risks. Further, the company has cross-default linkages with its parent, FPEPL, under the terms of the loan agreement.

Regulatory risk - 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 any 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 the available project debt and promoter funding sufficient to commission the project. Post commissioning, the cash flows from operations are expected to be sufficient to cover the debt servicing obligations. While the expected commissioning date has been shifted to June 19, 2023 against the SCOD of March 31, 2023, there is adequate buffer for the debt repayment obligations as the repayment starts from June 2024. Also, the project is expected to have a debt service reserve (DSR) of two quarters, with a one-quarter DSR created upfront.

Rating sensitivities

Positive factors – ICRA could upgrade FFEPL's rating following the successful commissioning and stabilisation of the project without any major cost overruns. Also, the rating would remain sensitive to the credit profile of its parent, FPEPL and the fellow subsidiaries under the cash pooling mechanism.

Negative factors – FFEPL's rating can be downgraded in case of significant delays in commissioning the project or large cost overruns, impacting the project's credit metrics. The rating may also be downgraded if the actual generation performance post commissioning is lower than the P90 level on a sustained basis or there are delays in payments from customers, impacting its liquidity profile. Further, the rating would remain sensitive to the credit profile of its parent, FPEPL, and the fellow subsidiaries under the cash pooling mechanism.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Rating Methodology for Wind Power Producers Implicit parent of group support Rating Approach - Explicit third-party support
Parent/Group support	ICRA has consolidated the financials of the seven SPVs - FP Crysta Energy Pvt. Ltd., FPEL Radiant Energy Pvt. Ltd., FPEL Sunrise Pvt. Ltd., FP Eco Energy Pvt. Ltd., FPEL Surya Energy Pvt. Ltd., FPEL Beat Energy Pvt. Ltd. and FPEL Flash Energy Private Limited. - to arrive at the notional group rating, after factoring in the support available from the parent, FPEPL. The notional group rating is used to notch up the individual SPV ratings factoring in implicit support, given the expected fungibility of surplus cash among the SPVs.
Consolidation/Standalone	The rating is based on the standalone financial profile of the rated entity

About the company

FFEPL is a special purpose vehicle (SPV) promoted by FPEPL, incorporated in February 2022, to set up a wind-solar hybrid power project having a total capacity of 7.4 MW (revised from 4.9 MW envisaged earlier) with solar capacity of 2.0 MWp and wind capacity of 5.4 MW in Gondal, Gujarat, under the third-party mode. The project is under-construction with commissioning expected by June 19, 2023. The debt to equity (including promoter debt) ratio for funding the project cost is 64:36; the debt component of the incremental cost corresponding to the increase in capacity is yet to be sanctioned and the company is in discussion with the existing lender for the same. Meanwhile, the incremental cost will be funded through additional promoter contribution, if required. The WTGs for the project have been supplied by General Electric (GE) and the modules have been sourced from Renewsys.

Key financial indicators – Not applicable as the project was not operational as of March 2022

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Jan 31, 2023 (Rs. crore)	Date & rating	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 4, 2023	-	-	-
1	Term loan	Long-Term	21.73	12.58	[ICRA]BBB+ (Positive)	-	-	-

Complexity level of the rated instruments

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan**	Sept 2022	-	Mar 2044	21.73	[ICRA]BBB+ (Positive)

Source: Company

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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