**May 24, 2023**

# Masaya Solar Energy Private Limited: Long term rating reaffirmed; short term rating assigned; Rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Term loan** | 1,250.00 | 1,250.00 | [ICRA]BBB+ (Stable); reaffirmed |
| **Short Term - Non Fund Based Limit** | - | 100.00 | [ICRA]A2; assigned |
| **Total** | **1,250.00** | **1,350.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The ratings factors in the strong parentage of Masaya Solar Energy Private Limited (MSEPL) as it is promoted by the ACEN (Ayala Group power platform) and UPC groups through their joint venture (JV) in Masaya Solar Holdco HK Ltd. (MSHHL), with major shareholding of the ACEN Group. The rating also factors in the high revenue visibility and the low offtake risk for the 300-MWAc solar power project of MSEPL because of the long-term (25-year) power purchase agreement (PPA) with Solar Energy Corporation of India Limited (SECI) for the entire capacity at a fixed tariff of Rs. 2.71 per unit. The rating draws comfort from the PPA with a strong counterparty, i.e., SECI (rated [ICRA]AAA (Stable) / [ICRA]A1+), which is relatively superior against the state policy PPAs. SECI is an intermediary counterparty and has signed power supply agreements (PSAs) with the state-owned distribution utilities (discoms) in Telangana and Tamil Nadu.

The rating, however, is constrained by the project risk associated with the successful commercialisation of the operations within the scheduled timeline and achieving the desired operating parameters. Additionally, the company remains exposed to asset concentration risk, as the entire capacity is located at a single site in Madhya Pradesh. Also, given the single-part nature of the fixed tariff under the PPA, the debt metrics of the project remain sensitive to energy generation which is dependent on weather conditions and seasonality. Further, the project cash flows are susceptible to any adverse movement in interest rates. ICRA also notes that MSEPL is exposed to regulatory risks associated with scheduling and forecasting norms for solar projects and changes in the group captive norms.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the project will fully commission by June 2023 given the advanced construction progress achieved and the steady cash flow visibility, aided by the long-term PPA and timely cash collections expected from the customer.

## Key rating drivers and their description

### Credit strengths

**Strong parentage -** The 300-MW (AC) solar power project under MSEPL is majorly held by the ACEN Group (~75.5% holding), which is promoted by Ayala Corporation (Ayala). Ayala is one of the largest conglomerates in the Philippines with core interests in real estate, banking, telecommunication and power. ACEN is present mostly in the Asia Pacific region and Australia. In Asia Pacific, it has total installed capacities of 3.8 GW (3.3 GW of renewable capacity and 0.5 GW of thermal capacity) across the Philippines, Vietnam, Australia, India and Indonesia. In India, ACEN has three projects in JV with the UPC Group, i.e., and MSEPL, Sitara Solar Energy Private Limited (Sitara – 100 MWAc) and Paryapt Solar Energy Private Limited (Paryapt - 50 MWAc). Sitara and Paryapt are the operational projects having PPAs with GUVNL and SECI, respectively. The Group further plans to enter the commercial and industrial (C&I) space through the group captive model. Further, the ACEN Group has extended undertakingcum-guarantee for the entire debt of MSEPL along with a demonstrated track record of extending timely financial support for project execution and debt repayments.

**Revenue visibility due to long-term PPA and superior tariff competitiveness -** MESPL has low offtake risks owing to the presence of a long-term (25-year) PPA at a highly competitive tariff of Rs. 2.71 per unit for the entire project capacity with SECI. The long-term PPA provides revenue visibility to the company. SECI is an intermediary counterparty and has signed PSAs with the state-owned distribution utilities in Telangana (Southern Power Distribution Company of Telangana Limited and Northern Power Distribution Company of Telangana Limited) and Tamil Nadu (Tamil Nadu Generation & Distribution Corporation Limited). Further, the applicable tariff of Rs. 2.78/unit (including trading margin of Rs. 0.07/unit) for the distribution utilities, i.e. the ultimate offtakers, is highly competitive in relation to the average power purchase cost for the utilities of Rs. 4.49/unit (Telangana discoms) and ~Rs. 4.61/unit (Tamil Nadu discom) approved for FY2023, as per the tariff orders.

**Relatively superior PPA with SECI and low counterparty credit risk -** The PPA with SECI is relatively superior against the state policy PPAs due to the favourable payment security mechanism with a provision for letter of credit equal to average one-month billing. Moreover, SECI being included under the tripartite agreement (TPA) with the Government of India, Reserve Bank of India and the state government, provides strong comfort against payment delays from the discoms. Further, the additional provisions in the PPA/ power supply agreements (PSAs) related to compensation in case of grid curtailment or backdown and the termination liability offer comfort. This, along with the superior tariff competitiveness of the project, mitigates the counterparty credit risk for the company.

## Credit challenges

**Project execution risk -** The solar power plant under MSEPL is exposed to project related risks as it has not yet commenced operations. Notwithstanding this, the project is at the advanced stages of completion with the company having incurred ~90% of the total project cost as of March 2023, with expected COD by June 2023. The module and inverter procurement for the project has been completed along with the acquisition of the required land parcels. The requisite project approvals pertaining to evacuation, right of way (ROW) for transmission line along with the Central Electricity Authority's (CEA) approval have been received. The company has received the first time charging/energisation approval from Western Regional Load Dispatch Centre (WRLDC) for 150MW, while the approval for the remaining capacity is pending. ICRA notes that the project being set up by MSEPL has witnessed both time and cost overruns. The factors leading to time overruns included Covid-19 related disruptions and delays in regulatory approvals. Nevertheless, the company has secured requisite approvals for the extension of timelines from SECI and the lender. Moreover, the entire cost overrun (~Rs. 250 crore) was funded by promoters' contribution. Going forward, timely commissioning of the entire project capacity and stabilisation of the operations post commissioning remain the key monitorables.

**Single-asset operations; sensitivity of debt metrics to energy generation -** The debt metrics of the company remain sensitive to generation from the 300-MW solar power project, considering the single part nature of the tariff under the PPA. Hence any adverse variation in weather conditions and/or turbine performance may impact PLF and consequently the cash flows and the debt coverage metrics. The geographic concentration of the asset amplifies the generation risk. The ability of the company to achieve and maintain the appraised P-90 estimate remains a key factor from a credit perspective.

**Exposure to interest rate risk -** The capital structure of the company is leveraged, reflected in the debt-funded capex deployed for setting up the project. Therefore, the debt coverage metrics of the company remain exposed to interest rate movement, given the fixed tariff under the PPA.

**Regulatory risk associated with implementation of scheduling and forecasting framework -** The company's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for renewable energy projects, given the variable nature of solar power generation.

## Liquidity position: Adequate

The liquidity position of MSEPL is supported by the infusion of the entire equity portion by the promoters and debt tie-up for the solar power project. Further, post commercialisation of the plant, the liquidity is expected to be supported by the anticipated adequate cash flows from operations and the lenders' condition to maintain a debt service reserve account (DSRA) equivalent to two quarters' interest and principal obligations.

## Rating sensitivities

**Positive factors** - ICRA could upgrade MSEPL's rating on the timely commissioning of the project without any further substantial cost overruns and if it achieves the desired operating parameters and debt coverage metrics.

**Negative factors** - Pressure on the rating could arise if there are significant delays in project commissioning or cost overruns, or unsatisfactory operational performance, impacting the cash flow generation. A specific credit metric that could lead to a downgrade is cumulative DSCR below 1.10 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Solar Power Producers |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | Standalone |

## About the company

MSEPL, incorporated in March 2019, is a special purpose vehicle (SPV) promoted by the ACEN Group (Ayala group power platform) and the UPC Group through their joint venture in Masaya Solar Holdco HK Ltd. The ACEN Group holds a majority stake (75.5%) in MSEPL. The company is developing a 300-MW (AC) solar power project in the Khandwa district of Madhya Pradesh, which is expected to be commissioned by June 2023. MSEPL has signed a long-term PPA (25-years) with SECI at the bid tariff rate of Rs. 2.71 per unit.

**Key financial indicators (audited) - Not applicable as the company is in project phase**

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

| | Instrument | Type | Amount rated (Rs. crore) | Amount outstanding as of Feb 2023 (Rs. crore) | Current rating (FY2024): Date & rating in FY2024: May 24, 2023 | Apr 13, 2023 | Chronology of rating history for the past 3 years: Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | - | - | - |
| 1 | Term loan | Long term | 1250.00 | ~1040.0 | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) | - | - | - |
| 2 | Non Fund Based Limit | Short term | 100.00 | - | [ICRA]A2 | - | - | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Term loan** | Simple |
| **Short Term - Non Fund Based Limit** | Very 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 | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Term loan** | FY2023 | ~9.50%-10.00% | FY2043 | 1250.00 | **[ICRA]BBB+ (Stable)** |
| **NA** | **CEL/ Derivatives Limit** | - | - | - | 100.00 | **[ICRA]A2** |

*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.

For more information, visit www.icra.in

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