June 15, 2023

Solaire Urja Private Limited: Rating upgraded to [ICRA]AA (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based - Term Loan	74.87	71.74	[ICRA]AA (Stable); upgraded from [ICRA]A (Stable)
Long Term - Fund Based - Working Capital Term Loan	8.67	-	-
Unallocated	-	8.67	[ICRA]AA (Stable); upgraded from [ICRA]A (Stable)
Total	**83.54**	**80.41**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for Solaire Urja Private Limited (SUPL) factors in a change in the rating approach after its loan agreement was amended to make it part of a cash surplus sharing arrangement with six other special purpose vehicles (SPVs) of the Edelweiss Infrastructure Yield Plus fund (EIYP) portfolio. The six SPVs –are Pokaran Solaire Energy Private Limited (PSEPL), Northern Solaire Prakash Private Limited (NSPPL), Suryauday Solaire Prakash Private Limited (SSPPL), Solairedirect Projects India Private Limited (SPIPL), Solaire Power Private Limited (SPPL) and Enviro Solaire Private Limited (ESPL). Any shortfall in meeting the debt obligation for any of the SPVs in the pool can be met through surplus cash flows from the other six SPVs. Under the revised rating approach, ICRA factors in the implicit support available to SUPL from the six other SPVs in the pool.

The pool benefits from the asset diversity of the seven SPVs, aggregating to 213.2 MWp spread across three states, the long track record of operations with stable generation performance, availability of long-term power purchase agreements (PPAs), timely payments from the offtakers with 67% exposure to strong offtakers like Solar Energy Corporation of India Limited (SECI; rated [ICRA]AAA (Stable)/[ICRA]A1+) and NTPC Vidyut Vyapar Nigam Limited (NVVN) and the strong debt coverage metrics. However, the sensitivity of cash flows to solar radiation and the exposure to Punjab State Power Corporation Limited (PSPCL) for 33% of the asset portfolio remain the credit concerns. Nonetheless, the payments from PSPCL have remained timely since commissioning.

The rating upgrade for SUPL also factors in the reduction in debt following the ongoing repayment that has lowered the leverage level and its strong debt coverage metrics. The rating continues to draw comfort from the healthy generation performance of its 25-MW solar power plant (DC) in Punjab with the plant load factor (PLF) remaining above the P-90 estimate since commissioning in April 2016. Further, ICRA factors in the long-term PPA for the entire capacity of SUPL with PSPCL at a fixed tariff of Rs. 6.88 per unit. This, along with the long tenure of the project debt and a competitive cost of debt (wherein there is a reduction in 100 bps since the last rating exercise), is expected to result in strong debt coverage metrics for SUPL with the cumulative debt service coverage ratio (DSCR) on the external debt estimated to remain above 1.8x over the debt tenure.

ICRA notes that the promoter contribution for the project is largely in the form of debt instruments, which remain subordinated to the project debt, and the payment of interest on these instruments is subject to meeting the restricted payment conditions stipulated under the loan agreement. The rating also draws comfort from the presence of an experienced sponsor, EIYP, which is operating more than 800 MW of renewable energy capacities in India, and its association with the Engie Group, as the operations and maintenance (O&M) of the plant is managed by Engie Group entity, Solairedirect India LLP.

The rating is, however, constrained by the sensitivity of generation to solar irradiation levels and equipment performance, as the revenues are linked to the actual units generated and exported, in view of the single-part tariff structure in the PPA. This is amplified by the geographic concentration of the asset. The performance demonstrated so far provides comfort against this risk. Further, the rating is constrained by counterparty credit risk arising from the exposure to a single buyer, namely PSPCL, which has a moderate financial profile. Nonetheless, the payments from PSPCL are being consistently realised within 90 days from the date of invoice since commissioning.

Further, solar power projects, including SUPL, which have relatively high tariff than the average power purchase cost of the state distribution utilities, may remain exposed to the risk of grid curtailment in the future as seen in a few other states, though there have been no such instances in Punjab so far. This apart, the company's debt coverage metrics are vulnerable to the interest rate movement, given the fixed tariff under the PPA. This is partly mitigated by the fixed rate of interest for a period of three years from January 2023. The rating factors in the regulatory challenges of implementing forecasting and scheduling mechanism for solar power projects in Punjab, considering the variable nature of solar energy generation.

The Stable outlook assigned to the rating factors in the long-term PPA with PSPCL, timely payments by the offtaker and a healthy generation performance.

Key rating drivers and their description

Credit strengths

Revenue visibility on account of long-term PPA with PSPCL - SUPL has low offtake risks owing to the presence of a long-term (25-year) PPA at a tariff of Rs. 6.88 per unit for the entire duration of the project, i.e., till April 2041. The long-term PPA provides revenue visibility for the company.

Healthy generation performance and strong debt coverage metrics - The 25-MW capacity was commissioned in April 2016 and has a generation track record of more than seven years. During this time, the plant has consistently operated at a PLF above the P-90 estimate. This, along with the long tenure of the project and a competitive cost of debt, is expected to result in strong debt coverage metrics for SUPL, with the cumulative DSCR on the project debt estimated to remain above 1.8 times over the debt repayment tenure.

Cash pooling with fellow subsidiaries - Comfort is drawn from the cash pooling mechanism available with six other fellow group subsidiaries - PSEPL, NSPPL, SSPPL, SPIPL, SPPL and ESPL - under the terms of the project debt, wherein any shortfall in debt servicing by SUPL can be met through the cash surplus available with the other group subsidiaries in the cash pool. The pool benefits from a diversified asset base, satisfactory generation performance, timely payments from the offtakers and strong debt coverage metrics.

Presence of an experienced sponsor; operational expertise from association with France-based Engie Group - SUPL's sponsor, EIYP, is managed by Edelweiss Alternative Asset Advisors (EAAA). EIYP is a category-1 alternative investment fund trust registered with the Securities and Exchange Board of India with a capital commitment from a group of domestic and global investors. EIYP has investments in power transmission and roads and renewable assets with an experienced management and operating team. Further, ICRA takes note of the operating expertise from its association with France-based utility major, Engie. The O&M of the plant is managed by Engie Group entity, Solairedirect India LLP.

Credit challenges

Counterparty credit risk owing to exposure to Punjab state utility - As PSPCL offtakes the entire quantum of the power generated, the company remains exposed to the state utility's moderate credit risk profile. Any significant delay in payments by the counterparty will adversely impact SUPL's liquidity profile. However, ICRA takes comfort from the payment track record of the discom, which has consistently averaged at less three months since the commissioning of the project. The payment pattern will remain a key monitorable, going forward.

Vulnerability of cash flows to variation in weather conditions; asset concentration risk - As the tariffs are one part in nature, the company may book lesser revenues in the event of non-generation of power due to the variation in weather conditions and/or equipment quality. This, in turn, would affect its cash flows and debt servicing ability. The geographical concentration of the asset amplifies the generation risk. Nonetheless, comfort is derived from the sourcing of PV modules from tier-I suppliers, presence of an experienced O&M contractor and a satisfactory performance so far.

Exposure to interest rate risk - The company's debt coverage metrics remain exposed to the movement in interest rates. This is partly mitigated by the fixed interest rate for the company for a period of three years from January 2023.

Regulatory risks of implementing scheduling and forecasting framework for solar sector - The company's operations are exposed to regulatory risks pertaining to the scheduling and forecasting requirements of solar power projects. However, the risk of variation is relatively low for solar power projects compared to wind power projects.

Liquidity position: Strong

SUPL's liquidity position is expected to remain strong with a healthy buffer between cash flows from operations and debt repayment obligation, along with the availability of a two-quarter debt service reserve (DSRA). As on March 31, 2023, the company has cumulative cash balances of ~Rs. 15 crore, including a two-quarter DSRA.

Rating sensitivities

Positive factors – The rating can be upgraded if the generation performance remains above the P-90 estimate, thereby maintaining its strong debt coverage metrics along with an improvement in the credit profile of its counterparty, PSPCL. Also, the rating would remain sensitive to the credit profile of the six other SPVs in the pool.

Negative factors – The rating could be downgraded in case of significant underperformance in generation, adversely impacting SUPL's debt coverage metrics. A specific credit metric for downgrade includes the cumulative DSCR on the project debt falling below 1.30 times. Also, any significant delays in receiving payments from the offtaker affecting SUPL's liquidity profile may trigger a downgrade. Further, the rating would remain sensitive to the credit profile of the six other SPVs in the pool.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers
Parent/Group support	The rating assigned to SUPL factors in the implicit support available from the six SPVs of the Group, namely PSEPL, NSPPL, SSPPL, SPIPL, SPPL and ESPL, given the surplus cash flow sharing arrangement in case of a cash flow mismatch, under the terms of the loan agreement
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

SUPL is operating a 25.0-MW (DC) solar power capacity in Punjab. The project was commissioned in April 2016. The company has signed 25-year PPA for its entire capacity with PSPCL at a fixed tariff of Rs. 6.88 per unit for the entire tenor of the PPA. SUPL is promoted by EIYP which has a majority shareholding (74%) of the company. Solairedirect Energy India Private Limited (SEIPL) holds the balance 26% shareholding in the company. SEIPL is a part of the Engie Group, which is a France-based utility company.

Key financial indicators

SUPL Standalone	FY2022	FY2023*
Operating income	25.4	23.8
PAT	3.2	1.3
OPBDIT/OI	88.1%	79.9%
PAT/OI	12.6%	5.4%
Total outside liabilities/Tangible net worth (times)^	4.3	5.0
Total debt/OPBDIT (times)^	5.1	5.5
Interest coverage (times)^	1.6	1.5

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional*
^ Ratios consider the promoter sub-debt as part of the overall debt

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 Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jun 15, 2023	Oct 14, 2022	Oct 05, 2021	-
1	Term loans	Long term	71.74	70.69	[ICRA]AA (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
2	Working capital limits	Long term	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-
3	Unallocated	Long term	8.67	-	[ICRA]AA (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long 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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Term loan**	FY2022	-	FY2036	71.74	[ICRA]AA (Stable)
-	**Unallocated**	NA	-	NA	8.67	[ICRA]AA (Stable)

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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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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