August 20, 2024

Enviro Solaire Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based – Term loan	289.41	273.51	[ICRA]AA+ (Stable); reaffirmed
Total	**289.41**	**273.51**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation takes comfort from the presence of a cash pooling mechanism available to Enviro Solaire Private Limited (ESPL) 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 Solaire Urja Private Limited (SUPL). Any shortfall in meeting the debt obligation by any one of the SPVs in the pool can be met through surplus cash flows from the other six SPVs.

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, the 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 largely timely since commissioning.

The assigned rating continues to favourable factor in the limited demand and tariff risks for ESPL, given the long-term PPA with SECI for its 75-MW solar power capacity (AC) installed in Uttar Pradesh at a fixed tariff of Rs. 4.43 per unit. The company benefits from the strong counterparty credit profile of SECI, with timely payments since commissioning and the benefits available to SECI under the tripartite agreement (TPA) with the Government of India (GoI), the Reserve Bank of India (RBI) and the state government for the recovery of payments from the state distribution utilities.

Further, the rating factors in the satisfactory generation performance of the project with the average PLF since commissioning in April 2018 remaining in line with the P-90 estimate. Moreover, the long debt tenure and competitive interest rates are expected to lead to comfortable debt coverage metrics for the company with the cumulative debt service coverage ratio (DSCR) on the external project debt estimated to remain at ~1.4x. ICRA notes that the promoter contribution for the project is largely in the form of convertible debt instruments, which remain subordinated to the project debt. The payment of interest on these instruments and the dividend payment by ESPL are 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 in Uttar Pradesh. The performance demonstrated so far provides comfort against this risk. Further, ESPL's debt coverage metrics remain exposed to the interest rate movement, given the fixed tariff under the PPA, and the leveraged capital structure. This is partly mitigated by the fixed rate of interest for a period of three years from January 2023. Further, the rating factors in the regulatory challenge of implementing forecasting and scheduling mechanism for solar power projects, considering the variable nature of solar energy generation.

The Stable outlook assigned to the company factors in the presence of a long-term PPA with SECI, the timely payments by the offtaker and a satisfactory generation performance.

Key rating drivers and their description

Credit strengths

Revenue visibility from long-term PPA with SECI - ESPL has low offtake risks owing to the long-term (25-year) PPA with SECI at a tariff of Rs. 4.43 per unit for the entire duration of the project, i.e., till April 2043. The long-term PPA provides revenue visibility for the company. SECI is an intermediary counterparty and has signed PSAs with the state-owned distribution utilities, which are the ultimate offtakers. It was also entitled to receive a viability gap funding of Rs. 55.69 crore from SECI, as per the bidding terms, wherein 100% of the amount has been received as on date.

Presence of a strong counterparty results in timely payments - The presence of a strong intermediate counterparty like SECI ([ICRA]AAA (Stable)/[ICRA]A1+) is expected to result in timely realisation of payments under the PPA. Moreover, the payment security mechanism in the PPA/PSA arrangements is relatively superior (against the state policy PPAs), given the presence of a letter of credit mechanism and the benefits available to SECI under the TPA with the Government of India, the Reserve Bank of India (RBI) and the state government. On an average, the receivable cycle of the company has remained at around 75 days.

Satisfactory generation performance and comfortable debt coverage metrics - The 75-MW solar power capacity was commissioned in April 2018 and has a generation track record of more than six years. The generation performance is satisfactory with the average PLF remaining in line with the P-90 estimate. This, along with the long tenure of the project debt and the competitive cost of debt, is expected to lead to comfortable debt coverage metrics, with the cumulative DSCR on the external project debt likely to remain at ~1.4x over the debt 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 SUPL - under the terms of the project debt, wherein any shortfall in debt servicing by ESPL 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, a satisfactory generation performance, timely payments from the offtakers and the strong debt coverage metrics.

Presence of an experienced sponsor; operational expertise from association with France-based Engie Group – ESPL'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, roads and renewable assets with an experienced management and operating team. Further, ICRA takes note of the company's 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

Vulnerability of cash flows to variation in weather conditions; asset concentration risk – Given the single-part tariff under the PPA, the revenues and cash flows of the solar power project under ESPL remain vulnerable to the actual generation, which in turn is exposed to the variability in solar radiation and equipment quality. This risk is amplified by the geographic concentration of the asset. Nonetheless, comfort is derived from the sourcing of PV modules from tier-I suppliers, the presence of an experienced O&M contractor and a satisfactory performance so far.

Exposure to interest rate risk – The company's capital structure remains leveraged due to the largely debt-funded nature of the project. Therefore, the company's debt coverage metrics remain exposed to the movement in interest rates. This is partly mitigated by the fixed rate of interest 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

ICRA expects ESPL's liquidity profile to remain strong with a significant buffer between cash flows from the project and debt servicing obligations, supported by a satisfactory generation performance and timely realisation of payments. The liquidity is further supported by a debt service reserve (DSRA) equivalent to one quarter's debt servicing. The cash balances, including DSRA of Rs. 9.59 crore, stood at Rs. 33.70 crore as on August 8, 2024.

Rating sensitivities

Positive factors – The rating can be upgraded if the generation performance remains above the P-90 estimate on a sustained basis, thereby improving ESPL's debt coverage metrics, along with a strong liquidity profile. Also, the rating would remain sensitive to the credit profile of the six other SPVs in the pool.

Negative factors – Pressure on ESPL's rating could arise if significant delays in payments from SECI adversely impact its liquidity position. Also, any underperformance in generation below the P-90 estimate and/or any increase in the debt levels weakening the cumulative DSCR on the project debt to less than 1.30 times, on a sustained basis, would be a negative trigger. 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 Power - Solar
Parent/Group support	The rating assigned to ESPL factors in the implicit support available from the six SPVs of the pool, namely PSEPL, NSPPL, SSPPL, SPIPL, SPPL and SUPL, 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

ESPL was incorporated to set up a 75-MW (AC)/101.3 MW (DC) grid-connected solar PV project at Dadar Kalan village, Uttar Pradesh, under NSM Phase-II, Branch-III, Tranche-III. The company has signed a PPA with SECI at Rs. 4.43/unit for the entire capacity. The project was entirely commissioned in April 2018. ESPL is promoted by EIYP which has a majority shareholding (74%) in the company. Solairedirect Energy India Private Limited (SEIPL) holds the balance 26%. SEIPL is a part of the Engie Group, which is a France-based utility company.

Key financial indicators

ESPL Standalone	FY2023	FY2024
Operating income	66.1	62.2
PAT	-16.3	-12.2
OPBDIT/OI	79.6%	82.0%
PAT/OI	-24.6%	-19.6%
Total outside liabilities/Tangible net worth (times)^	-39.0	-18.3
Total debt/OPBDIT (times)^	8.8	8.8
Interest coverage (times)^	0.9	1.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

^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 (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				Aug 20, 2024	Jun 15, 2023	Oct 14, 2022	Oct 05, 2021	Apr 23, 2021
1	**Term loan 1**	Long term	-	-	-	-	**[ICRA]AA (Stable) Withdrawn**	**[ICRA]A+ (Stable)**
2	**Term loan 2**	Long term	273.51	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – 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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Term loan**	FY2022	-	FY2038	273.51	[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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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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