

Hero Solar Energy Pvt. Ltd.

| Instrument | Amount Rated In Rs. Crore | Rating Action As on December, 2016 |
|---------------------------|------------------------------|---------------------------------------|
| Non Convertible Debenture | 175.0 | [ICRA]A(Stable); <i>assigned</i> |
| Total | 175.0 | |

ICRA has assigned a long term rating of [ICRA]A(pronounced ICRA A) to the Rs 175.0 crore¹ Non Convertible Debenture (NCD) program of Hero Solar Energy Pvt Ltd (HSEPL)². The outlook on the long term rating is Stable.

The rating action takes into account the strong sponsor strength given HSEPL is a part of Hero Future Energies Private Limited (HFEPL), which in turn is promoted by Bahadur Chand Investments Private Limited and Brijmohan Lal Om Prakash, a partnership firm and ultimate holding company of the Hero Group. Operations of HSEPL have been supported by consistent fund infusion from the parent in the past. Further, the management team comprises well experienced technocrats and investment/finance professionals. The rating is also supported by the multiple income streams of HSEPL comprising annual income from management fee, one time project development fee, dividend and interest income from its project SPVs, margin on O&M, EPC income, possibility of refinancing existing SPV debt at better terms and hence saving on interest expenses and the possibility of receiving fresh equity either by infusion at parent level or through an external investor.

That said, ICRA takes cognizance of the large expansion plans of the company. This exposes the company to execution related risks such as time and cost overrun which are associated with greenfield projects. ICRA also takes note of the large funding requirements given the pipeline of under construction projects. Further, the group has limited track record of developing solar power projects with only 40 MW of commissioned solar power assets. Since majority of the debt servicing will happen through income support from SPVs, the timely commissioning of the under construction and adequate performance of the operational projects is critical. The rating also factors in the exposure of majority of the assets to state discoms some of which are in poor financial health. The rating factors in that HSEPL will only have a second charge on the cash flows of the SPVs which will have to first service their own bank obligations before they can disburse excess cash flows to the parent. The rating also considers the relatively high cost of solar power generation which necessitates high feed-in-tariffs; the ability and willingness of off-takers to pay such tariffs is important.

The on-time commissioning of projects which are in various stages of development, the timeliness and adequacy of support from parent/external investor, future project pipeline as well as the funding pattern of the same would be the key sensitivities going forward.

About the Company

HSEPL is the solar holding company of the Hero group and is 100% owned by Hero Future Energies Pvt Ltd (HFEPL) which also owns 100% stake in the wind holding company of the Hero group – Hero Wind Energy Pvt Ltd (HWEPL) and is the holding company of the Hero group for renewable energy.

HSEPL, through its 100% subsidiaries, has 1 commissioned project with a capacity of 30.0 MW and has 4 under construction projects with an aggregate capacity of 463.0 MW. In total, the operational and under-construction capacity of HSEPL is ~500 MW spread across a number of states and a number of contractors.

Recent Results

For 2015-16, the company, on a standalone basis, reported a PAT of Rs 2.32 crore on an operating income of Rs 44.1 crore, as compared to a PAT of Rs 4.03 crore on an operating income of Rs 27.6 crore for the previous year.

December 2016

¹ 1 crore=10 million=100 lakhs

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications



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