

Palimarwar Solar Project Private Limited ^{Revised}

March 13, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	38.57	[ICRA]A- (Stable); Assigned
Total	38.57	

Rating action

ICRA has assigned a long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 38.57 crore term loan of Palimarwar Solar Project Private Limited (PSPPL or the company)¹. The outlook on the long-term rating is 'Stable'.

Rationale

The assigned rating favourably factors in the satisfactory operating track record of the company since the commissioning in April, 2015 with the plant load factor (PLF) remaining higher than the P90 PLF of 21.31%. The rating also favourably factors in the presence of a long-term power purchasing agreement (PPA) over 25 year period with intermediary counter-party namely Solar Energy Corporation of India (SECI) [rated ICRA AA+ (stable)/A1+] under Phase II (Batch 1 - 750 MW) of National Solar Mission, thus limiting the demand risk. The SECI in turn has signed power supply agreements (PSA) with state owned distribution utilities. The rating favourably factors in the payment security mechanism under the PPA and PSA as well as the provision of Payment Security Fund (PSF) (which is equivalent to three months of receivables) supported by budgetary allocation of the Ministry of New and Renewable Energy (MNRE), Government of India under the NSM policy framework. The rating further draws comfort from the satisfactory realization of payments within 60 -70 days from SECI as well as presence of Debt Service Reserve Account (DSRA) equivalent to two quarters interest and principal repayment maintained by the company.

However, the rating is constrained by the vulnerability of cash flows to module performance and weather conditions, as the revenues are linked to actual units generated and exported, given the single part & fixed nature of tariff. The ratings are further constrained by the dependence of the project on the viability gap funding (VGF), which is to be received from SECI over a five-year period from project CoD. Thus, the timeliness of the receipt of VGF will remain critical; however, ICRA notes that the company has received 70% of VGF till date. The rating also takes note of the non-availability of liquidated damages (LD) in the operation and maintenance (O&M) contract with IBC Solar Projects Private Limited to compensate PSPPL for any revenue loss arising from low plant availability. Nonetheless, ICRA considers the satisfactory performance demonstrated by the O&M contractor till date. Further, the company remains exposed to an interest rate risk. While the variation in solar irradiance level remains relatively lower for solar PV - based projects than other renewable source - based projects, ICRA notes that the company's operations remain exposed to regulatory risk pertaining to scheduling and forecasting requirements if SECI follows Central Electricity Regulatory Commission (CERC)'s framework, which is currently applicable for inter - state renewable energy projects.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes Palimarwar Solar Project Private Limited will continue to benefit from healthy generation from its solar power plant. The outlook may be revised to 'Positive' if the generation exceeds the P90 PLF significantly, thereby leading to growth in revenue and profitability, thus, strengthening the financial risk profile. The outlook may be revised to 'Negative' if there is considerable underperformance in the PLF levels reported by the plant.

Key rating drivers

Credit strengths

Strong operating track record of the plant since commissioning – PSPPL has reported a healthy operating performance since the commissioning in April, 2015 with PLF being higher than the P90 PLF of 21.31%. The average PLF of the plant till date is at 22.38%, which is considerably higher than the P90 estimates.

Long term PPA with SECI mitigates the demand and pricing risks – The company has signed a PPA with SECI at an approved feed-in tariff of Rs. 5.45 per unit for the entire capacity for a period of 25 years which limits the demand and pricing risk. The SECI in turn has signed power supply agreements (PSA) with state owned distribution utilities.

Satisfactory realization of payments from SECI – The company has been receiving payments in a satisfactory manner from SECI. During the past one year, the company has been realizing payments within 63 – 70 days from the date of invoice, thus moderating the working capital intensity.

Limited counter-party risk considering SECI as the off-taker – Under the PSA with state utilities, SECI has a provision of Letter of Credit from all utilities, which covers the payment risk of all the off takers for six months. The counter-party risk is further mitigated by the presence of Payment Security Fund (PSF) of Rs. 170 crore provided by MNRE, which is sufficient to cover three months of payment delay by distribution companies. In addition, SECI has been included in the list of central-public sector undertakings (CPSUs), the receivables of which will be secured through the tripartite agreement (TPA) between Government of India, state governments and Reserve Bank of India.

Credit challenges

Timely recovery of VGF tranches from SECI remains critical - As per VGF securitization agreement entered with SECI and scheme guidelines, VGF would be released in six tranches – 1st tranche of 50% within three months of project COD and the remaining five tranches of 10% each over next five years post COD. PSPPL has already received three tranches of VGF in December 2015, July 2016 and February 2018. The timely receipt of the remaining three tranches of the VGF payment remains critical from a credit perspective considering the interest repayments on the loan linked to VGF.

Non-availability of LD clauses in the O&M contract – PSPPL has entered into long-term O&M arrangement with IBC Solar Projects Private Limited for comprehensive O&M of the solar power project. Though the contract stipulates the responsibilities the O&M contractor for operating the plant, there are no liquidated damages for any shortfall in performance. Nonetheless, comfort can be drawn from the demonstrated track record of the contractor till date.

Variance in cash flows because of changes in solar irradiance; however, the variance is relatively lower for solar power-based projects than other renewable source-based projects - The key factors that may impact the operations of the solar plant are the solar radiation levels, losses in PV systems due to temperature and climatic conditions, inverter efficiency and module degradation due to ageing. However, the variance in solar levels has historically been much lower when compared to that of other sources of renewable energy, such as wind and hydro-power projects.

Regulatory risks associated with implementation of forecasting and scheduling regulations – The regulatory challenges from the proposed implementation of scheduling & forecasting framework for solar power projects in Rajasthan poses a risk, given the limited experience in scheduling and forecasting for the industry players in India and the variable nature of solar energy generation

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Solar Power Producers](#)

About the company:

PSPPL, incorporated in February 2013, is a special purpose vehicle (SPV) promoted by LNB (Lakshmi Niwas Bangur) Group for setting up a solar power project in Rajasthan. LNB group has interests in tea plantations, textiles, Corporate Farming, Agriculture Supply Chain Management Solutions, renewable energy, financial services and health and wellness. PSPPL is operating a 10-MW grid connected solar photovoltaic (PV) power plant at Pokhran, Jaisalmer district of Rajasthan. The project has been developed under Phase-2, Batch-1 of Jawaharlal Nehru National Solar Mission (JNNSM) of Government of India (GoI) and the company commenced commercial operation (COD) from April 13, 2015 (as against scheduled COD of April 28, 2015). The plant was set up with a total cost of Rs. 90.81 crore. The project is eligible for Viability Gap Funding of Rs. 21.64 crore by SECI. PSPPL has signed a PPA with SECI for its entire capacity at an approved feed-in tariff of Rs. 5.45 per unit for a period of 25 years.

In FY2017, the company reported a net profit of Rs. 1.01 crore on an operating income of Rs. 11.01 crore, as compared to a loss of Rs. 0.10 crore on an operating income of Rs. 9.7 crore in the previous year.

Key financial indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	9.70	11.01
PAT (Rs. crore)	-0.10	1.01
OPBDIT/ OI (%)	89.09%	88.11%
RoCE (%)	20.10%	10.48%
Total Debt/ TNW (times)	2.89	2.61
Total Debt/ OPBDIT (times)	7.03	5.94
Interest coverage (times)	1.67	2.00
NWC/ OI (%)	135.0%	102.6%

Status of non-cooperation with previous CRA: Yes

Rating rationale published by CARE on its website on March 5, 2018, states the following information:

“CARE has been seeking for information from Palimarwar Solar Project Private Limited (PPSPL) to monitor the ratings vide e-mail communications dated 3rd November 2017, 21st November 2017, 1st February 2018, 6th February 2018, 13th February 2018 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE’s opinion is not sufficient to arrive at a fair rating. The rating on Palimarwar Solar Project Private Limited’s bank facilities will now be denoted as CARE BBB; ISSUER NOT COOPERATING*.”

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Term Loan	Long Term	38.57	38.57	March 2018 [ICRA]A-(Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	July 2014	NA	December 2029	38.57	[ICRA]A- (Stable)

Source: Palimarwar Solar Project Private Limited

Corrigendum:

This document dated March 13, 2018 has been corrected with revisions as detailed below:

Section related to “Status of Non-Cooperation with the previous CRA” (Page Number 3) has been updated to include the following information:

“CARE has been seeking for information from Palimarwar Solar Project Private Limited (PPSPL) to monitor the ratings vide e-mail communications dated 3rd November 2017, 21st November 2017, 1st February 2018, 6th February 2018, 13th February 2018 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE’s opinion is not sufficient to arrive at a fair rating. The rating on Palimarwar Solar Project Private Limited’s bank facilities will now be denoted as CARE BBB; ISSUER NOT COOPERATING*.”

ANALYST CONTACTS

Sabyasachi Majumdar

+91 24 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam

+91 22 6114 3441
girishkumar@icraindia.com

Prabodh Dasari

+91 40 4067 6522
dasari.prabodh@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jyantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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