

## Shorapur Solar Power Limited

August 03, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Unallocated limits	45.00	45.00	Upgraded to [ICRA]BBB-(Stable) from [ICRA]BB+(Stable)
<b>Total</b>	<b>45.00</b>	<b>45.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 45.00-crore<sup>1</sup> unallocated limits of Shorapur Solar Power Limited(SSPL)<sup>2</sup> to [ICRA]BBB- (pronounced ICRA triple B minus) from [ICRA]BB+ (pronounced ICRA double B plus). The outlook on the long-term rating is Stable.

### Rationale

The rating upgrade factors in the successful commissioning of the solar photovoltaic (PV)-based 10 MW power plant on February 23, 2018; SSPL's strong promoter profile with Karvy Consultants Ltd (KCL) holding 99.84% of the shareholding; and revenue and cash flow visibility over the long term due to a firm Power Purchase Agreement (PPA) in place with Chamundeshwari Electricity Supply Corporation Limited (CESCL) at a fixed tariff valid for 25 years.

The assigned rating is, however, constrained by likelihood of significant downward revision in tariff rate to Rs. 4.36 per unit from Rs. 5.13 per unit which would impact its cash flows adversely resulting in a minimum DSCR of 1.07 times for FY2020 at P-90 PLF estimates; exposure to interest rate risk, given the single and fixed part nature of tariff and single asset and single location nature of operations. Furthermore, the debt metrics and cash flows for solar power projects remain sensitive to CUF (capacity utilisation factor) levels which are impacted by variation in weather conditions. The provision for creation of debt service reserve account (DSRA) for debt servicing of two quarters provides comfort from the credit perspective.

### Outlook: Stable

The Stable outlook reflects ICRA's expectation that generation of the plant will remain in line with its estimations and the payments from CESCL will be in a timely manner. Further, SSPL will continue to benefit from the financial support extended by the promoters, if required. Improvement in generation levels from the base case, reduction in interest rate, reduction in debt level and/or improvement in payment cycle from CESCL may result in a rating upgrade. Lower generation than the base case, higher expenses than the base case, increase in debt levels and/or deterioration in payment cycle from CESCL may result in a rating downgrade.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Successful commissioning of the project** - The 10-MW solar power plant is operational since February 23, 2018, thereby eliminating the execution risk associated with under-construction projects. The engineering, procurement and construction (EPC) contractor was Karvy Renewable Energy Projects Limited (KREPL) which is also the operation and maintenance (O&M) contractor for the project. The average PLF of the plant is at 16.06% from the date of commercial operations.

**Limited demand risk with long-term PPA with state DISCOM** - The company has signed a PPA with CESCL for the capacity up to 21.02 MUs for a period of 25 years from the effective date i.e September 26, 2016, which limits the demand and pricing risk.

**Strong parentage with SSPL being promoted by the Karvy Group** – SSPL is promoted by Karvy Consultants Ltd (KCL) which is holding 99.84% of the shareholding, while the rest is held by the promoters of KCL in their individual capacity. KCL is the holding company of the Karvy Group which holds a 38.65% shareholding in Karvy Stock Broking Ltd (KSBL, rated [ICRA]A+(Stable)/[ICRA]A1+), while KSBL holds a 39.62% in Karvy Financial Services Ltd (rated [ICRA]A+(SO)(Stable)). Further, the entire project was funded by equity from KCL, promoter contribution and interest free unsecured loans from group companies.

### Credit challenges

**Delay in achieving COD may result in significant downward revision in tariff rate** - As per the PPA, applicable tariff for the project would be lower of the tariff of Rs. 5.13 per unit or the Karnataka Electricity Regulatory Commission (KERC) approved tariff as on the COD date (Rs. 4.36 per unit). The significant drop in tariff to Rs. 4.36 per unit from Rs. 5.13 per unit would affect the cash flow adversely. However, the company has filed a petition with KERC requesting the tariff of Rs. 5.13 per unit as the delay in COD was due to delay under GO 109 land conversion approval from the Karnataka Government. As per the order dated June 7, 2018, the company has received an interim tariff of Rs. 4.36 per unit pending the disposal of the petition filed by SSPL with KERC.

**Single-asset nature of operations; vulnerability of cash flows to weather conditions as tariffs are linked to actual generation** - SSPL is entirely dependent on power generation from the solar-power project for its revenue and cash accruals. Given that revenues are linked to actual generation, any variance in insolation levels would directly affect the company's revenues. However, the variance in solar levels has historically been much lower compared to other sources of renewable energy, such as wind and hydro-power projects.

**Exposure of project to counterparty credit risk** - The operations of the company remain exposed to the counterparty credit risk as CESCL is the sole off taker. SSPL has submitted invoices of Rs. 2.74 crore till date, however, the company received first payment of Rs. 0.44 crore on July 10, 2018. Further, the first payment from DISCOM was received beyond 90 days from the billing date.

**Interest rate risk, given the single and fixed part nature of tariff:** SSPL is in the process of raising debt of Rs. 40 crore for the project to pay off the unsecured loans availed from Group companies. The total project cost of Rs. 60.12 crore was funded by equity from KCL, promoter contribution and interest-free unsecured loans from Group companies.

**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:

SSPL was incorporated in May 2016 with the main objective of setting up a 10-MW solar power plant at Yalgi village, Shorapur taluk, Yadgir district, Karnataka. The company is promoted by Karvy Group with Karvy Consultants Ltd (KCL) holding 99.84% of the shareholding, while the rest is held by the promoters of KCL in their individual capacity. The total project cost of Rs. 60.12 crore was funded by equity from KCL, promoter contribution and interest free unsecured loans from Group companies. The EPC contract was executed by Karvy Renewable Energy Projects Limited (KREPL) including civil works, module, inverter supply and other BOP materials and erection and commissioning of the solar power plant. The plant COD was achieved on Feb 23, 2018.

#### Key financial indicators

	FY2018 (Provisional)
Operating Income (Rs. crore)	0.60
PAT (Rs. crore)	0.08
OPBDIT/OI (%)	47.72%
RoCE (%)	13.63%
Total Debt/TNW (times)	2.76
Total Debt/OPBDIT (times)	24.29
Interest coverage (times)	34.35

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

#### Any other information: None

#### Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				August 2018	September 2017	-	-
1 Unallocated limits	Long Term	45.00	-	[ICRA]BBB- (Stable)	[ICRA]BB+(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](http://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	Unallocated Limits	-	-	-	45.00	[ICRA]BBB-(Stable)

Source: SSPL

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