Kiran Suryaprakash India Private Limited

April 05, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund-based Term Loan	33.00	33.00	[ICRA]A (Stable) upgraded from [ICRA]A-& ; Removed from watch with developing implications
Total	**33.00**	**33.00**	

**Instrument details are provided in Annexure-1*
&: ratings watch with developing implications

Rationale:

The rating upgrade favourably factors in the benefits accruing from a stronger parentage after the change in ownership of Kiran Suryaprakash India Private Limited's (KSIPL) ultimate holding company, Kiran Energy Solar Power Private Limited (KESPPL), from private equity players to the Hinduja Group. The rating also factors the consolidated assessment of KESPPL's business and financial risk profile. KESPPL, the holding company that has cumulative 79 MW operational solar assets through wholly owned subsidiaries, is now held by Hinduja Power Limited (HPL), Mauritius. Thus, KSIPL, on a standalone basis is expected to benefit from the cost rationalisation measures undertaken by the Hinduja Group, which includes reduction in operations and maintenance (O&M) cost and refinancing of the project loans that are in advanced stages at a lower interest rate. The rating also favourably factors in the satisfactory operational track record of more than six years, since commissioning date, of the entire 30-MW solar power capacity of KSIPL in Rajasthan. The rating further derives comfort from the project's limited demand risk by virtue of the long-term power purchase agreement (PPA) with NTPC Vidyut Vyapar Nigam Private Limited (NVVN) for its entire capacity. Further, the rating is supported by the low counterparty credit risk associated with NVVN, evident from the prompt receipt of payments by the company.

KSIPL, however, remains exposed to the risk of variability in cash flows due to changes in solar irradiance level/weather conditions, given the single-part nature of the PPA tariff. It is also exposed to foreign exchange risk as the company has availed a foreign currency loan in order to part-fund the project cost. However, a significant portion of this foreign currency debt repayment obligations for the next six years has been hedged with options and forward contracts, which mitigates the risk to some extent. Further, the company's operations, on an overall basis, remain exposed to interest rate risk, given the single fixed-part nature of the PPA tariff. Nonetheless, the presence of the debt-service reserve account (DSRA) for two quarter of debt obligations provides additional comfort. ICRA also notes that the company's operations remain exposed to regulatory challenges associated with the implementation of scheduling and forecasting framework, given the limited experience of the industry players in India in scheduling and forecasting and the variable nature of solar energy generation. ICRA, however, notes that the variance in cash flows due to variation in solar irradiance level remains lower in solar PV-based projects than other renewable source-based projects. While the company's ultimate parent does not have any sizeable capital expenditure plans at this stage and may look for inorganic growth through acquisitions, any sizeable capex or acquisition along with increase in funding requirements would a key monitorable from the credit perspective.

Outlook: Stable

ICRA believes that KSIPL will continue to benefit from the long-term fixed-tariff based PPAs signed with NVVN and their timely collections. The outlook may be revised to Positive if there is a sustained improvement in the PLF level. The outlook may be revised to Negative in case deterioration in operational performance or any material delays from the counterparty affects the liquidity profile.

Key rating drivers

Credit strengths

Strong parental support from Hinduja Group - KSIPL is a wholly-owned subsidiary of Kiran Solar One Private Limited (KSOPL), which itself is a wholly-owned subsidiary of KESPPL. KESPPL, in turn, is a part of the transnational conglomerate, Hinduja Group, one of the largest diversified business groups in the country. In May 2018, HPL, Mauritius had acquired the 100% holding in KESPPL from the promoters, Mr. Ardeshir Contractor (former Managing Director of KPMG India) and Mr. Alan Rosling (former Executive Director of Tata Sons Ltd) and three private equity players, viz. Bessemer Venture Partners, New Silk Route and Argonaut Ventures.

Healthy operating track record of plant since commissioning in February 2013 - The company is operating a 30-MW (AC) grid-connected solar PV project at Rawara village in the Phalodi district of Rajasthan. The performance of the project has remained healthy, with PLF levels in excess of 21% in FY2018. However, the average PLF in 9MFY2019 was a little lower than the corresponding period of last year, as performance of the plant was affected by lower irradiation levels in CY2018.

Limited demand risk and low counterparty credit risk - The company's entire solar power capacity is tied up with NVVN through a 25-year PPA at a tariff of Rs. 9.34/unit, which limits demand risk to some extent. Cash collections from NVVN have been timely, leading to low counterparty credit risk. Tariff competitiveness is maintained through NNVN's arrangement of bundling cheaper coal power with solar power, before selling it to state discoms.

Comfortable debt tenure and interest rate - The debt coverage metrics of the company's operations are expected to remain satisfactory (average DSCR is estimated at ~1.33 times), supported by the superior operating track record, the cost savings in O&M and the proposed debt refinancing at a cost competitive rate. Further, comfort is drawn from the fact that KSIPL has created DSRA for two quarter of interest principal repayment.

Credit challenges

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

Exposure to interest rate and foreign currency exchange risk – The company had availed a foreign currency loan to part-fund the project cost. However, a significant portion of this foreign currency debt repayment obligations for the next six years has been hedged with options and forward contracts, which mitigate the risk to some extent. Further, the operations remain exposed to interest rate risk, given the single, fixed-part nature of the PPA tariff.

Challenges associated with implementation of forecasting and scheduling regulations - The regulatory challenges pertaining to the implementation of scheduling and forecasting framework for solar power project poses a risk, given the limited experience of industry players in India in scheduling and forecasting and the variable nature of solar energy generation.

Liquidity position

The liquidity position of the company remains adequate with presence of DSRA equivalent to two quarter of debt service obligations, along with free cash balance of Rs. 23.35 crore (as on September 30, 2018).

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Financial consolidation and Rating approach
Parent/Group Support	Parent/Group Company: KESPPL The rating assigned to KSIPL factors in the high likelihood of its ultimate parent, KESPPL, extending financial support to it because of close business linkages between them.
Consolidation / Standalone	For arriving at the ratings, ICRA has taken a consolidated view of KSIPL along with its ultimate parent KESPPL and other group companies (as mentioned in Annexure-2), given the close business, financial and managerial linkages among them.

About the company:

KSIPL is a wholly-owned subsidiary of KSOPL, which in turn is a 100% subsidiary of KESPPL. KESPPL was set up in 2010 with the principal objective of constructing solar power projects in India. In May 2018, HPL acquired 100% shareholding of KESPPL from the promoters—Mr. Ardeshir Contractor (former Managing Director of KPMG India) and Mr. Alan Rosling (former Executive Director of Tata Sons Ltd) and three private equity players, viz. Bessemer Venture Partners, New Silk Route and Argonaut Ventures. KESPPL has around 79 MW of DC capacity spread across Rajasthan (60 MW), Gujarat (20 MW) and Maharashtra (5 MW), which are operated under five wholly-owned SPVs.

KSIPL has installed a 30-MW photo voltaic (PV) solar power plant in the Rawra village, at the Jodhpur district of Rajasthan under Phase I-Batch II of National Solar Mission (NSM). The project was commissioned on February 25, 2013. The company has signed a PPA with NVVN for a period of 25 years. The tariff is fixed at Rs. 9.34 per unit.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	53.1	52.7
PAT (Rs. crore)	0.6	-8.3
OPBDIT/OI (%)	80.4%	53.6%
RoCE (%)	5.6%	3.3%
Total Debt/TNW (times)	1.6	2.1
Total Debt/OPBDIT (times)	4.8	6.7
Interest Coverage (times)	2.3	1.7
NWC/OI (%)	-15.4%	-7.1%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating April 2019	Date & Rating in FY2019 May 2018	Date & Rating in FY2018 October 2017	Date & Rating in FY2017 -	Date & Rating in FY2016 -
1	Term Loans	Long Term	33.00	29.96	[ICRA]A (Stable)	[ICRA]A- &	[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	September 2012	11.70%	FY2027	33.00	[ICRA]A (Stable)

Source: KSIPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Kiran Energy Solar Power Private Limited	0%	Full Consolidation
Kiran Solar One Private Limited	0%	Full Consolidation
Solarfield Energy Private Limited	0%	Full Consolidation
Solarfield Energy Two Private Limited	0%	Full Consolidation
Kiran Renewables Private Limited	0%	Full Consolidation

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About ICRA Limited:

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