

June 27, 2019

Solar Energy Corporation of India Ltd: [ICRA]AA+(Positive)/[ICRA]A1+ assigned for enhanced amount

Summary of rating action

Instrument	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Unallocated limits	100.0	100.0	[ICRA]AA+(Positive) / [ICRA]A1+; <i>outstanding</i>
Unallocated limits	-	150.0	[ICRA]AA+(Positive) / [ICRA]A1+; <i>assigned</i>
Total	100.0	250.0	

*Instrument details are provided in Annexure-1

Rationale

The ratings draw comfort from the strong parentage of Solar Energy Corporation of India Ltd (SECI) (100% owned by the Government of India (GoI)) and its strategic role in promoting the solar and wind energy sector in India which is a thrust area of the government. The ratings also factor in the inclusion of SECI as a beneficiary of the tripartite agreement (TPA) signed between Centre, states and the Reserve Bank of India (RBI). Nearly all states /U.T.s have either already signed the TPA or have provided in-principle approval. The TPA insulates SECI from the payment delays by discoms of the signatory states/U.T.s. Further, the track record of payments to SECI by most of the discoms over the last more than three years has been regular resulting in a healthy liquidity position for the company. That said, ICRA acknowledges the delays in payments from Andhra Pradesh and Karnataka discoms over the last few months. Apart from this, SECI's liquidity is supported by the presence of a payment security fund (PSF) envisioned to cover three months of payment delays by discoms. However, it may be noted that the coverage of the PSF is limited to capacity commissioned under National Solar Mission only and currently does not include the capacity awarded under ISTS auctions or any other programs. ICRA favourably considers the fact that SECI, which signs Power Purchase Agreements (PPA) with developers, enters into back-to-back Power Sale Agreements (PSA) with discoms thus totally hedging itself against any demand risk, execution risk or operating risk. ICRA acknowledges the increasing competitiveness of renewable power which incentivises its uptake by various discoms. The rating is also supported by the low risk and high margin fee-based income stream of SECI wherein it gets a fixed percentage of the funds disbursed either for Viability Gap Funding (VGF) or Central Financial Assistance (CFA) based schemes of GoI and/or receives success fee on signing of PPA with developers. ICRA notes that SECI has developed a 10 MW solar power plant and contracted the power to NTPC Vidyut Vyapar Nigam Ltd (NVVN) under a 25 year PPA at an attractive tariff of Rs 7.04/unit. The said power plant has reported strong PLFs and received prompt payments from NVVN in the past. ICRA also acknowledges the consultancy project awarded to SECI by Coal India Ltd which is likely to improve the profitability of the company in the near future. Finally, SECI remains a debt-free company at present.

Despite the strong payment track record, ICRA believes that the company remains exposed to state owned discoms, most of which are in poor financial health. The exposure to these weak counterparties is set to increase manifold with the commissioning of capacities under Ph-II, B-IV and ISTS auctions in the near future. However, ICRA acknowledges that solar and wind power under development is more price competitive vis-a-vis not only solar power sold under Ph-II, B-I but also conventional sources of power in many cases. Finally, ICRA notes that the company is in the process of setting up a 160 MW wind solar hybrid project with a battery component in Andhra Pradesh and a 10 MW DRDO project in Karnataka, apart from evaluating other investment proposals, which exposes it to risks related to setting up a greenfield project such as time and cost overrun risks, funding risks etc as well as technology related risks.

Therefore, the ability of the company to manage counter party risks of state utilities as well as mitigate execution risks associated with setting up greenfield projects would comprise the key rating sensitivities.

Outlook: Positive

ICRA believes SECI will continue to benefit from the focus of the government on the renewable energy sector. The 'Positive' outlook captures the regularity in receipt of payments by SECI from most of the discoms, execution of the TPA with majority of the states/U.T.s, availability of adequate liquidity and improving competitiveness of renewable power. The outlook may be revised to 'Negative' if there is a stretch in the working capital cycle which weakens liquidity or instances of execution related challenges in case of greenfield projects.

Key rating drivers

Credit strengths

Strong sponsor strength as SECI is 100% owned by the Government of India - SECI is under the administrative control of the Ministry of New and Renewable Energy (MNRE), Government of India (GoI) and was set up on September 20, 2011, under the Companies Act 1956 as an implementation and facilitation institution dedicated to solar energy sector. It is implementing the National Solar Mission (NSM or JNNSM) on behalf of GoI. GoI's demonstrated support to solar initiatives lends strategic importance to the company.

SECI's inclusion in the TPA and its subsequent signing by most state governments – SECI has been included as a beneficiary in the TPA to be executed between the Central government, State governments and the Reserve Bank of India (RBI). The TPA, which has currently been signed by 29 states/U.T.s, insulates SECI against payment delays by discoms of the signatory states/U.T.s.

Presence of PSF envisioned to cover three months of payment delays by discoms – Of the Rs 1500 crore requested by SECI for PSF, the MNRE has sanctioned and released Rs 500 crore for the capacity to be set up under NSM to cover for payment delays by discoms. The total size of the PSF corpus currently is Rs 870 crore. Although the PSF provides liquidity cushion it may be noted that its coverage currently does not cover any other program except NSM. Hence capacity awarded under ISTS auctions is outside the purview of the PSF.

Improving cost competitiveness of renewable power – The reduction in levelised cost of energy (LCoE) for both wind and solar technologies due to improvement in technology and fall in equipment costs along with the aggressive bidding by developers has brought solar and wind power tariff rates closer to the tariffs charged by the conventional power plants. With the improvement in cost competitiveness of solar and wind power, their economic attractiveness is also set to increase alleviating the offtake risks to that extent.

Low risk business model of SECI – For its power trading business, SECI keeps a fixed trading margin of Rs 0.05 – 0.07/unit. Further, it is largely insulated from any market risk, execution risk and operational risk as most terms in the PPA signed with developers and PSA signed with discoms are back to back. The low risk high margin income stream on account of scheme handling and power sales from its own 10 MW solar project also provide comfort.

Credit challenges

Credit quality of most counterparties is weak – Despite the largely satisfactory payment cycle over the last more than three years, ICRA notes the counterparty credit risks arising out of exposure to state owned discoms, most of which are in poor financial health. The same has been manifested by delay in payments from Andhra Pradesh and Karnataka. The exposure to these weak counterparties is set to increase manifold with the commissioning of capacities bid out under Ph-II, B-IV and ISTS auctions in the near future.

Solar-Wind hybrid power plant development plans expose the company to execution risks - SECI is currently in advanced stage of committing funds for setting up a 160 MW wind-solar hybrid project along with a 20 MWh battery and another 10 MW solar project in DRDO (Karnataka). The said projects expose the company to risks related to setting up a greenfield project such as time and cost overrun risks, funding risks etc as well as technology related risks. Apart from this, SECI is also evaluating various other proposals which are currently in early stages of discussion. However, if and when they materialise, they will further expose SECI to these same risks.

Liquidity Position:

SECI's liquidity position remains very comfortable. The liquidity position is aided by presence of more than Rs 870 crore in the PSF which may be used to make payments to developers under JNNSM in case of delays by discoms apart from other cash and balances. Regular payments by most of the counterparties over the last more than three years has also ensured that liquidity profile of the company remains comfortable though ICRA notes the delay in payments by Andhra Pradesh and Karnataka. The company does not have any term loan outstanding and hence there are no upcoming repayments. It also does not avail of any fund based working capital limits currently.

ICRA, however, notes that SECI is planning to set up a 160 MW solar-wind hybrid project in Andhra Pradesh and a 10 MW project for DRDO in Karnataka which will require equity commitment from SECI.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent/Group Company: Government of India / MNRE The support from the parent group is explicit and is in the form of periodic equity infusions, providing payment security fund, SECI's inclusion in the tripartite agreement etc
Consolidation / Standalone	The rating is based on standalone financials of the company

About the company

Solar Energy Corporation of India Ltd. (SECI) is under the administrative control of the Ministry of New and Renewable Energy, Government of India and was set up in 2011, under the Companies Act 2013 (erstwhile Companies Act, 1956) as an implementation and facilitation institution dedicated to the renewable energy sector.

- SECI is the implementing agency for many of GOI's schemes such as the commissioned 680 MW Grid Connected Solar PV Project under Phase II Batch I of JNNSM, 2000 MW Phase II Batch III and 5000 MW Phase II Batch IV, wind and solar power projects connected to Inter-state transmission system (ISTS), wind solar hybrid projects, manufacturing linked solar programme, Rooftop Solar PV Programme, Solar Parks, CPSU scheme, canal top/bank scheme, Solarization of Indo-Pak Border etc.
- SECI acts as an offtaker of power under Phase II Batch I/III/IV and wind/solar ISTS tenders (except first wind ISTS tender where PTC India Ltd is the offtaker) and subsequently sells it to state discoms under long-term power sale agreements.
- SECI owns a 10 MW solar power plant in Jodhpur, which was commissioned in March 2016 and sells solar power to NTPC Vidyut Vyapar Nigam Ltd under a 25-year PPA at a fixed tariff. SECI has also set up a 1 MW solar rooftop project at different locations in Andaman & Nicobar island and sells the power to Andaman & Nicobar Administration at a tariff of Rs 4.64/unit. This project was set up in FY2018.

- SECI undertakes project management and consultancy-based projects for CPSUs/government entities looking to set up solar power projects.
- SECI has entered into a number of 50:50 JVs with various state agencies for the development of solar power parks.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	785.18	1,158.18
PAT (Rs. crore)	46.50	64.72
OPBDIT/OI (%)	9.1%	7.6%
RoCE (%)		
Total Debt/TNW (times)	0.00	0.00
Total Debt/OPBDIT (times)	0.00	0.00
Interest coverage (times)	N/A	N/A

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				Jun 2019	Feb 2019				
1	Term loan	Long Term	Nil				[ICRA]AA+ (Stable)	[ICRA]AA- (Stable)	
2	LC/BG	Short term	Nil				[ICRA]A1+	[ICRA]A1+	
3	Unallocated	Long/Short Term	250.0	[ICRA]AA+ (Positive)/A1+	[ICRA]AA+ (Positive)/A1+	[ICRA]AA+ (Positive)/A1+			

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	Unallocated	NA	NA	NA	250.0	[ICRA]AA+(Positive)/A1+

Source: SECI

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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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