April 17, 2020

Sprng Energy Pvt. Ltd.: Rating reaffirmed; outlook revised from Negative to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Non-Fund Based Facilities	600.00	600.00	[ICRA]A- (Stable); Reaffirmed, Outlook revised from Negative to Stable
Total	**600.00**	**600.00**	

Instrument details are provided in Annexure-1

Rationale

ICRA has considered the consolidated business and financial profile of Sprng Energy Private Limited (SEPL), which includes that of all its subsidiaries comprising operational and under-construction renewable (solar/wind) power projects (Sprng Group). The revision in outlook is on account of the significantly reduced regulatory risk owing to receipt of a favourable order from the Appellate Tribunal for Electricity (APTEL) confirming power supply agreement (PSA) tariff adoption for 500 MW of under-construction projects (Agnitra[1] and Soura Kiran[2]) in Andhra Pradesh on February 27, 2020. The order by APTEL has removed the conditionalities attached to PSA tariff adoption earlier approved by the Andhra Pradesh Electricity Regulatory Commission (APERC) in its order dated October 5, 2019. Nonetheless, any further appeal by Andhra Pradesh state power distribution utilities (discoms) against the APTEL order remains a monitorable. Furthermore, the Sprng Group has demonstrated a healthy operational track record in its operational projects (with aggregate capacity of 641.5 MW), in addition to timely commissioning of under-construction projects within the budgeted costs. The Group is expected to benefit from the reimbursement of cost incurred for safeguard duty and GST, pursuant to change in law for 250 MW of capacity, given the favourable orders issued by the Central Electricity Regulatory Commission (CERC) for the same.

The ratings continue to factor in the benefits arising from the company's association with Actis Capital (Actis), a leading private equity player focussed on emerging markets, having an established track record of successfully executing and monetising renewable energy projects in India. The rating favourably notes the committed capital of US$ 475 million (~Rs. 3,373 crore)[3] by Actis Capital via Actis 4 Funds (AE4) [4] and availability of shareholder support agreement for majority of the non-fund based limits[5] required towards developing renewable energy projects in India under the Sprng energy platform. The rating draws strength from the limited offtake risks due to presence of long-term PPAs at cost competitive tariffs (Rs.3.04/Kwh at a portfolio level) for the entire capacity of 1742 MW (operational and under-construction projects). Moreover, most of its PPAs (about 77%) are with relatively stronger counter-parties such as NTPC[6], SECI[7] and GUVNL[8], which are accompanied with relatively superior payment security mechanism. The

[1]Sprng Agnitra Private Limited with 250 MW solar power plant under construction in Andhra Pradesh
[2]Sprng Soura Kiran Vidyut Private Limited with 250 MW solar power plant under construction in Andhra Pradesh
3 Exchange rate of USD to INR is considered at Rs.71; However, actual funds are called at the exchange rate prevailing at that time
4Fund for setting up wind and solar power projects in India
5 As per terms of the revised sanction letter by the company's lender
[6]NTPC – National Thermal Power Corporation Limited
[7]SECI – Solar Energy Corporation of India Limited
[8]GUVNL – Gujarat Urja Vikas Nigam Limited

intermediary counterparties namely NTPC and SECI, in turn, have PSAs with the ultimate offtakers comprising primarily the state-owned distribution utilities. In addition, absence of debt at SEPL's standalone level and long tenure of debt availability with door-to-door maturity profile of 18-20 years for the operational project special purpose vehicles (SPVs) along with presence of DSRA and working capital facilities provides comfort from the credit perspective. The rating is supported by the presence of a highly qualified and professional management team, which comprises experienced technocrats and investment/finance professionals.

The rating, however, remains constrained by the project execution risks associated with the under-construction projects totalling 1100 MW (63% of total portfolio) of which 800 MW remain in a relatively nascent stage of construction. The said risk is further accentuated by pending PSA approvals for 300 MW project capacity and probable delays on account of the prevailing lockdown due to Covid-19 outbreak. Thus, timely grant of timeline extension under force majeure clause as well as receipt of post regulatory approvals for PSA (wherever applicable) by the nodal agencies in addition to achieving timely financial closure for the under-construction projects remains crucial. ICRA, however, takes note of the limited equity funding risks for the under-construction projects owing to presence of committed funds from Actis 4 Funds. Furthermore, SEPL's ability to keep the actual cost within the budgeted level and achieve operational parameters (mainly the PLF level) in line with estimates would remain critical from the credit perspective. Moreover, since the company provides corporate guarantee of cost overrun up to 10% of the project cost of the SPVs to the lenders, any significant cost overrun may necessitate funding requirements by SEPL and remains a key rating sensitivity. The rating further remains tempered by the continued payment delays from the Telangana discom for 144-MW solar capacity, with the overdue receivable position of about ten months as of March 2020, exposing it to high counterparty credit risk. ICRA, however, notes that the exposure to Telangana discoms constitutes 8.3% of the total portfolio. The lockdown imposed in India to control the Covid-19 pandemic is expected to have an adverse impact on the cash flows of power distribution entities, because of decline in electricity demand as well as constraints in collections from consumers. This in turn may affect payment pattern by the PPA / PSA counterparty with the ultimate offtakers mainly being the state-owned distribution utilities for the Group. The extent of lockdown and its consequent impact on the cash flows for the operational project subsidiaries of the Group remains a key monitorable.

The Stable outlook reflects ICRA's expectations that SEPL will continue to benefit from the support derived from Actis Capital via Actis 4 Funds by virtue of the managerial expertise as well as its demonstrated track record in development of renewable projects in India. Going forward, the company's ability to commission its under-construction projects in a timely manner within the budgeted costs while achieving healthy PLF levels for its operational projects remains important from the credit perspective.

Key rating drivers and their description

Credit strengths

Established track record of successfully executing and monetising power projects in India – SEPL has been promoted by Actis, which is a leading private equity player. Actis has raised US$ 15 billion (Rs. 1,14,000 crore) since its inception and has an asset under management (AUM) of US$ 12 billion at present. It is a global platform offering a multi-asset strategy through the asset classes of private equity, energy, infrastructure and real estate with a demonstrated track record in developing and monetising renewable energy projects in India. In 2014, Actis Energy established a dedicated renewable energy platform in India – Ostro Energy, committing about US$ 280 million in equity investment from its Fund 3. The Ostro Energy platform of 1,110 MW of wind and solar power projects (860-MW operational and 250-MW under-construction capacity), was successfully sold to ReNew Power Ventures at an approximate enterprise value of Rs. 10,800 crore.

Limited off-take risks due to long-term PPAs for entire capacity; dominant share of PPAs with relatively stronger counterparties – The off-take risk for SEPL's portfolio is limited due to the presence of long-term PPAs for the entire capacity. The counterparty credit risk, for the projects under implementation remains low as counterparties for majority of the projects (77.38%) are NTPC, SECI, and GUVNL, which has a relatively stronger credit profile. NTPC and SECI are the intermediary counter-parties of SEPL which, in turn, have PSAs with state owned distribution companies. The PPAs have relatively better payment security as evident from the presence of payment security fund which is equivalent to three months of tariff receivables, backed by budgetary support from the Ministry of New and Renewable Energy (MNRE).

Healthy operational track record and superior tariff competitiveness – Of the total capacity, 641.5 MW (~36.8%) is operational as on date with an average maturity profile of 2.2 years and satisfactory operational track record. The tariff competitiveness is superior for most of the company's projects for the ultimate off-takers with a weighted average tariff of Rs.3.04/Kwh at a portfolio level. Further, additional upside is available for the cost incurred for safeguard duty and GST, pursuant to change in law for the already awarded projects.

Presence of committed funds mitigates funding risk for projects under execution – The total corpus of Actis 4 Funds amounts to about US$ 2.75 billion, out of which it has allocated US$ 475 million towards setting up wind and solar power plants in India through the Sprng Energy platform. The objective of the fund is to set up an aggregate renewable energy capacity of ~1.8 GW over a period of three to four years. The platform acquired commissioned renewable energy assets (194 MW) utilising these funds. The total funds available are being used to fund the equity requirement of the under-construction SPVs.

Shareholder Support Agreement by Actis Energy – SEPL enjoys a shareholder support agreement (SSA) by Actis Energy 4 LP, Actis Energy 4 A LP, Actis Energy 4 Co-Investment LP, Actis Energy 4 Co-Investment (2) LP, Actis Energy 4 Co-Investment Scheme LP and Actis Energy 4 (Lev) Co-Investment Scheme LP (Actis 4 Funds) for majority of the non-fund based limits (DSRA BG, PBG, Bid Bond Guarantee as per terms of the revised sanction letter by the company's lender). The SSA is applicable from the date of its signing and will terminate on the earlier of the date, at which SEPL has unconditionally satisfied its obligations under the facility or the expiry of the facility with no amounts due.

Long tenure debt availability – The project SPVs (operational as well as under-construction projects where debt is tied up) have long tenure debt availability with a door-to-door maturity profile of 18-20 years. The availability of DSRA of one/two quarters of principal and interest for all the SPVs along with working capital limit availability (for five of the six operational (SPVs), provide additional comfort.

Credit challenges

Execution risks associated with under-construction projects – SEPL has projects worth 1,100 MW (500 MW of solar power projects and 600 MW of wind power projects) under construction. While a 300-MW wind power project is in the advanced stages of construction, the remaining 800 MW power projects remain in a fairly nascent stage, exposing the company to execution risks. Furthermore, execution timelines for about 300 MW remain subject to PSA tariff adoption by SERCs and subsequent implementation / timeline extension by the nodal agencies (SECI/NTPC/counterparty discoms) for CoD. While two SPVs (Sprng Agnitra Private Limited and Sprng Soura Kiran Private Limited) have received the final order from APTEL on February 27, 2020 confirming PSA tariff, the risk of further appeal by AP distribution utilities may remain within 60 days thereafter. However, presence of cost competitive tariffs is expected to mitigate the said risk to a large extent. The financial closure for two SPVs totalling 350 MW of capacity is yet to take place, though the timeline for achieving the financial closures is not breached. The company's ability to timely commission the projects within the stipulated timelines remains critical, given the pending approval for PSAs in under-construction projects and the probable delays due to prevailing lockdown due to Covid-19 outbreak. The timely grant of timeline extension under force majeure clause along with receipt of PSA approvals remains crucial.

Exposed to cost over-run for under-construction projects – The timely commissioning of the under-construction projects within the stipulated timelines remains critical, as any delays in the same may result in invocation of performance bank guarantee facilities given by SEPL to the state discoms, on behalf of the SPVs. Since SEPL provides corporate guarantee of cost overrun up to 10% of the project cost of the SPVs to the lenders, any significant cost overrun may necessitate funding requirements by the company to meet such cost over-runs and/or any other cash flow mismatches / shortfalls remains a key rating sensitivity. However, the said risks are mitigated to a certain extent given the presence of Lump Sum Turn Key contracts in wind power projects, wherein the cost overrun is passed on to the EPC contractor. In addition, the Group has a relatively strong track record of commissioning projects within the estimated costs.

Continued delays in receipt of payments from Telangana discoms – The liquidity profile for the 144-MW Telangana-based SPVs of Sprng energy platform (the exposure to such projects is limited to 8.3% for the portfolio on an overall basis) remains exposed to continued delays in payment from the Telangana discom. However, the discom has been making regularly payments since the last 10 months and Telangana SPVs have sufficient liquidity available to meet debt service obligation for the next six to nine months.

Risk of payment delays by PPA/PSA counterparties - The lockdown imposed in India to control the Covid-19 pandemic is expected to have an adverse impact on the cash flows of power distribution entities in the near term, because of decline in electricity demand as well as constraints in collections from consumers. This, in turn, may affect the payment pattern by the PPA / PSA counterparty with the ultimate offtakers primarily comprising state-owned distribution utilities. The extent of lockdown and its consequent impact on the cash flows for its operational project subsidiaries remains a key monitorable. Nonetheless, the relatively superior payment security mechanism for the operational projects SPVs having PPAs with NTPC/SECI and adequate liquidity buffer in the form of DSRA as well as access to working capital limits provides a source of comfort in the near term. Further, the Group has cleared the debt servicing dues in March 2020 and may seek the moratorium as per the RBI circular dated March 27, 2020 for April and May 2020. The availability of such moratorium is expected to provide a cash flow relief in case of delays in cash collections from the offtakers.

Regulatory delays related to tariff adoption for MP-based projects – SEPL has under-construction capacity of 300 MW, located in MP, Sprng Vayu Vidyut Private Limited has 200-MW capacity and Sprng Wind Energy Private Limited has 100-MW capacity wherein the ultimate counterparties in PSA are discoms of Punjab and Kerala respectively. Although PPAs and PSAs have been signed for both these projects, the final tariff adoption is pending from the SERCs. This, in turn, has led to consequent delays in the effectiveness of the PPA and PSA for the under-construction projects of 300 MW. However, the risk of time overrun for these projects is negated to a certain extent since the SCOD would be linked to the date of PSA tariff adoption by the SERCs.

Vulnerability to variation in weather conditions and interest rate risk – As tariffs are one part in nature, the company's cash flows, on an overall basis, remain exposed to the risk of non-generation of power due to variation in weather conditions such as on-site availability of solar irradiance and wind speed. Further, the coverage metrics, on an overall basis, are exposed to the interest rate risk, given the fixed and single part nature of tariff.

Liquidity position: Adequate

SEPL's liquidity position is adequate as reflected in unencumbered cash, bank balance and liquid investments of Rs. 21.36 crore as on March 31, 2020 (standalone level). It does not have any external debt at the standalone level. At a consolidated level, all the six operational SPVs have DSRAs available in the form of bank guarantee/cash. In addition, five of the six operating SPVs have sanctioned working capital limits available with sufficient cushion available in terms of undrawn limits. With respect to funding requirements for the under-construction projects, Actis4 Funds have committed US$ 475 million for Sprng Energy platform to set up ~1.8-GW capacity renewable energy projects in India. Through SEPL, the funds have already infused ~Rs. 1,847 crore out of the total fund size of USD 475 million mainly towards equity requirement of the under-construction SPVs and acquisition of 194-MW capacity from the Shapoorji Pallonji Group.

Rating sensitivities

Positive triggers – ICRA could upgrade SEPL's rating in case of commissioning of the under-construction projects without any cost/time overruns.

Negative triggers – ICRA could downgrade SEPL's rating in case of delay in commissioning of under-construction projects beyond the revised SCODs or if there is material under performance in generation of SPVs below P-90 levels or delays in receiving payments from the offtakers affecting the liquidity position of the SPVs.

Analytical approach

Analytical Approach	**Comments**
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach Rating Methodology for Wind Power Producers Rating Methodology for Solar Power Producers
Parent/Group Support	For arriving at the rating, ICRA has taken into consideration implicit support from Actis 4 Funds
Consolidated / Standalone	For arriving at the rating, ICRA has considered the consolidated financial profile. The list of companies that are consolidated to arrive at the rating are given in Annexure 2 below.

About the company

Incorporated in December 2016, SEPL is a 100% owned entity of Solenergi Power Private Limited (SPPL, a Mauritius-based entity). SPPL is, in turn, 100% owned by Actis Solenergy Limited (ASL, another entity based out of Mauritius). SEPL is a renewable energy platform created to invest US$ 475 million raised by Actis Energy through its Actis 4 Funds with the objective of installing ~1.8-GW capacity renewable energy projects in India. In addition to the 194 MW commissioned solar power capacity acquired from Shapoorji Pallonji Group, the company has commissioned 250 MW solar power and 197.5 MW wind power capacity, while the remaining 1100-MW (500 MW - solar and 600 MW - wind) under-construction capacity is expected to be commissioned over the next two years.

Key financial indicators (Consolidated)*

	FY2018	FY2019
Operating Income (Rs. crore)	8.9	10.1
PAT (Rs. crore)	-2.9	-5.7
OPBDIT/OI	-22.1%	-19.3%
RoCE	-7.0%	0.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.06	1.58
Total Debt/OPBDIT (times)	0.0	NM
Interest Coverage (times)	-1.64	-0.86
DSCR	-1.48	1.43

** NM: Not Meaningful*

Operating income does not include other income (interest income on term deposits with bank)
Ratios are as per ICRA's computation; Interest coverage computation does not include other income
Capital creditors have been included in Total Outside Liabilities

Key financial indicators (Standalone)*

	FY2018	FY2019
Operating Income (Rs. crore)	11.8	37.5
PAT (Rs. crore)	0.01	3.9
OPBDIT/OI	6.1%	6.8%
RoCE	1.7%	1.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	0.9	1.1
DSCR	1.1	2.8

**Operating income does not include other income (interest income on term deposits with bank)*
Ratios are as per ICRA's computation; Interest coverage computation does not include other income
Capital creditors have been included in Total Outside Liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Sl. No	Name of Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. crore)	Rated amount outstanding (Rs. crore)	Month-year & Rating	Month-year & Rating in FY2020		Month-year & Rating in FY2019	Month-year & Rating in FY2018
					April 17, 2020	August 30, 2019	April 08, 2019	January 22, 2019	-
1	Non - Fund Based Limit	Long Term	600.00	-	[ICRA]A-(Stable)	[ICRA]A-(S) (Negative)	[ICRA]A-(S) (Stable)	[ICRA]A-(S) (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

ISI No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term Non-Fund Based Facilities	August 2018	-	-	600.00	[ICRA]A- (Stable)

Source: SEPL

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Sprng Transform Sun Energy Private Limited	100.00%	Full Consolidation
Sprng Solren Private Limited	100.00%	Full Consolidation
Suryodaya Energy Private Limited	100.00%	Full Consolidation
Sprng Photovoltaic Private Limited	100.00%	Full Consolidation
Sprng Vayu Vidyut Private Limited	100.00%	Full Consolidation
Sprng Wind Energy Private Limited	100.00%	Full Consolidation
Sprng Soura Kiran Private Limited	100.00%	Full Consolidation
Sprng Agnitra Private Limited	100.00%	Full Consolidation
Sprng Renewable Energy Private Limited	100.00%	Full Consolidation
Sprng Alt Energy Private Limited	100.00%	Full Consolidation
Arinsun Clean Energy Private Limited	48.02%	Limited Consolidation

Note: The above entities have been consolidated as part of the consolidated financial statements of SEPL except Arinsun Clean Energy Private Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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