

September 10, 2020

Capsol Energy Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based TL (SO)	36.94	[ICRA]A-(Stable); Assigned
Total	36.94	

*Instrument details are provided in Annexure-1

Rationale

The rating assignment factors in strengths by virtue of the company's ownership with Radiance Renewables Private Limited (RRPL) which is backed by Green Growth Equity Fund (GGEF), thus reflecting a superior financial flexibility and managerial strength. GGEF has National Investment and Infrastructure Fund (NIIF) and Department of International Development (DFID), Government of UK as anchor investors. GGEF is managed by EverSource Capital, a joint venture of EverStone Capital and Lighthouse BP. CEPL has setup 9.66 MW/11.97 MWp solar power project in Tamil Nadu which was commissioned in June 2019 (COD). The operational track record of the solar power project of CEPL has been satisfactory since COD although the operational track record is limited so far. CEPL has signed long term power purchase agreement with group captive consumers (Rane group entities) mitigating offtake risk and price risk to some extent. The credit quality of the counter parties of PPA is satisfactory as evident from the timely payments translating to low receivable days, although collections were impacted in 4M FY2021 due to Covid-19. The rating also factors in liquidity buffer by virtue of being subsidiary of RRPL which has satisfactory cash balances at standalone and consolidated level.

The ratings are, however, constrained by limited operational track record of the project so far. The ratings are also constrained by vulnerability of the company's cash flows to weather conditions as revenue is linked to actual generation. The solar power project of CEPL is exposed to regulatory risk due to change in transmission/ wheeling charges or losses or any other regulations which may impact the landed cost of electricity for group captive consumers. While tariff as per PPA is lower than respective grid tariff thus resulting in saving for per unit of electricity consumed by group captive consumers, which provides a comfort, the same is higher than the solar tariffs seen in competitive bidding for utility scale projects. Moreover, CEPL is exposed to interest rate risk as the tariff is fixed while interest rate is floating in nature. The rating is constrained by risks associated with implementation of scheduling and forecasting norms as well.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that operational performance of the solar power project of CEPL shall be satisfactory and payments from counter parties shall be timely.

Key rating drivers and their description

Credit strengths

Superior financial flexibility & managerial strengths by virtue of parentage as CEPL is subsidiary of RRPL – CEPL is subsidiary of RRPL which is the holding company of Radiance group and is backed by GGEF. RRPL had acquired CEPL in August 2020. GGEF counts NIIF and DFID, UK Government among anchor investors. GGEF is managed by EverSource Capital which is a joint venture of EverStone Capital and Lighthouse BP. The management of Radiance group has experience in setting up renewable power projects in India. GGEF has capital commitment from anchor investors for investing in RRPL apart from Ayana Renewables and Green Cell Mobility. RRPL has extended corporate guarantee for term loan of CEPL.

Satisfactory operational track record so far- The 9.66 MW/11.97 MWp solar power project of CEPL was commissioned in June 2019 and has operational track record of more than one year. The generation performance in FY2020 was impacted by lower machine availability in few instances and stabilization phase. However, the generation in 4M FY2021 was satisfactory. Ability of the company to demonstrate satisfactory generation performance remains critical as revenue is linked to actual generation.

Presence of long term power purchase agreements with group captive consumers mitigates offtake risk and price risk to some extent – The solar power project of CEPL has signed long term PPA for 25 years with lockin period of 10 years with Rane group entities under group captive mode at a fixed tariff during lock in period which mitigates offtake risk and price risk to some extent. The tariff is lower than grid tariff leading to cost saving for every unit of electricity purchased by the group captive consumers. The PPAs also have termination payment clauses in case of event of default by Customer/Developer.

Satisfactory credit quality of counterparties also backed by timely payments translating into low receivable days - The credit quality of counter parties of CEPL is satisfactory as evident from financial profile of these entities and timely payment within 10 days from date of billing in FY2020. The collection efficiency and cycle was impacted in 4M FY2021 due to Covid-19 induced lockdown but is expected to improve going forward.

Liquidity buffer by virtue of being subsidiary of Radiance Renewables which has satisfactory cash balances at standalone and consolidated level- The liquidity of the company is supported by satisfactory liquidity of RRPL at standalone and consolidated basis on account of satisfactory operational performance of projects and equity infusion from GGEF. RRPL had cash and liquid investments of Rs 35.53 crore as on September 02, 2020 on standalone basis (provisional) and Rs 48.44 crore on consolidated basis as on September 02, 2020 (provisional). CEPL had cash and liquid investments of Rs 0.49 crore as on September 02, 2020

Credit challenges

Limited operational track record of the project as the project was commissioned in June 2019 – Since the solar power project of CEPL was commissioned in June 2019, the project has limited operational track record.

Risks associated with seasonal nature of operation and unpredictability in PLFs in case of solar power projects- The solar power project of CEPL is exposed to risks associated with seasonal nature of operational and unpredictability in PLF as the revenue is linked to actual generation. The seasonality of generation is lower in solar power projects as compared to wind or hydro power projects. The risk is accentuated by limited operational track record of the project as the project was commissioned in June 2019.

Regulatory risk due to changes in transmission/ wheeling charges or losses or any other regulations which may impact the landed cost of electricity/ tariff competitiveness for group captive consumers - The solar power project of CEPL set up under group captive norms is exposed to regulatory risk on account of changes in transmission/wheeling charges or losses/ banking norms etc. The risk is mitigated to some extent by the pass through of such charges/losses to the group captive consumers in the PPAs. However, in case of any upward revision in these charges/losses or adverse change in regulations, the landed cost of power for group captive consumers will increase which may lead to higher possibility of tariff negotiation

Moderate tariff competitiveness; Risk of termination of PPAs post lock-in period - While PPA tariff for company's solar power project remains higher than bid driven utility scale solar and wind tariff, the tariff is at a discount for the group captive customers (Rane group entities), thus providing an economic benefit to them and offers a comfort. Further, PPAs have adequate safeguards such as lock-in and termination penalty clause under events of default. Given the declining trend of solar energy tariffs, the operations of the solar power project in group captive mode remain exposed to risk of tariff renegotiation and/or termination especially post the lock-in tenure in PPA.

Exposure to interest rate risk – CEPL is exposed to interest rate risk as the tariff is fixed while interest rate is floating in nature.

Liquidity position: Adequate

Liquidity of the company is **Adequate**. The company availed term loan of Rs 36.94 crore in August 2020 from Axis Bank. The generation from the solar power project and payments from counter party were satisfactory in FY2020 although generation was lower than P90 PLF. The generation was satisfactory in 4M FY2021 although payment from counter party was impacted due to lockdown. The company had cash and liquid investments of Rs 0.49 crore as on September 02, 2020. Radiance group had consolidated cash and liquid investments of Rs 48.44 crore as on September 02, 2020 which supports the liquidity of the company as the term loan is guaranteed by Radiance Renewables Private Limited, parent company which had cash and liquid investments of Rs 35.54 crore as on September 02, 2020 on standalone basis.

Rating sensitivities

Positive triggers – Satisfactory generation track record in line with P90 PLF estimates on sustained basis and/or material improvement in debt coverage indicators and/or improvement in credit profile of Radiance Renewables Group

Negative triggers – Generation lower than P90 PLF estimates on sustained basis and/or material deterioration in debt coverage indicators on sustained basis and/or significant deterioration in payment cycle from counter parties and/or deterioration in credit profile of Radiance Renewables Group and/or weakening of linkage with Radiance Renewables Group

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Impact of Parent or Group support on an Issuer's Credit Rating Approach for rating debt instruments backed by third party explicit support
Parent/Group Support	Parent/Group Company: Radiance Renewables Private Limited The ratings factors the implicit support from RRPL which is backed by GGEF, should there be a need given the reputational sensitivity and strategic importance of the company to RRPL
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity.

About the company

Capsol Energy Private Limited is a subsidiary of Radiance Renewables Private Limited which is the holding company of Radiance Group and is backed by Green Growth Equity Fund (GGEF). GGEF has NIIF and DFID, UK Government as its anchor investors. GGEF is managed by EverSource Capital which is 50:50 joint venture of EverStone Capital and Lighthouse BP.

CEPL has setup 9.66 MW/ 11.97 MWp solar power project in Tamil Nadu under group captive mode which was commissioned in June 2019. The long term PPAs are signed with Rane group entities at a fixed tariff for lock in period of 10 years out of PPA duration of 25 years.

In FY2020, the company reported a net loss of Rs 1.2 crore on an operating income of Rs. 5.0 crore.

Key financial indicators (audited)

	FY2020
Operating Income (Rs. crore)	5.0
PAT (Rs. crore)	(1.2)
OPBDIT/OI (%)	87.0%
PAT/OI (%)	-24.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.56
Total Debt/OPBDIT (times)	0.00
Interest Coverage (times)	0.95

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding as on August 31, 2020	Rating	FY2020	FY2019	FY2018
					10-Sep-2020			
1	Long term fund based TL (SO)	Long Term	36.94	36.94	[ICRA]A- (Stable)	-	-	-

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term fund based term loan (SO)	August 2020	-	FY2030	36.94	[ICRA]A-(Stable)

Source: Capsol Energy Private Limited

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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