

June 03, 2020

Ekialde Sun Energy Private Limited: Rating Assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	62.60	Assigned [ICRA]BBB- (Stable)
Fund-based – Unallocated units	7.40	Assigned [ICRA]BBB- (Stable)
Total	70.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA's assigned rating for Ekialde Sun Energy Private Limited (ESPL) factors in the limited demand and tariff risks for its 20 MW solar power project in Karnataka, with the presence of long-term power purchase agreement (PPA) (25-year) with Gulbarga Electricity Supply Company Limited (GESCOM) at a fixed tariff rate of Rs. 3.12 per unit. Further, ICRA favourably takes a note of the cost competitive tariff rate offered by the project, which remains lower than the average power procurement cost (APPC) of GESCOM. The rating also factors in the presence of an experienced sponsor – Solarpac Tecnologica Corporacion Spain S.A (Solarpack), which has demonstrated track record of developing and operating ~540 MW solar power projects across various countries¹. While assigning the rating, ICRA has also factored in the performance warranty provided by the equipment suppliers and presence of long-term O&M contract with Solarpack India LLP at a competitive cost. Also, the rating draws comfort from favourable capital structure for funding the solar power project with debt to equity ratio of 1.64 times against the normative debt equity ratio of 2.33 times. Further, the project debt has a long tenure of 18.75 years including construction and moratorium period and provision for funded debt service reserve account (DSRA) of three-quarter principal and interest payment in the project cost which must be built-up to four quarters before the commencement of debt repayment.

The rating is, however, constrained by the counterparty credit risk arising from exposure to a single off-taker – GESCOM, which has a moderate financial profile, constrained by unfavourable consumer profile, delays in receiving subsidy dues from Government and delays in pass-through of variation in power purchaser cost to consumers. This is reflected in the delay in payments to ESPL so far, with the bills raised since January 2020 pending to be received. The delays may further extend, given the adverse impact of the ongoing lockdown on the revenues and cash flows of GESCOM. In this context, ESPL has availed a moratorium on interest payments for the months of April and May. Also, the availability of three quarter DSRA is expected to mitigate the risk of cash flow mismatch in the near term. A large portion of the debt is pending to be disbursed by the lender, which is linked to completion of certain milestones and demonstration of payments from GESCOM. The project was commissioned, with additional funding support from promoter and capital creditors. Further, ICRA draws comfort from the commitment provided by the sponsors to convert the pending capital creditors to subordinated debt from the sponsor. This sub-debt will be maintained till the disbursement of the balance debt from lenders.

Further, the rating remains constrained by risks that are typical to all solar energy projects, including vulnerability to weather conditions and performance of the solar modules, given that revenues are linked to actual units generated and

¹ The group has operational solar projects in Spain, Chile, Peru and India
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exported. Moreover, the generation risk is amplified by geographic concentration for the solar asset of ESPL and limited track record of operations with the project commissioned in October 2019. Furthermore, the rating factors in the moderate debt coverage metrics for the company and the exposure to the risk of movement in interest rates, given the fixed tariff under the PPA. The rating also factors in the regulatory challenge arising from the implementation of forecasting and scheduling mechanism for solar power projects in Karnataka, given the variable nature of solar power generation. However, ICRA notes that this risk is less prominent for solar power project compared to wind power projects.

The stable outlook assigned to the company factors in the benefit of the long-term PPA with GESCOM and the experience of the management in operating solar power plants.

ICRA notes that ESPL had sought a moratorium on payments from its lender for the payments on the term loan until May 31, 2020 and the lender has approved the same, as allowed per the COVID-19 - Regulatory Package announced by the Reserve Bank of India on March 27, 2020. The above rescheduling of loans has been factored in the ratings.

Key rating drivers and their description

Credit strengths

Long term PPA in place at a fixed tariff - Limited demand and tariff risks for ESPL with the presence of long-term power purchase agreement (PPA) with Gulbarga Electricity Supply Company Limited (GESCOM; rated [ICRA]BBB- (Negative) / [ICRA]A3) at a fixed tariff of Rs.3.12 per unit. The tariff remains competitive in comparison to the average power procurement cost of GESCOM.

Demonstrated track record of the Solarpack Group - The promoters of ESPL, Solar Pack group has demonstrated a long track record in developing and operating solar power assets with operational capacity of ~540 MW across various countries.

Favourable capital structure, long tenure of the project debt and presence of 3-quarter DSRA - The debt to equity ratio for funding the 20 MW project under ESPL stands relatively lower at 1.64 times against the normative debt-equity ratio of 2.33 – 3.0 times, that is observed in most solar power projects. Further, the project debt has a long tenure of 18.75 years including construction and moratorium period. This apart, the presence of 3-quarter funded debt service reserve (DSRA) with another quarter DSRA to be funded from project cash flows before the commencement of debt repayment is a credit positive for the company.

Long-term O&M contract with Solarpack India - ESPL has signed an O&M contract with Solarpack India LLP for 25 years for comprehensive O&M of solar power project. In case the availability is lower than the agreed level, the contractor is liable to pay liquidated damages, as stipulated in the contract.

Credit challenges

Counterparty credit risks from exposure to GESCOM - The counter-party credit risk for ESPL arise from the exposure to a single counter-party - GESCOM, which has a moderate financial profile constrained by unfavourable consumer profile, delays in receiving subsidy dues from Government and weak cost efficiency. The presence of 3-quarter funded DSRA and

provision for sharing cash surplus from the group company (Nanj Solar Private Limited) in case of any shortfall in meeting debt obligations mitigates this risk to an extent.

Single asset nature of operations; sensitivity of debt metrics to energy generation - Debt metrics for the solar project remain sensitive to PLF levels given the one-part tariff structure; as a result, any adverse variation in weather conditions and/or module performance may impact PLF and consequently the cash flows; limited track record of operations with project commissioned in October 2019 and geographic concentration of the asset accentuates this risk further.

Exposure to interest rate movement - The debt coverage metrics of ESPL are expected to be moderate and remain exposed to interest rate movement, given the fixed nature of the tariff under the PPA.

Pending debt disbursement from lender; sponsor committed to converting capital creditors to promoter sub-debt – A large portion of the sanctioned debt is pending to be disbursed by the lender (Rs. 23.8 crore disbursed out of Rs. 62.6 crore as on date), pending compliance with some milestones and demonstration of payment track record from GESCOM. The project was completed through funding support from promoter debt and capital creditors (to a group company). ICRA draws comfort from the commitment provided by the sponsors to convert the pending capital creditors to subordinated debt from the sponsor. This sub-debt will be maintained till the disbursement of the balance debt from lenders.

Regulatory challenges arising from implementation of scheduling and forecasting framework - The regulatory challenges from the implementation of scheduling and forecasting framework for solar power projects in Karnataka pose a risk, given the variable nature of solar energy generation. However, the risk is less prominent for solar power project compared to wind power projects.

Liquidity position: Adequate

The liquidity profile for the company is expected to be adequate supported by presence of funded DSRA equivalent to three quarter interest and principal obligation. While the payments from GESCOM are delayed with bills raised since January 2020 remaining pending, the liquidity profile of the company is supported by the DSRA equivalent to three quarter interest and principal obligations. Given the adverse impact of the ongoing lockdown to control COVID-19 outbreak on the revenues and cash flows of GESCOM, the payment profile from GESCOM to ESPL remains a key rating monitorable. The DSRA balance as on March 31, 2020 stood at Rs. 2.7 crore which is equivalent to three quarter DSRA proportionate to the debt disbursed till date, which will be further enhanced in line the disbursement of the balance debt.

Rating sensitivities

Positive triggers - ICRA could upgrade ESPL's rating in case of demonstrated track record of generation performance in line or better than P90 estimate on a sustained basis, along with timely receipt of payments from the off-taker.

Negative triggers – Negative pressure on ESPL's rating could arise, in case of any under-performance in generation by the solar power project below the P90 estimate, leading to weakening of annual DSCR on project debt to less than 1.10 times. Also, delays in realisation of payments from the off-taker beyond 180 days adversely affecting the liquidity profile would be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

ESPL is a special purpose vehicle (SPV) promoted by Ekialde Solar Private Limited, which is wholly owned Indian subsidiary of Solarpac Corporacion Tecnologica S.L. Spain (Solarpac). The company operates a 20 MWac solar power plant Chincholi in Gulbarga district of Karnataka, commissioned in October 2019. The company won this project at a bid tariff of Rs. 3.12 per unit under the competitive bidding process invited by Government of Karnataka through an RfP floated in December 2017. The letter of award was issued to ESPL on 8th February 2018 and the PPA was subsequently signed with GESCO for a term of 25 years. The power generated from the solar plant is being evacuated through the Chincholi substation located approximately 7.03 km from the project site. The project is developed by Solarpac India LLC as EPC contractor with total project cost of Rs.100.63 crore, which is to be funded through debt and equity of Rs. 62.6 crore and Rs. 38.0 crore respectively. The modules were sourced from Trina Solar China and inverters from TMEIC China (a Toshiba Mitsubishi joint venture).

Key financial indicators (audited)

Not applicable as the solar power project under ESPL is commissioned recently

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years:

Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	03-June-2020	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
1	Term loan	Long Term	62.60	62.60*	[ICRA]BBB-(Stable)	-	-
2	Unallocated units	Long Term	7.40	7.40	[ICRA]BBB-(Stable)	-	-

Amount in Rs. Crore *Amount disbursed by the lender till date is Rs. 23.80 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	Term Loan	April-2019	NA	September-2038	62.60	[ICRA]BBB-(stable)
NA	Unallocated Units	NA	NA	NA	7.40	[ICRA]BBB-(stable)

Source: ESPL

Annexure-2: List of entities considered for consolidated analysis

Not applicable

Analyst Contacts

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Vikram V
+91 40 40676518
vikram.v@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

P Krishi Keyan
+91 40 40676522
krishi.keyan@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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