

Shivalakha Solar Energy Private Limited (formerly Solar Semiconductor Power Company (India) Pvt. Ltd.)

February 11, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund-based - Term Loan	136.00	112.13	[ICRA]BB+ (Negative); Downgraded from [ICRA]BBB-(Stable)
Total	136.00	112.13	

*Instrument details are provided in Annexure-1

Rationale

ICRA's rating action factors in the continued weak generation performance of the 20-MW solar power plant of Shivalakha Solar Energy Private Limited (SSEPL; formerly Solar Semiconductor Power Company (India) Pvt. Ltd.) in FY2018 and 10M FY2019, because of inverter-related issues along with degradation in performance of PV modules. The average PLF for the solar power project reduced to 14.8% in FY2018 and 10M FY2019, from 17.6% during FY2014 to FY2017, adversely impacting the company's debt coverage metrics (the debt service coverage ratio (DSCR) was less than one in FY2018). While the company has replaced four of the 28 inverters in the project and some of the modules over the past 12 months, the improvement in generation to the levels prior to FY2018 is yet to be demonstrated. Nonetheless, ICRA takes a note of the company's ongoing plan to replace the remaining inverters gradually and will evaluate the impact of this action on the generation.

The rating continues to be constrained by the single location and single asset nature of the company's operations, along with the vulnerability of cash flows to module performance and weather conditions. This is because the revenues are linked to actual units generated and sold. Furthermore, ICRA notes that the sponsor funding for the project is through a mix of equity, preference shares, optionally convertible debentures (OCDs) and inter-corporate deposits (ICDs). However, the servicing of the sponsor debt remains subordinate to the project debt. Also, the financial performance of the holding company, NSL Renewable Power Private Limited (NRPPL), remains weak, mainly because of the delay in execution of the hydro power portfolio. The rating also factors in the regulatory challenges associated with the implementation of forecasting and scheduling mechanism for solar power projects in Gujarat. However, the rating favourably factors in the presence of the long-term power purchase agreement (PPA) (25-year) with Gujarat Urja Vikas Nigam Limited (GUVNL; rated [ICRA]AA- (Stable) / [ICRA]A1+) at a fixed tariff rate of Rs. 9.98 per unit for first 12 years and Rs. 7.00 per unit for the remaining 13 years. Further, the rating draws comfort from the strong credit profile of the counterparty, as reflected from the timely realisation of payments. The rating also factors in the presence of a debt service reserve account (DSRA), equivalent to two quarter interest and principal payments. The generation trend by the company's solar power plant remains a key rating sensitivity. Any cash flow leakages and increase in the leveraging would be the other key rating monitorable.

Outlook: Negative

ICRA has assigned negative outlook on the rating for SSEPL given the continued under-performance in generation by SSEPL owing to inverter breakdown issues and degradation of PV modules. If not resolved in a timely manner, the generation is likely to witness further decline from historical levels. The outlook may be revised to Stable if the generation improves in a sustainable manner, thereby strengthening the financial risk profile.

Key rating drivers

Credit strengths

Presence of long-term PPA limits demand and tariff risks - The demand risk is limited as the company has a 25-year PPA with GUVNL for its entire capacity. Also, the tariff is fixed at Rs. 9.98 per unit for the first 12 years and Rs. 7 per unit for the next 13 years, thus limiting tariff-related risks.

Low counter-party credit risk with presence of strong off-taker - The counterparty credit risk for SSEPL is minimal due to the presence of a strong off-taker, GUVNL, which is rated at [ICRA]AA-(Stable)/[ICRA]A1+. The payments from GUVNL have been realised in a timely manner.

Liquidity profile supported by timely realisation of payments and presence of DSRA - Timely realisation of monthly payments from GUVNL and the presence of cash DSRA equivalent to ensuing two-quarter principal and interest payment support the company's liquidity profile.

Credit challenges

Generation performance affected by inverter-related issues - The generation by the solar power project was affected by inverter-related issues along with degradation of PV module over the past 24-30 months. The average PLF in FY2018 and 10M FY2019 was at 14.8%, against the average PLF of 17.6% between FY2014 and FY2017. While the company has replaced some of the inverters and PV modules, a reasonable improvement in generation is yet to be demonstrated.

Debt coverage metrics affected by sub-optimal generation - The debt coverage metrics are constrained by the decline in generation. The interest coverage ratio was 1.38 times and debt service coverage ratio was 0.91 times in FY2018. Further, the capital structure of the company is constrained by the exception loss booked in FY2018 and funding structure with a sizeable sponsor funding in the form of optionally convertible debentures (OCDs).

Single-asset nature of operations; sensitivity of debt metrics to energy generation - SSEPL is entirely dependent on power generation by the solar power project for its revenues and cash accruals, given the single-part nature of the tariff. As a result, any adverse variation in weather conditions may impact its PLF and consequently its cash flows. The single location and single asset nature of the company's operations increased this risk.

Challenges associated with implementation of forecasting and scheduling regulations - The company remains exposed to regulatory challenges associated with the implementation of scheduling and forecasting framework for solar power projects in Gujarat. This is mainly because of the variable nature of solar power generation.

Weak financial profile of holding company – The financial performance of NRPPL is weak in FY2018 and is constrained by the delay in execution of hydro power projects and the associated funding risks. The Group has been able to divest one of such hydro projects, while the divesting process is underway for the second project.

Liquidity position

The liquidity profile of the company is supported by the presence of DSRA equivalent to two quarters' principal and interest payments and timely realisation of payments from GUVNL. The cash balance and liquid investments stood at Rs. 14.13 crore as on March 31, 2018 for SSEPL.

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

SSEPL, incorporated in August 2010, operates a 20-MW solar power plant at Shivalakha village in the Kutch district of Gujarat. The project was commissioned in phases, with the first 10.08 MW commissioned in April 2012 and the remaining capacity commissioned by June 2012. SSEPL was a joint venture between NRPPL and Solar Semiconductor Private Ltd (SSPL). NRPPL gradually increased its stake and became the 100% shareholder in June 2017. The project was developed using poly-crystalline modules based on a thin-film technology from Sunwell Solar Corporation (Taiwan) and inverters from Electronica Santerno, Italy. The operations and maintenance of the project is carried out in-house by the company.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	27.91	24.28
PAT (Rs. crore)	1.19	-37.44
OPBDIT/OI (%)	88.01%	87.28%
RoCE (%)	7.98%	-11.78%
Total Debt/TNW (times)	6.49	-19.41
Total Debt/OPBDIT (times)	7.42	8.59
Interest coverage (times)	1.56	1.38

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 February 2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
					November 2017	November 2016	April 2015	
1 Term Loan	Long Term	112.13	112.13	[ICRA]BB+ (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable) (Suspended)	[ICRA]BBB (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	November-2015	NA	March-2031	112.13	[ICRA]BB+ (Negative)

Source: SSEPL

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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