

December 09, 2022

FP Suraj Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based - Term loan	58.78	[ICRA]BBB (Stable); assigned
Long term – Fund based – Unallocated	1.22	[ICRA]BBB (Stable); assigned
Total	60.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA's assigned rating for FP Suraj Private Limited (FSPL) factors in its strong parent - Fourth Partner Energy Private Limited (FPEPL; rated [ICRA]A- (Stable)/[ICRA]A2+), which has an established track record in the renewable energy sector with an operating portfolio of ~600 MWp. FPEPL is backed by the RISE Fund (TPG) and Norfund-Norwegian Investment Fund for Developing Countries; together they have infused an equity capital of Rs. 1,247 crore in this platform. The rating considers the limited demand risks for FSPL's 20-MWp solar power project due to the long-term power purchase agreement (PPA; 25-year) with A-One Steel & Alloys Limited (A-One) for its entire capacity under the captive mode. Further, ICRA takes note of the satisfactory credit profile of the counterparty, A-One, and the competitive tariffs offered by FSPL, which are at a significant discount to the state grid tariff.

The rating is, however, constrained by the sensitivity of the company's cash flows and debt protection metrics to its generation performance, given the single part tariff under the PPA. Any adverse variation in weather conditions and module performance may impact the PLF levels and consequently the cash flows. This is amplified by the geographic concentration of the asset as the entire capacity is at a single location in Karnataka. Given the limited track record of operations following the commissioning in July 2022, the demonstration of generation performance in line or above the appraised P-90 estimate remains key credit monitorable.

ICRA also notes that FSPL's debt coverage metrics are expected to remain modest and would be exposed to the interest rate movement as the floating interest rates are subject to regular resets and a leveraged capital structure. While the lock-in period under the PPA is lower at 15 years against the PPA tenure of 25 years, it is very close to the debt repayment tenure of 15.5 years, thereby limiting the risks associated with cash flow mismatch. The rating also factors in the regulatory risks associated with forecasting & scheduling regulations, regulations for captive projects and open access charges. While the open access charges are to be paid by the customer under the PPA, any significant increase in these charges would impact the competitiveness of the tariff offered under the PPA.

The Stable outlook assigned to the long-term rating factors in the steady cash flow visibility aided by the long-term PPA and timely collections expected from the customer along with the benefits of being part of the Fourth Partner Energy Group.

Key rating drivers and their description

Credit strengths

Strong financial flexibility and operational strengths by virtue of parentage – FSPL is a 74.0% subsidiary of FPEPL which has an established track record in the renewable energy sector with an operating portfolio of ~600 MWp. FPEPL is backed by the

RISE Fund (TPG) and Norfund with an equity commitment of ~Rs. 1,247 crore, which has been entirely infused. The presence of strong sponsors provides strong financial flexibility to the Group in securing equity and debt funding. FPEPL is expected to support FSPL in case of any cash flow mismatch.

Revenue visibility due to long-term PPA - FSPL has signed long-term PPA with A-One for 25 years for the entire capacity at a fixed tariff under the captive mode, thereby limiting the demand and tariff risks for the entire capacity.

Satisfactory credit profile of the customer – FSPL has tied up PPA with A-One, which has a satisfactory credit profile. This has resulted in timely payments since commissioning with payments being received within 30 days of raising the invoice and this is expected to continue.

Competitive tariffs offered at a discount to the grid tariff – The tariffs offered by the company are at a significant discount to the state grid tariff rates. Moreover, the power supplied by FSPL would enable the customer to meet its renewable purchase obligations.

Credit challenges

Sensitivity of debt metrics to energy generation – The debt metrics for solar power projects under FSPL remain sensitive to PLF levels, given the one-part tariff structure under the PPA. Hence, any adverse variation in weather conditions and/or module performance may impact the PLF and consequently the cash flows. The geographic concentration of the asset amplifies the generation risk. Given the limited track record of operations, the demonstration of performance remains to be seen.

Modest credit metrics and exposure to interest rate movement – The company's debt coverage metrics are expected to remain modest and exposed to the movement in interest rates, considering the floating rates under the facility agreement with the lender and the leveraged capital structure of the company, reflected in the debt-funded capex deployed for setting up the project.

Regulatory risks – The company remains exposed to the regulatory challenges of implementing the scheduling and forecasting framework for solar power projects in Karnataka. This is expected to be mitigated through an agreement with a scheduling and forecasting agency, which bears this risk. Also, the company remains exposed to regulations related to captive power projects and the adverse variation in open access charges, which could impact the competitiveness of the tariff offered.

Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate with the cash flows from operations along with the available cash balances and DSRA sufficient to service the debt obligations. As on September 30, 2022, the outstanding cash balances was Rs. 2.82 crore, including DSRA equivalent to one quarter of debt servicing.

Rating sensitivities

Positive factors – ICRA could upgrade FSPL's rating in case of a demonstrated track record of generation performance in line or above the P-90 PLF estimate on a sustainable basis while receiving timely payments from the offtakers, leading to healthy credit metrics. Also, the rating could improve if the credit profile of the parent, Fourth Partner Energy Private Limited, improves.

Negative factors – The rating could be downgraded in case of a significant underperformance in generation, adversely impacting the debt coverage metrics. Further, any significant delays in receiving payments from the offtaker adversely impacting the liquidity profile of the company would be a negative trigger. Also, any weakening of the credit profile of the parent, or any change in linkages/support philosophy between the parent and FSPL would be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Energy Projects Implicit parent or group support
Parent/Group Support	Parent/Group Company: Fourth Partner Energy Private Limited. The rating assigned to FSPL factors in the high likelihood of its parent extending financial support to it because of the close business linkages between them
Consolidation/Standalone	The rating is based on the standalone financial profile of the rated entity

About the company

FSPL is an SPV of FPEPL, incorporated on September 16, 2021, to set up a 20-MWp (DC) solar power project in the Vijayapur district of Karnataka. The project was commissioned on July 18, 2022 with a long-term PPA signed with A-One Steel & Alloys Pvt Ltd for the entire capacity. As required under the group captive regulations, the customer has subscribed to the shareholding of the company to the extent of 26.0%. The project was set up at a total cost of Rs. 87.15 crore, funded through debt-promoter contribution of 2.1:1. The O&M contract for the project is in place with FPEPL and the modules have been sourced from Renewsys.

Key financial indicators (audited)

	FY2021*	FY2022*
Operating income (Rs. crore)	NA	NA
PAT (Rs. crore)	NA	NA
OPBDIT/OI (%)	NA	NA
PAT/OI (%)	NA	NA
Total outside liabilities/Tangible net worth (times)	NA	NA
Total debt/OPBDIT (times)	NA	NA
Interest coverage (times)	NA	NA

Source: Company data, ICRA Research PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

*Not applicable as the company was in project phase

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2022 (Rs. crore)	Date & rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Dec 09, 2022	-	-	-
1 Term loan	Long Term	58.78	58.78	[ICRA]BBB (Stable)	-	-	-
5 Unallocated	Long term	1.22	-	[ICRA]BBB (Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
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Term Loan	Simple
Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: [Click Here](#)

Annexure I: 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	Dec 2021	-	Mar 2038	58.78	[ICRA]BBB (Stable)
NA	Unallocated	-	-	-	1.22	[ICRA]BBB (Stable)

Source: Company data

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not applicable

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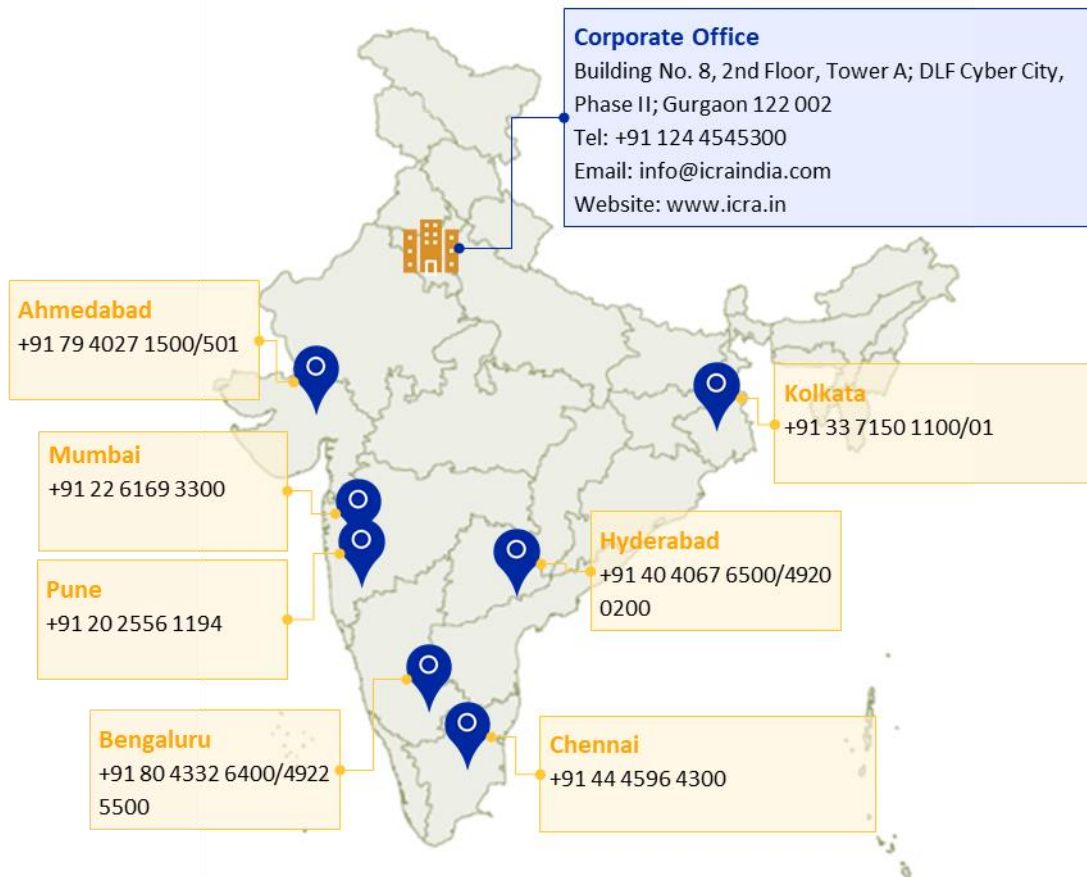
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