December 22, 2022

Sprng Transform Sun Energy Private Limited: Rating upgraded to [ICRA]A+ (Stable); rating removed from Watch with Positive Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term term loans	538.11	538.11	[ICRA]A+ (Stable); upgraded from [ICRA]BBB+ and removed from Watch with Positive Implications
Long-term cash credit	40.00	40.00	[ICRA]A+ (Stable); upgraded from [ICRA]BBB+ and removed from Watch with Positive Implications
Total	**578.11**	**578.11**	

**Instrument details are provided in Annexure-I; % - under rating watch with positive implications*

Rationale

The rating upgrade for Sprng Transform Sun Energy Private Limited (STSEPL) factors in the improvement in the credit profile of its parent, Sprng Energy Private Limited (SEPL), following the acquisition of the Sprng platform by Shell Plc, rated Moody's Aa2 (Stable). Shell is one of the largest integrated oil and gas companies globally with a diversified reserve and production base and a strong financial profile. The acquisition of the Sprng platform would enable Shell to scale up its renewable energy capacity and aid in meeting its target of becoming a profitable net-zero company by 2050. Post the acquisition, Shell has infused USD 100 million equity in SEPL, which is being used to fund the development of new projects and was partly used to prepay the debt for one of project SPVs. Going forward, Shell proposes to fund the capex for the new projects under SEPL entirely through equity. SEPL's credit profile is also supported by the scale up in operating portfolio to 1.7 GW as of March 2022 from 1.0 GW as of April 2021, demonstration of generation performance in line with the appraised estimate at the portfolio level and a comfortable liquidity position.

Further, the rating action factors in STSEPL's improved liquidity position, supported by the recovery of dues outstanding as of June 2022 from its off-taker, Southern Power Distribution Company of Telangana Limited (TSSPDCL) following the notification of the Electricity (Late Payment Surcharge and Related Matters) Rules, 2022 (LPS) by the Ministry of Power, Government of India, in June 2022. Also, the payment of the ongoing bills has been timely for the bills raised since June 2022. This has reduced the receivable position from ~17 months as of June 2022 to ~10 months as of December 2022 resulting in improved liquidity position. Also, the company has created a cash debt service reserve account (DSRA) of two quarters, which has replaced the earlier DSRA in the form of bank guarantee.

The rating continues to factor in the limited demand risks for STSEPL's 100-MW solar power project as it has a long-term (25-year) power purchase agreement (PPA) with TSSPDCL at a tariff of Rs.5.59/unit. Further, ICRA takes note of the satisfactory generation performance of the solar project, with the actual PLF remaining above the P90 estimate since commissioning in July 2017, leading to adequate credit metrics. While the generation performance declined in FY2022 and H1 FY2023 over the corresponding period of the previous year owing to module degradation and irradiation, it continues to be satisfactory. Going forward, the company's debt coverage metrics are expected to remain adequate, supported by a satisfactory generation performance and the long maturity of the project debt.

The rating, however, is constrained by the exposure to counterparty credit risk pertaining to the sole off-taker, TSSPDCL, which has a modest credit profile, evident from the substantial delays in receiving payments in the past. While the company is receiving regular payments from TSSPDCL post the LPS rule notification, the sustainability of the same remains a key monitorable, going forward. The project is also exposed to the risk of grid curtailments, given that the PPA tariff of Rs. 5.59/unit is higher than the recent competitively bid tariff rates for sourcing solar energy as well as the average power purchase cost of the off-taker utility. Nonetheless, the company has not faced any grid availability issue from TSSPDCL till date.

Further, the rating is constrained by the vulnerability of cash flows to weather conditions and module performance as the revenues are linked to the actual units generated and exported, considering the single part and fixed nature of the tariff under the PPA. The rating also factors in the geographic concentration risk as STSEPL's solar asset is at a single location. Nonetheless, comfort can be drawn from the demonstrated generation performance so far. Also, STSEPL's debt coverage metrics remain exposed to the interest rate movement, given the leveraged capital structure, floating interest rates and fixed tariff under the PPA. Moreover, ICRA takes note of the regulatory challenge of implementing the scheduling and forecasting framework, given the variable nature of solar energy generation. However, the company has not faced any adverse impact from these regulations so far.

The Stable outlook on the long-term rating for STSEPL factors in the revenue visibility with the presence of long-term PPA and a stable generation performance, along with an adequate liquidity profile.

Key rating drivers and their description

Credit strengths

Strength from being part of Sprng platform, which is ultimately promoted by Shell Plc – STSEPL is a wholly-owned subsidiary of SEPL, which is now ultimately owned and promoted by Shell Plc, one of the largest integrated oil and gas companies. The platform benefits from a diversified operating renewable portfolio of 1.7 GW and Shell's ownership. The sponsor is expected to support STSEPL, in case of any cash flow mismatch.

Satisfactory operating track record of the solar power project – The 100-MW (AC)/120-MW (DC) solar power plant under STSEPL has a satisfactory track record since fully commissioning in July 2017. The project PLF over the past five years has remained higher than the P-90 generation estimate.

Low demand risk because of long-term PPA with TSSPDCL – The demand risk for the project remains limited because of the long-term PPA of 25 years with TSSPDCL at a tariff of Rs. 5.59/unit, thereby providing visibility on revenues.

Comfortable debt coverage metrics and adequate liquidity profile – The debt coverage metrics of the project are expected to remain comfortable, going forward, supported by the long tenure of the project debt and a satisfactory operating performance. Also, the liquidity profile of the company is supported by the presence of a two-quarter DSRA, free cash balances and unutilised working capital facility of Rs. 40.00 crore.

Credit challenges

Exposure to counterparty credit risk – STSEPL's operations remain exposed to the counterparty credit risk of TSSPDCL, as it is the sole off-taker. TSSPDCL's credit profile remains modest owing to inadequate tariffs in relation to its cost of supply and the high subsidy dependence. There have been significant delays in receiving payments from TSSPDCL, with a receivable position of ~17 months as of June 2022. However, following the notification of the LPS rules in June 2022 by the Ministry of Power, Government of India, the company is realising overdue payments through monthly instalments and the recovery of the ongoing bills remains timely. The sustainability of timely payments from TSSPDCL remains a key monitorable for the company.

Vulnerability of cash flows to generation performance and interest rates – Given the single-part tariff structure, the revenues and debt metrics remain linked to the generation performance, which in turn is sensitive to solar radiation and module performance. This risk is amplified by the geographical concentration of the asset. Nonetheless, comfort is drawn from the track record demonstrated so far. Also, STSEPL's debt coverage metrics remain exposed to the interest rate movement, given the leverage capital structure, floating interest rates and fixed tariff under the PPA.

Weak cost competitiveness of PPA tariff – STSEPL remains exposed to the risk of grid curtailment by TSSPDCL, given the relatively high PPA tariff (Rs.5.59/unit) against the average power purchase cost of the state distribution utility and the recent competitively bid tariff rates for sourcing solar energy. Nonetheless, there has been no such instance so far.

Challenges of implementing forecasting and scheduling regulations – The company's operations remain exposed to the regulatory risk of scheduling and forecasting requirements. However, ICRA notes that the company has appointed an external agency to undertake scheduling and forecasting activity and these regulations have had no major adverse impact so far.

Liquidity position: Adequate

STSEPL's liquidity position is adequate, reflected in the unencumbered cash, bank balance and liquid investments of Rs. 46.37 crore and unutilised working capital limits of Rs. 40 crore as on November 28, 2022. The cash flows from operations are expected to be adequate to service the debt obligations in FY2023 and FY2024, considering the recovery of overdue payments from the off-taker.

Rating sensitivities

Positive factors – ICRA could upgrade STSEPL's rating if the company is able continue the generation performance above the P-90 estimate and is able to receive payments in a timely manner from TSSPDCL, on a sustained basis, thereby strengthening the liquidity profile and credit metrics. The rating would also remain sensitive to the credit profile of SEPL.

Negative factors – ICRA could downgrade STSEPL's rating in case of any material under performance in generation below P-90 level or increase in the receivable cycle from the discom, adversely impacting its liquidity position. A specific credit metric for downgrade includes cumulative DSCR on project debt of less than 1.25 times. The rating would also remain sensitive to the credit profile of SEPL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Rating Approach – Implicit parent or group support
Parent/Group support	Parent/Group Company: SEPL The rating factors in implicit support from its parent, SEPL
Consolidation/Standalone	Standalone financial profile

About the company

STSEPL is a wholly-owned subsidiary of SEPL and was commissioned in July 2017. STSEPL operates a 100 MW (AC)/120 MW (DC) grid-connected solar PV project at Addakal, Mutyalampalli and Balledupalle in Telangana, won through competitive bidding under the Telangana State Solar Policy. The entire capacity of the project has been tied up through a 25-year PPA with TSSPDCL at Rs. 5.59/unit. SEPL is a 100% subsidiary of Solenergi Power Private Limited, which is in turn held by Shell Overseas Investments B.V., a wholly-owned subsidiary of Shell Plc.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	95.7	95.5
PAT	(1.7)	(2.2)
OPBDIT/OI	93.0%	85.4%
PAT/OI	-1.8%	-2.3%
Total outside liabilities/Tangible net worth (times)	11.7	12.3
Total debt/OPBDIT (times)	7.2	7.9
Interest coverage (times)	1.7	1.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 Oct 31, 2022 (Rs. crore)	Date & rating		Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020				
					Dec 22, 2022	May 11, 2022	Jun 11, 2021	Sep 14, 2020	Apr 17, 2020	Oct 28, 2019	Aug 30, 2019	May 27, 2019	Apr 08, 2019
1	Term loans	Long-term	538.11	464.86	[ICRA]A+ (Stable)	[ICRA]BBB+ %	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB &
2	Cash credit	Long-term	40.00	0.00	[ICRA]A+ (Stable)	[ICRA]BBB+ %	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB &

% - under rating watch with positive implications
& - Under rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Cash credit	Simple

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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	September 2016	-	FY2037	377.17	[ICRA]A+ (Stable)
NA	**Term Loan**	March 2019	-	FY2037	160.94	[ICRA]A+ (Stable)
NA	**Cash Credit**	-	-	-	40.00	[ICRA]A+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

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

Vikram V
+91 40 4067 6518
vikram.v@icraindia.com

Dhruv Consul
+91 22 6169 3326
dhruv.consul@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

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches