ICRA

January 31, 2023

# Lalganj Power Pvt. Ltd: Rating reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Fund based term loan** | 275.66 | 237.99 | [ICRA]A- (Stable); reaffirmed |
| **Unallocated** | 4.34 | 42.01 | [ICRA]A- (Stable); reaffirmed |
| **Total** | **280.00** | **280.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating reaffirmation for Lalganj Power Private Limited (LPPL) 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 solar power sector. FPEPL is backed by The RISE Fund (TPG) and Norfund, the Norwegian Investment Fund for Developing Countries; together they have infused an aggregate equity capital of ~Rs. 1,247 crore in this platform.

The rating considers the operational nature of the 88.06-MWp solar power project (downsized from 102 MWp) in the Saharanpur district, Uttar Pradesh, under LPPL. While the project was synchronised to the grid in September 2021, the commencement of power supply was delayed owing to delays in completing the DC upsizing because of challenges in land acquisition and delays in the delivery of modules by the supplier. As a result, the project capacity was downsized and there is a resultant decline in the project cost and debt availed. The project cost for the 88.06-MWp capacity now stands at Rs. 356.74 crore, funded through debt and promoter contribution in the ratio of 66:34, against Rs. 393.8 crore envisaged for the 102 MWp capacity. The project started supplying to customers in April 2022 and was declared fully commissioned in October 2022. The company is currently supplying the entire power generated to three of the five customers. The supply to the balance two customers would commence after the installation of the ABT meters at the customer premises.

Further, the rating factors in the limited demand and receivable risks resulting from the presence of long-term power purchase agreements (PPAs) (25-year) for 85-MWp capacity at fixed tariffs under the group captive mode with high credit quality customers at competitive rates. The remaining capacity is also in the process of being signed with one of the existing customers at the same tariff. The weighted average tariff rate offered by the company is Rs. 3.34 per unit, which is at a significant discount to the state grid tariff rates. The tie-up of PPAs with reputed customers is expected to result in timely receipt of payments. The company has secured project debt at a competitive cost with a long tenure of 16 years which is expected to lead to adequate debt coverage metrics over the tenure of the debt. ICRA takes note of the project debt being reduced tantamount to the reduction in capacity and the repayment schedule being deferred in line with the actual commissioning, without impacting the debt coverage metrics.

The rating is, however, constrained by the sensitivity of generation to solar irradiation levels as the revenues are linked to the actual units generated and exported, in view of the single-part tariff structure in the PPAs. This constraint is amplified by the geographic concentration of the asset. The demonstration of generation by LPPL in line or above the appraised estimate remains a key rating monitorable for the company.

The rating also factors in the risk of cash flow mismatch as the PPAs have a lock-in period of 10-25 years (average lock-in period of ~11 years), while the debt repayment is spread across 16 years. Nonetheless, comfort can be drawn from the highly competitive tariffs offered by the company to its customers against the HT industrial grid tariff and the track record of the sponsor in securing PPAs with large industrial and commercial customers.

The company is also exposed to interest rate risks, given the leveraged capital structure, fixed tariffs under the PPAs and the floating nature of the interest rates, subject to regular resets. Further, the company's operations remain exposed to the regulatory risks pertaining to the scheduling and forecasting requirements of solar power projects, any adverse changes in group captive norms and revision in open access charges.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that LPPL would benefit from the presence of long-term PPAs with reputed customers and the track record of the Group in developing and operating solar power projects.

## Key rating drivers and their description

### Credit strengths

**Strong financial flexibility and operational strengths by virtue of parentage** – LPPL is a wholly-owned subsidiary of FPEPL which has an established track record in the solar power sector. FPEPL is backed by The RISE fund (TPG) and Norfund with an aggregate equity infusion of ~Rs. 1,247 crore. The presence of strong sponsors provides strong financial flexibility to the Group in securing equity and debt funding.

**Revenue visibility with presence of long-term PPAs** – LPPL has signed long-term PPAs (25-year) for 85-MWp capacity at fixed tariffs with reputed industrial customers under the group captive mode, providing revenue visibility and limiting the demand as well as pricing risks. The customers have subscribed to the equity capital of LPPL, as required under the regulations. The remaining capacity of ~3 MWp is also in the process of being signed with one of the existing customers at the same tariff.

**Strong credit profile of customers** – LPPL has tied up PPAs with high credit quality customers like UltraTech Cement Limited, Heidelberg Cement India Limited, Shriram Pistons and Rings Limited and Amber Enterprises Limited. This is expected to result in timely receipt of payments, as demonstrated by the brief track record of receiving payments within 30 days of raising the invoice.

**Highly competitive tariff offered by LPPL at a discount to grid tariff with reputed customers** – The weighted average tariff rate offered by the company is Rs. 3.34 per unit, which is at a significant discount to the state grid tariff rates. Moreover, the power supplied by LPPL would enable the customers to meet their renewable purchase obligations as well as their voluntary emission reduction targets.

**Adequate debt coverage metrics** – The company has secured project debt at a competitive cost with a long tenure of 16 years, which is expected to lead to adequate debt coverage metrics over the tenure of the debt. ICRA takes note of the reduction in project debt in proportion to the reduction in capacity and the repayment schedule being deferred in line with the actual commissioning, without impacting the debt coverage metrics.

### Credit challenges

**Debt metrics of solar projects sensitive to PLF levels** – The key factors that impact the operations of the solar plant are solar irradiation levels, losses in PV systems due to temperature and climatic conditions, inverter efficiency and module degradation due to ageing. Given the one-part structure under the PPAs, the debt metrics of the company remain exposed to the generation level. The risk is amplified by the geographic concentration of the asset. As the asset is in the nascent phase of operations, the generation performance since commissioning has remained below the P90 PLF estimate. The demonstration of generation performance in line or above the appraised P90 estimate remains a key rating monitorable for the company.

**Risk of cash flow mismatch owing to lower lock-in period under PPAs in relation to debt tenure** – The PPAs have a lock-in period ranging from 10-25 years with an average lock-in period of ~11 years. This could lead to the risk of cash flow mismatch as the debt repayment is spread across 16 years. Also, the termination payments under the PPAs do not cover the entire debt outstanding. Nonetheless, comfort can be drawn from the significant discount offered by the company to its customers against the HT industrial grid tariff, the track record of the sponsor in securing PPAs with large industrial and commercial customers and the notice period available at the time of PPA termination to enable the company to replace the customer.

**Exposed to interest rate risks** – The interest rates on the term loans availed by the company for its projects is floating and subject to regular resets. Given the fixed nature of the tariffs under the PPAs and the leveraged capital structure, the company's debt coverage metrics are exposed to the movements in interest rates.

**Regulatory risks** – The company's operations are exposed to regulatory risks pertaining to the scheduling and forecasting requirements of solar power projects. Also, the company remains exposed to adverse changes in regulations related to captive power projects and any adverse variation in open access charges, which could impact the competitiveness of the tariff offered.

## Liquidity position: Adequate

The liquidity of the company is expected to remain adequate because of the healthy cash flow from operations, supported by the long-term PPAs at fixed rates for its solar power project and expectations of timely receipt of payments from the customers, given their strong credit profile. Further, the debt repayment commences from the quarter ending December 2023, giving the project adequate time for stabilisation of the operations before the commencement of repayment. In addition, the company has a provision for a two-quarter DSRA, with one quarter being funded upfront by the promoters and the second-quarter DSRA within 12 months from CoD.

## Rating sensitivities

**Positive factors –** ICRA could upgrade the rating if the actual generation level is in line or higher than the expected P90 estimate on a sustained basis, leading to healthy debt coverage metrics for the company. Further, an improvement in the credit profile of its parent could also lead to an upgrade.

**Negative factors –** LPPL's rating can be downgraded if the actual generation performance remains lower than the estimated P90 level on a sustained basis or if there are delays in payments from the customers, impacting its liquidity profile. Specific credit metrics for a downgrade include cumulative DSCR on the project debt falling below 1.15 times. Further, weakening of linkages with the parent (FPEPL) or weakening of the credit profile of the parent would be the other negative triggers.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Solar Energy Projects<br>Implicit parent or group support |
| **Parent/Group support** | Parent/Group Company: Fourth Partner Energy Private Limited. The rating assigned to LPPL 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 statements of the rated entity |

## About the company

Lalganj Power Private Limited (LPPL), incorporated in 2018, is a special purpose vehicle (SPV) promoted by Fourth Partner Energy Private Limited (FPEPL). LPPL has set up an 88.06-MW (DC capacity) solar power project at Jewala & Behada village, Saharanpur district of Uttar Pradesh. The project construction was fully commissioned in October 2022. The company has tied up long-term power purchase agreements (PPAs) with high credit quality industrial customers under the group captive model. As required under the group captive regulations, the customers have subscribed to the shareholding of the company in proportion to their procurement from the project.

**Key financial indicators: Not applicable/meaningful as the project has commenced operations in FY2023**

**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 Dec 31, 2022 (Rs. crore) | Date & rating | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 |
| | | | | | Jan 31, 2023 | Oct 22, 2021 | - | - |
| 1 | **Term loan** | Long-Term | 237.99 | 231.06 | **[ICRA]A- (Stable)** | **[ICRA]A- (Stable)** | - | - |
| 2 | **Unallocated** | Long-Term | 42.01 | - | **[ICRA]A- (Stable)** | **[ICRA]A- (Stable)** | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Fund based – Term loan** | Simple |
| **Unallocated** | NA |

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 / Sanction | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | **Term loan** | Sep 2021 | - | Sep 2039 | 237.99 | [ICRA]A- (Stable) |
| NA | **Unallocated** | - | - | - | 42.01 | [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

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