January 31, 2023

VSV Renewables Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based term loan	288.08	288.08	[ICRA]A- (Stable); reaffirmed
Unallocated	21.92	21.92	[ICRA]A- (Stable); reaffirmed
Total	**310.00**	**310.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's rating reaffirmation for VSV Renewables Private Limited (VRPL) 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. ICRA further takes note of the successful installation of 92.8 MWp of solar power plants out of the final overall portfolio of 93.3 MWp under VRPL, mitigating the execution challenges and offering greater predictability of future cash flows. The overall portfolio has been downsized from 111.4 MWp proposed earlier, considering the technical challenges in a few customer locations and the transfer of a few assets to the other SPVs of the Group. Consequently, the project cost and the debt funding availed have been reduced.

The rating also factors in the limited demand and receivable risks for VRPL with the presence of long-term power purchase agreements (PPAs) for the entire portfolio of 93.3 MWp with reputed offtakers at largely fixed tariffs. The tariffs offered by VRPL under the PPAs remain highly competitive and at a discount to the grid tariffs. VRPL has a diversified asset base spread across 148 locations in multiple states with offtakers from institutional, industrial and commercial segments, including auto ancillaries, retail stores, textiles, steel, FMCG etc. While the generation risk is partially mitigated by the geographic diversity of the assets, ensuring effective O&M of the small-sized solar assets at multiple locations remains important. ICRA notes that the debt coverage metrics of the company are expected to remain adequate, with cumulative DSCR estimated at 1.2x over the debt tenure.

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 is amplified by the limited operational track record of the company's solar assets, with capacity being constantly added during FY2021 and FY2022. Moreover, the performance of these assets remained below the appraised estimates owing to a mix of reasons, including the stabilisation period post commissioning and the impact of Covid-19 in FY2021 on the operations of certain assets as customer premises were shut down. Nonetheless, the performance has improved in 9M FY2023 and FY2022 over the corresponding period of the previous year. Thus, VRPL's ability to demonstrate a satisfactory generation track record in line with P90 PLF estimates on a sustained basis remains a key rating monitorable.

The company is also exposed to interest rate risks, given the leveraged capital structure, fixed PPA tariffs and the floating interest rates, subject to regular resets. Nonetheless, ICRA takes notes of the buffer available in the debt coverage metrics to withstand the movement in interest rates to a certain extent. As the projects are in the customer premises, the flexibility to change the customers in case of any event of default would be limited, unlike open access-based projects. However, this risk is offset by the adequate termination payments under the PPAs. In such instances, the timely receipt of termination payments from the customers would be critical.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that VRPL would benefit from the presence of long-term PPAs for its entire portfolio with a diversified customer base.

Key rating drivers and their description

Credit strengths

Strong financial flexibility and operational strengths by virtue of parentage – VRPL 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.

Diversified solar portfolio spread across multiple locations and offtakers – VRPL had installed 92.8 MWp of solar power plants as of December 2022 out of the overall portfolio of 93.3 MWp, thereby largely eliminating the execution risks and providing a healthy revenue visibility. The company's asset base is spread across 148 locations with customers across sectors such as institutions, auto ancillaries, retail stores, textiles, steel, FMCG etc. Reputed offtakers include Bridgestone India Private Limited, Jindal India Limited, Hindustan Unilever Limited, Avenue Supermarts Ltd., ICICI Bank Limited, Jayashree Textiles, Garg Acrylics, RSWM Limited etc.

Revenue visibility with firm long-term PPAs for existing portfolio – VRPL has signed long-term PPAs (14-25 years) for its existing portfolio of 93.3 MWp at largely fixed tariffs, providing revenue visibility and limiting the demand as well as pricing risks associated with its existing portfolio. The PPAs include a provision for termination payments in case of any events of default.

Competitive tariff rate at discount to grid tariff with reputed customers – The weighted average tariff rate is ~Rs. 4.00 per unit for the existing portfolio and is at a discount to the respective grid tariff rates as determined by various state electricity regulatory bodies, limiting the offtake risks. Further, it enjoys a reputed and diversified customer profile, restricting the counterparty risks to an extent.

Credit challenges

Limited operational track record of existing portfolio – The assets have limited operational track record with an average track record of two to three years, with capacity being constantly added during FY2021 and FY2022. Moreover, the performance of these assets remained below estimates in FY2022, though improving gradually. VRPL's ability to achieve the design PLF levels in a sustained manner would be a key monitorable.

Debt metrics for solar projects sensitive to PLF levels – The key factors that impact the operations of a solar plant are solar irradiation levels, losses in PV systems due to temperature and climatic conditions, design parameters of the plant, inverter efficiency and module generation due to ageing. Given the one-part structure of the PPAs, the debt metrics of the company are exposed to the generation level.

Exposed to interest rate risks – The interest rates on the term loans availed by the company for its projects are floating and subject to regular resets. Given the largely fixed nature of the tariffs under the PPAs and the leveraged capital structure, the debt coverage metrics remain exposed to the movements in interest rates. Nonetheless, ICRA takes notes of the buffer available in the debt coverage metrics to withstand the movement in interest rates to a certain extent.

Liquidity position: Adequate

The company's liquidity position is adequate, supported by improving generation performance, availability of PPAs and timely payments by customers. This apart, the company has DSRA for two quarters' debt obligations. In FY2023, the expected cash flows from operations[1] are ~Rs. 18-19 crore against a debt repayment obligation of ~17 crore.

Rating sensitivities

Positive factors – ICRA could upgrade VRPL's rating if the company demonstrates a satisfactory generation performance for its portfolio, in line or above the P90 estimates, along with timely payments by customers, leading to healthy debt coverage metrics. Further, improvement in the credit profile of the parent (FPEPL) would be a positive trigger.

Negative factors – Pressure on VRPL's rating would arise in case of underperformance in generation by the solar power projects, weakening the cumulative DSCR to less than 1.15 times on a sustained basis. Also, delays in payments by customers adversely impacting the liquidity position of the company would be a negative trigger. Weakening linkages with the parent or weakening of the credit profile of the parent (FPEPL) would be another negative trigger.

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 VRPL 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

VRPL was established in December 2017 as a wholly-owned subsidiary of Fourth Partner Energy Pvt. Ltd (FPEPL). It is the asset holding company, primarily for the rooftop solar power plants developed by FPEPL under the distributed model (Opex). As on December 31, 2022, the company manages a portfolio of 148 assets with a total capacity of 93.3 MWp distributed across India, out of which 147 assets equivalent to 92.8 MWp has been commissioned.

Key financial indicators

VRPL Standalone	FY2020	FY2021	FY2022
Operating income (Rs. crore)	24.61	27.17	40.15
PAT (Rs. crore)	-12.18	-8.41	-14.20
OPBDIT/OI (%)	86.17%	78.66%	75.43%
PAT/OI (%)	-49.51%	-30.97%	-35.36%
Total outside liabilities/Tangible net worth (times)	10.73	13.60	5.70
Total debt/OPBDIT (times)	6.26	10.51	9.39
Interest coverage (times)	1.33	1.00	1.03

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

[1] Cash flows from operations - Operating income minus operating costs, interest paid and working capital changes (including accrued management fees)

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	Dec 11, 2020 Nov 03, 2020	Nov 04, 2019
1	Term loan	Long-Term	288.08	227.18	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	Unallocated	Long-Term	21.92	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (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**	Dec 2018	-	Dec 2033	58.79	[ICRA]A- (Stable)
NA	**Term loan**	Nov 2019	-	Jul 2034	50.62	[ICRA]A- (Stable)
NA	**Term loan**	Jun 2021	-	Mar 2036	50.79	[ICRA]A- (Stable)
NA	**Term loan**	Jun 2021	-	Mar 2036	127.88	[ICRA]A- (Stable)
NA	**Unallocated**	-	-	-	21.92	[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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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.

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