February 03, 2023

Arize Renewables Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	75.00	[ICRA]A (Stable) assigned
Total	**75.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to the term loans of Arize Renewables Private Limited (Arize) factors in its strong parentage from Radiance Renewables Private Limited (RRPL, rated [ICRA]A (Positive)), which is backed by Green Growth Equity Fund (GGEF). The National Investment and Infrastructure Fund (NIIF) and the Foreign Commonwealth Development Office (FCDO) of the UK government, are the anchor investors in GGEF. The parentage has translated into exceptional financial flexibility for the company and managerial support in carrying out its operations as well as fund raising activity. Arize is engaged in setting up of Behind the Meter (BTM)/rooftop solar projects for Commercial/Industrial consumers. The company has setup one 5.0MWp BTM rooftop solar project for S.T. Cottex Private Limited in Ludhiana and it is setting up a 3.8MWp BTM solar project for Sangam (India) Limited in Bhilwara, Rajasthan. The rating also factors in the healthy revenue visibility provided by the fixed tariff, long tenor power purchase agreement with counterparties having healthy credit risk profile. The PPAs also include deemed generation clauses wherein the off taker has to offtake the entire power generation on a take or pay basis which further provides comfort from revenue assurance and debt servicing capabilities of the company. The rating also factors in the termination payments built-in the PPAs which provide adequate coverage for the outstanding debt in scenarios of buyer/seller event of defaults.

The ratings are constrained by the limited track record of operations of the projects under the company along with the risk of irradiance levels, counter-party credit profile and interest rate risks. The company's 5.0MWp project at S.T.Cottex' facility was commissioned in May 2022 and has a short track record of operations. While the company's operational performance has remained stable so far in terms of power generation, the same will remain exposed to risk of irradiance going forward. While weather remains an uncontrollable factor, impact of adverse climate changes leading to dense cloud cover over elongated period, pollution from sources impacting irradiance for the project remain key environmental risks for the projects. With realization of project cash flows contingent upon the ability of the off-taker to make timely payments, the assigned ratings remain constrained by the credit profile of the respective off-takers. ICRA notes that given the significant discount in PPA tariff compared to the grid tariff, the payments are likely to remain timely for the company. The cash flows of the company are susceptible to the interest rates at which the funding has been raised. Given the current interest rate environment, the interest rates are expected to harden leading to headwinds for cash generation and debt servicing capability of the company. The ability of the company to renegotiate the terms of the loans and/or refinance the loans at lower rates will remain a key monitorable going forward. The ratings also factor in the risk of the project facilities located within the premises of off-takers but nevertheless take comfort from strong contractual safeguards in form of termination payments in the PPA.

The Stable outlook on the rating indicates ICRA's expectation of generation in line with P90 estimates and timely collections from offtakers resulting in sufficient cash flows for meeting the debt servicing requirements of the company going forward.

Key rating drivers and their description

Credit strengths

Strong parentage of Radiance Renewables Private Limited translating into financial flexibility and managerial support - Arize is a wholly owned subsidiary of Radiance Renewables Private Limited (RRPL) which is the holding company of the Radiance Group (installed capacity of 300 MW+). RRPL is backed by of Green Growth Equity Fund (GGEF). GGEF counts India's National Infrastructure Investment Fund (NIIF) and the Foreign Commonwealth Development Office (FCDO) of the UK government among its anchor investors. GGEF is managed by EverSource Capital, which is a joint venture of EverStone Capital and Lightsource BP. The management of the Radiance Group has experience in setting up renewable power projects in India. GGEF has capital commitments from anchor investors for investing in RRPL, apart from Ayana Renewables, Green Cell Mobility and other platform companies.

Healthy revenue visibility owing to long tenor Power Purchase Agreement (PPA) with fixed tariff and deemed generation clauses – The revenue visibility for the projects remains healthy given the fixed tariff PPAs with tenor of 25 years for S.T. Cottex's project and 21 years for Sangam project. The expected stable power generation with fixed tariff which is highly competitive vis-à-vis grid tariff is expected to result in stable cash generation for the projects. The tariff is expected to remain competitive against the grid tariff in future as well given the open access charges are not applicable given the BTM nature of the projects which along with expected inflation of power costs in general which will keep grid tariff higher going forward as well. The company has entered into O&M contracts at fixed price which will ensure adequate visibility of the cash generated. Additionally, the PPAs also ensure the off-taker purchase power on a take or pay basis (deemed power generation clause) i.e. the off-taker has to purchase the power made available by the plant and/or pay for the power that can be generated by the plant even if it cannot offtake the power. Thus, the revenue visibility remains robust for the company. This ensures adequate cash generation for debt servicing going forward.

Healthy termination payments in excess of entire external debt – The termination payments under the PPA for both the projects are more than adequate to cover the entire outstanding debt on an ongoing basis. This provides comfort in terms of ability of the company to repay its debt in case the off-taker intends to buy the plant or in case of buyer's event of default.

Low counterparty risk given the healthy credit profile of the off-takers – The counterparty risk for the projects remains low given the healthy credit risk profile of the counterparties. The collection efficiency for the commissioned project has remained nearly 100% and the collection period although higher than the PPA timelines in the initial period post commissioning has now fallen in line with the PPA timelines. Going forward ICRA expects the collection timelines and collection efficiency to remain healthy backed by the healthy credit profile of the off takers.

Credit challenges

Limited track record of performance – Currently Arize has only one operational project which was commissioned in May 2022. While the operating performance characterized by Plant Load Factor (PLF) and plant availability have remained healthy, given the short track record, the same will remain a key monitorable going forward. The collection efficiency for the commissioned project has remained healthy so far and the collection period has also improved over the course of the years. However, going forward the collection efficiency and collection period will remain susceptible to the change in the credit profile of the counterparties and will remain a key monitorable. Additionally, since the projects are co-located captive projects, the ratings are constrained by the credit profile of the off takers as well.

Cash flows exposed to risk of irradiance levels and interest rate environment - The power production and thus the cash flow generation for the solar power projects remain exposed to the irradiance levels. While the company does not have control over the weather-related factors, given the tariff being one-part in nature the cash flows will face headwinds in a scenario of lower-than-expected irradiance. The cash flows would also remain susceptible to the change in the interest rates for the loan contracted by the entity. Additionally, with the solar tariff being fixed while the interest rate on contracted loans being variable in nature will keep the cash generation exposed to interest rate volatility. The ability of the company to service its debt will also moderate unless the company's performance exceeds the base case production levels.

Liquidity position: Adequate

Arize's liquidity is supported by the maintenance of the DSRA equivalent to 6 months peak debt servicing and positive free cash flow from operations for the upcoming quarters and expected support from the parent RRPL in case of any shortfall. The company maintained required DSRA of Rs 1.60 crore as on December 31, 2022.

Rating sensitivities

Positive factors – ICRA could improve the rating of the Arize if there is improvement in the credit profile of the parent.

Negative factors – The negative pressure on the rating could arise in a scenario of the project generation remaining below the projected levels on a sustained basis and/or the cumulative DSCR remaining below 1.20x on a sustained basis over the remaining course of debt repayment for the company. The rating could also be revised downwards in case of weakening of linkages with the parent and/or weakening in the credit profile of its parent i.e., Radiance Renewables Private Limited. The rating would also witness downward pressure in case of elongation of the receivable days resulting in moderation in cash flow from operations/ liquidity position of the company.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Methodology for solar power producers Implicit Parent or group support
Parent/Group support	ICRA has factored in implicit support from the parent, Radiance Renewables Private Limited
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Arize Renewables Private Limited

About the company

Arize Renewables Private Limited (Arize) is a wholly owned Special Purpose Vehicle (SPV) floated by Radiance Renewables Private Limited (RRPL, rated [ICRA]A (Positive)/[ICRA]A2+) which is the holding company of Radiance Group and is backed by Green Growth Equity Fund (GGEF). GGEF has NIIF and FCDO, UK Government as its anchor investors. GGEF is managed by EverSource Capital which is 50:50 joint venture of EverStone Capital and Lightsource BP. The company is engaged in acquiring of under construction rooftop solar/behind the meter solar power projects. The company came into being in June 2021 and currently has one 5 MWp operational rooftop solar project located in the premise of ST Cottex Private Limited in Ludhiana and another 3.8MWp project under construction at Sangam (India) Limited's Bhilwara facility. The company currently has a sanctioned credit line to setup around 40MWp of rooftop solar/behind the meter projects.

Key financial indicators (audited)

Arize (Standalone)	FY2021	FY2022
Operating income	NA	0.0
PAT	NA	-0.1
OPBDIT/OI	NA	NM
PAT/OI	NA	NM
Total outside liabilities/Tangible net worth (times)	NA	NM
Total debt/OPBDIT (times)	NA	NM
Interest coverage (times)	NA	NM

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 of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					February 3, 2023	-	-	-
1	**Term loans**	Long term	75.0	18.11	**[ICRA]A (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	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-I**	FY2023	NA	FY2037	12.81	[ICRA]A (Stable)
NA	**Term Loan-II**	FY2023	NA	FY2037	9.23	[ICRA]A (Stable)
NA	**Proposed Term Loan**	NA	NA	NA	52.96	[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-NA

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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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