March 27, 2023

FPEL MAHA 2 Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	31.50	[ICRA]A- (Stable); assigned
Total	31.50	

Instrument details are provided in Annexure-I

Rationale

The rating assigned to FPEL MAHA 2 Private Limited (FPEL MAHA 2) factors in the operational nature of its 10.56-MWp solar power project, which was commissioned in August 2021 and the limited demand risks for this project with the presence of 25-year long-term power purchase agreements (PPAs) with commercial & industrial (C&I) customers for its entire capacity at fixed tariffs under the group captive mode. Further, comfort is drawn from the highly competitive tariffs offered by the company, which are at a significant discount to the grid tariff rates. Also, the tie-up of PPAs with customers such as United Breweries Limited (UBL; rated [ICRA]AA+ (Stable)/[ICRA]A1+) for 8.36 MWp and Wadhwa Group Holdings Private Limited (WGHPL) for 3.0 MWp is expected to result in timely receipt of payments, as demonstrated so far. The rating also takes comfort from the comfortable debt coverage metrics estimated for the company, supported by the long-term PPAs and the long tenure of the project debt.

ICRA notes that FPEL MAHA 2 is a subsidiary of Fourth Partner Energy Private Limited (FPEPL; rated [ICRA]A- (Stable)/[ICRA]A2+), which has an established track record in the solar power sector. The O&M for the solar power project of FPEL MAHA 2 is managed by its parent, FPEPL. Further, ICRA takes note of the cash pooling mechanism with a fellow group subsidiary, VSV Offsite Private Limited {rated [ICRA]A- (Stable)}, wherein any shortfall in debt servicing for one SPV can be met through the cash surplus available with the other SPVs under the pool. VSV Offsite is operating a 1.50-MWp solar power capacity, located adjacent to FPEL MAHA 2's plant. Also, there are cross-default linkages with the parent under the terms of the project debt.

The rating is, however, constrained by the sensitivity of generation to solar-irradiation levels and equipment performance, 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 geographic concentration of the asset. The ability of the company to demonstrate generation in line or above the design PLF levels on a sustained basis remains important. The generation performance in 9M FY2023 is close to the P90 estimate. The company has commissioned 10.56 MWp against the original envisaged capacity of 11.36 MWp and would set up the balance 0.80 MWp, based on the supply obligation under the PPAs. The company has drawn the project debt to the extent of the capacity commissioned so far.

The rating also factors in the risk of cash flow mismatch as the PPAs have a lock-in period of 15 years, while the debt repayment is spread across 18.5 years. Nonetheless, comfort can be drawn from the highly competitive tariffs offered by the company to its customers against the grid tariff and the track record of the sponsor in securing PPAs with large C&I customers. The company is also exposed to interest rate risks given the floating interest rate for the project debt, subject to regular resets. Further, the company's operations remain exposed to the regulatory risks associated with forecasting & scheduling regulations, regulations for captive projects and open access charges. While the increase in open access charges or imposition of new charges would be borne by the offtaker under the terms of the PPA, this would impact the competitiveness of the tariffs (savings to the customers) offered under the PPAs.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that FPEL MAHA 2 would benefit from the long-term PPAs for its portfolio 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

Revenue visibility from long-term PPAs for entire capacity – FPEL MAHA 2 has signed long-term PPAs (25-year) for its entire capacity of 10.56 MWp at a fixed tariff with reputed C&I 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 FPEL MAHA 2, as required under the group captive regulations.

Comfortable credit profile of customers – FPEL MAHA 2 has tied up PPA for a major portion of its capacity with UBL, which has a strong credit profile. Post commissioning, the company has been receiving payments in a timely manner from both the customers, UBL and WGHPL.

Highly competitive tariff – The tariff rates offered by the company are at a significant discount to the state grid tariff rates. Moreover, the power supplied by FPEL MAHA 2 would enable the customers to meet their renewable purchase obligations as well as their sustainability goals.

Comfortable debt coverage metrics – The debt coverage metrics for the company are expected to remain adequate with a projected cumulative DSCR of over 1.3x over the debt repayment tenure, supported by the long-term PPAs at reasonable tariffs and the long tenure of the project debt.

Operational strengths by virtue of parentage – FPEL MAHA 2 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 O&M for FPEL MAHA 2 is being managed by FPEPL. Further, there is a cash pooling mechanism available with a fellow group subsidiary, VSV Offsite Private Limited, and cross-default linkages with the parent, under the terms of the project debt.

Credit challenges

Debt metrics of solar projects sensitive to PLF levels – Given the one-part structure under the PPAs, the debt coverage metrics of the company remain exposed to the generation level. 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 in line or above the appraised estimate remains to be seen.

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 of 15 years, lower than the debt repayment tenure of 18.5 years, which could lead to the risk of cash flow mismatch. 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 grid tariff, the track record of the sponsor in securing PPAs with large C&I customers and the notice period available at the time of PPA termination to enable the company to replace the customers. Further, the lender has the option to exercise cash sweep, wherein the surplus cash can be utilized to prepay the debt, thereby reducing the effective debt repayment tenure.

Exposed to interest rate risks – The interest rates on the term loans availed by the company for its project is floating and subject to regular resets. Given the fixed nature of the tariffs under the PPAs and leveraged capital structure, the debt coverage metrics for the company are exposed to 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. However, the risk of variation is relatively low for solar power projects compared to wind power projects. 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 of the company is expected to remain adequate with sufficient buffer between the cash flow from operations and debt repayments. The cash flow from operations is expected to be about Rs. 1.9 crore in FY2024 against a debt repayment obligation of Rs. 1.27 crore. The debt repayment commences from the quarter ending June 2023, giving the project adequate time for stabilisation of the operations before the repayments start. In addition, the company has a provision for a two-quarter DSRA, with one quarter being funded upfront by the promoters and a second quarter DSRA to be funded within 12 months from CoD. The company had cash and liquid investments of Rs. 1.77 crore as on December 31, 2022, including DSRA of 0.79 crore.

Rating sensitivities

Positive factors - ICRA could upgrade FPEL MAHA 2's rating if the actual generation level is higher than the P-90 estimate on a sustained basis, improving the company's credit metrics. Also, the rating would remain sensitive to the credit profile of its parent, FPEPL.

Negative factors - FPEL MAHA 2's rating can be downgraded if the actual generation performance is lower than the P-90 level on a sustained basis or if there are delays in payments from the customers, adversely impacting its liquidity profile. Specific credit metrics for a downgrade include cumulative DSCR on the project debt falling below 1.15 times. Also, the rating would remain sensitive to the credit profile of its parent, FPEPL, and its fellow subsidiary, VSV Offsite Private Limited.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Rating Approach - Explicit third-party support
Parent/Group support	ICRA has consolidated the financials of the two SPVs, FPEL MAHA 2 Private Limited and VSV Offsite Private Limited, to arrive at the notional group rating which has been used to notch-up the individual SPV ratings factoring in implicit support, given the expected fungibility of surplus cash among the SPVs
Consolidation/Standalone	Standalone

About the company

FPEL MAHA 2 Private Limited is a subsidiary of FPEPL, wherein FPEPL holds a 73.21% shareholding, while an 18.89% stake is held by UBL and 7.91% by WGHPL. FPEL MAHA 2, along with VSV Offsite Private Limited, has entered into a common loan agreement for project financing of the solar PV projects. The company owns and operates a 10.56-MWp solar power project at Katol tehsil in the Nagpur district in Maharashtra. The project was fully commissioned on August 6, 2021. The company has tied up long-term PPAs with UBL and WGHPL under the group captive model. As required under the group captive regulations, the customers have subscribed to the shareholding of the company in proportion of their procurement from the project.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income	-	2.1
PAT	-0.2	0.2
OPBDIT/OI	-	62.1%
PAT/OI	-	9.5%
Total outside liabilities/Tangible net worth (times)	5.6	7.9
Total debt/OPBDIT (times)	NM	30.0
Interest coverage (times)	NM	2.2

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

NM: not meaningful as the project was under-construction in FY2021

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 Jan 25, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 27, 2023	-	-	-
1	**Term loans**	Long term	31.50	28.45	**[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**	September 2022	-	FY2042	31.50	[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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