

March 27, 2023

## VSV Offsite Private Limited: Rating assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	4.20	[ICRA]A- (Stable); assigned
<b>Total</b>	<b>4.20</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating assigned to VSV Offsite Private Limited (VSVOPL) factors in the commissioning of its 1.5-MWp solar power project in August 2022 and the limited demand risks with the presence of a 25-year long-term power purchase agreement (PPA) with UltraTech Cement Limited (UCL) for its entire capacity at a fixed tariff under the group captive mode. Further, comfort is drawn from the highly competitive tariff offered by the company, which is at a significant discount to the grid tariff rates. Also, the tie-up of PPA with a strong customer like UCL is expected to result in timely receipt of payments, as demonstrated so far.

Further, comfort is drawn from the cash pooling mechanism available with a fellow group subsidiary, FPEL MAHA 2 Private Limited {rated [ICRA]A- (Stable)}, wherein any shortfall in debt servicing for VSVOPL can be met through the cash surplus available with FPEL MAHA 2. This company is operating a 10.56-MWp solar power capacity, located adjacent to VSVOPL's plant. ICRA notes that VSVOPL 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 VSVOPL is managed by its parent, FPEPL. Also, there are cross-default linkages with the parent, under the terms of the project debt for VSVOPL.

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 PPA. 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 project has a limited generation track record, as it was commissioned in August 2022.

The rating also factors in the risk of cash flow mismatch as the PPA has a lock-in period of 10 years, while the debt repayment is spread across 18.5 years. Nonetheless, comfort can be drawn from the highly competitive tariff offered by the company to its customer against the HT industrial grid tariff and the track record of the sponsor in securing PPAs with large industrial and commercial (C&I) customers. The company is also exposed to interest rate risks given the floating interest rates 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 the 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 tariff (savings to the customer) offered under the PPA.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that VSVOPL would benefit from the long-term PPA for its portfolio with a reputed customer, cash pooling mechanism with FPEL MAHA 2 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 PPA** – VSVOPL has signed a long-term PPA (25-year) for its entire capacity of 1.5 MWp at a fixed tariff with UCL under the group captive mode, providing revenue visibility and limiting the demand as well as pricing risks. The customer has subscribed to the equity capital of VSVOPL, as required under the group captive regulations.

**Strong credit profile of customer** – VSVOPL has tied up the PPA with UCL, which has a strong credit profile. This is expected to result in timely receipt of payments.

**Highly competitive tariff** – The tariff rate offered by the company is at a significant discount to the state grid tariff rates. Moreover, the power supplied by VSVOPL would enable the customer to meet its renewable purchase obligations as well as their sustainability goals.

**Cash pooling with fellow subsidiary; operational strengths by virtue of parentage** – VSVOPL 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, comfort is drawn from the cash pooling mechanism available with a fellow group subsidiary, FPEL MAHA 2, under the terms of the project debt, wherein any shortfall in debt servicing for VSVOPL can be met through cash surplus available with FPEL MAHA 2.

### Credit challenges

**Debt metrics of solar projects sensitive to PLF levels** – Given the one-part structure under the PPA, 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 PPA in relation to debt tenure** – The PPA has a lock-in period of 10 years, lower than the debt repayment tenure of 18.5 years, which could lead to the risk of cash flow mismatch. Also, the termination payment under the PPA does 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 customer. 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 projects is floating and subject to regular resets. Given the fixed nature of the tariffs under the PPA 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, aided by positive cash flow from operations supported by the long-term PPA at a fixed rate for the solar power project and expectation of timely receipt of payments from the customer, given its strong credit profile. Further, 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. The company had cash and liquid investments of Rs. 0.31 crore as on December 31, 2022, including DSRA of 0.11 crore.

## Rating sensitivities

**Positive factors** – ICRA could upgrade VSVOPL’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 remains sensitive to the credit profile of FPEL MAHA 2 and the parent, FPEPL.

**Negative factors** – VSVOPL’s rating can be downgraded if the actual generation performance is lower than the P-90 level on a sustained basis or 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. Also, the rating would remain sensitive to the credit profile of its parent, FPEPL, and its fellow subsidiary, FPEL MAHA 2.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Solar Power Producers</a> <a href="#">Rating Approach - Explicit third-party support</a>
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

VSVOPL is a subsidiary of FPEPL, wherein FPEPL holds a 73.13% shareholding, while the remaining 26.87% stake is held by the sole offtaker UCL. VSVOPL, along with FPEL MAHA 2 Private Limited, has entered into a common loan agreement for project financing of the solar PV projects. The company owns and operates a 1.5-MWp solar power project at Katol tehsil in the Nagpur district in Maharashtra. The project was fully commissioned on August 11, 2022. The company has tied up a long-term PPA with UCL under the group captive model. As required under the group captive regulations, the customer has subscribed to the shareholding of the company.

## Key financial indicators (audited)

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

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 till August 2022

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		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	4.20	4.20	[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	4.20	[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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