September 30, 2022(Revised)

Sungaze Power Private Limited: [ICRA]AA-(CE) (Stable) withdrawn and [ICRA]AA-(Stable) assigned simultaneously

Summary of rating action

Instrument*	Previous rated amount (Rs. Crore)	Current Rated amount (Rs. crore)	Rating action
Fund-based Term Loans	15.97	15.02	[ICRA]AA-(CE) (Stable) withdrawn and [ICRA]AA-(Stable) assigned simultaneously
Total	**15.97**	**15.02**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has withdrawn its rating of [ICRA]AA-(CE) (Stable) for the bank facilities of Sungaze Power Private Limited (SPPL) and has simultaneously assigned a fresh rating of [ICRA]AA-(Stable) for these facilities. The rating action follows the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to the credit rating agencies on April 22, 2022, and July 26, 2022, respectively, guiding that the benefit of a co-obligor structure is not to be considered for credit enhancement. Among other considerations, the [ICRA]AA-(CE) rating drew comfort from the presence of a co-obligor structure which contractually tied three SPVs viz., SPPL, Wattvolt Energy Private Limited (WEPL) and Fourvolt Solar Private Limited (FSPL), wherein shortfall in meeting debt servicing obligations in any special purpose vehicle (SPV) will be met from surplus cash available in the other two SPVs that are a part of the structure

To align itself with the regulatory guidance, ICRA would no longer be considering in its credit assessments the benefit of a co-obligor structure of these three SPVs. Also, ICRA has changed the rating approach while assigning the ratings to SPPL's bank facilities and has taken a standalone view of the business and financial risk profile of SPPL along with an implicit support of the ultimate parent i.e. PETRONAS. Enhanced focus of PETRONAS towards scaling up of renewable capacities coupled with demonstration of consistent financial and operational support to its Indian SPVs, strengthens the credit profile of the company. Moreover, the project attractiveness too has improved with increased tariff competitiveness due to increase in grid tariff. Accordingly, ICRA has assigned the rating of [ICRA]AA-(Stable).

The assigned rating favourably factors in the strong support of its ultimate parent, PETRONAS, which enhanced its focus towards adding renewable energy capacities. Through its dedicated clean energy solutions platform, Gentari, PETRONAS intends to build a renewable energy capacity of 30-40GW by 2030. At present, Gentari has over 1.1-GW renewable energy capacity and is expected to add more capacities. PETRONAS focus towards the Indian renewable energy sector coupled with the demonstration of consistent financial and operational support to its Indian SPVs significantly strengthens the credit profile of the SPV.

The rating assigned considers the benefits arising from the Amplus Group's technical experience and strategic focus on the development and operations of rooftop and ground-mounted solar photo voltaic projects for commercial and industrial segments. The rating also factors in the healthy revenue visibility and low offtake risk with a firm long-term power purchase agreement (PPA) at competitive tariff. Further, the strong financial risk profile of the offtaker and a track record of timely payments mitigate the counterparty credit risks. With the increase in grid tariff, the tariff competitiveness of the project has improved which strengthens the credit profile and attractiveness of the project.

The rating also draws comfort from the adequate debt protection metrics, stipulated cash sweep clause in case of any breach of specified debt service coverage ratio (DSCR) level as well as a debt service reserve account (DSRA) of two quarters (principal and interest). In addition, the company maintains a liquidity buffer equivalent to one quarter of operating expense and debt servicing in addition to two quarters of DSRA requirement. There is an additional comfort with a defined utilisation mechanism for DSRA as per the trust & retention agreement (TRA) (prior to default). In addition, ICRA notes that the cash flows of the project will not be utilised for funding any expenses over and above the budgeted/approved operations and maintenance (O&M) expenses or for any investments in other projects/SPVs.

The rating for the term loan, however, is constrained by the sensitivity of generation to solar-irradiation levels, given that the revenues are linked to the actual units generated and exported in view of the single-part tariff structure of the PPA. Also, the ability of the Amplus Group to ensure proper O&M of the solar assets of the project, in line with the stipulated performance parameters in the O&M agreements, remains crucial for the company. The company remains exposed to the regulatory risk pertaining to changes in open access charges for captive/onsite solar assets by the respective state electricity regulatory commissions (SERCs). Levy of these charges in future, while payable by the customer, will bring down the tariff competitiveness of the project and will be a key rating sensitivity. The attractive PPA tariff and the economics of such tariff vis-à-vis the grid tariff, the strong financial profile of the offtaker and presence of termination/buyout clause in such PPA act as risk mitigants. The ability of the project to demonstrate a satisfactory operational performance against the base case assumptions and timely payments from the counterparty shall remain the key rating monitorables.

The Stable outlook on the [ICRA]AA- rating reflects the revenue visibility provided by the operational status of the project with a long-term PPA in place as well as timely cash collections expected from the offtaker.

Key rating drivers and their description

Credit strengths

Strong parent support: SPPL is a part of the Amplus Group, which is backed by PETRONAS, post its acquisition of the Amplus Group from the erstwhile promoter—I Squared Capital—in April 2019. The rating factors in the benefits of a strong parentage by virtue of the 100% ownership by PETRONAS in the holding company of the Amplus Group, Amplus Energy Solutions Pte Limited. PETRONAS has segregated its new energy business from the earlier gas and new energy business and formed a separate vertical, named GENTARI, which will focus on three core-areas - renewable energy, hydrogen and green mobility solutions. Given that the Amplus Group is a strategically important business segment which aligns with PETRONAS' strategic focus towards renewable energy, ICRA expects timely support from PETRONAS in the event of any potential shortfall in debt servicing of the company, led by weak generation or delayed payments from the counterparties.

Healthy revenue visibility with firm PPA at competitive tariff: The company has signed a long-term PPA for 20 years with J.K. Lakshmi Cement Limited (AIGL) at a fixed tariff of Rs. 3.40 per unit. This provides revenue visibility and mitigates demand risk. The remaining PPA tenor is higher than the debt tenor, leading to tail period. Further, the presence of a termination/buyout clause in the PPA as well as the favorable economics of the PPA tariff vis-à-vis the grid tariff for the said offtaker are the mitigating factors.

Low counterparty credit risk – The counterparty credit risk for the project is low on account of the offtaker's strong financial profile. The collection period for each month stood at seven days since October 2020 (in line with its PPA terms). Moreover, the PPA has termination/buyback clauses, which further mitigate the counterparty credit risk.

Strong liquidity backed by upfront creation of DSRA – A DSRA for two quarters of debt servicing is in place which is created from the external debt disbursement. Additionally, a debt service payment account equivalent to one quarter of debt servicing is maintained to safeguard against cash shortfall, if any, before the actual payment due dates. The long-term PPA signed with assured offtake (deemed generation present in PPA) at a remunerative tariff should result in comfortable cash flows. The liquidity is further supported by the presence of PETRONAS, which is expected to support the operations of the company in a timely manner against any events that may result in debt servicing shortfall.

Credit challenges

Single-asset operations; cash flow vulnerable to variability in solar irradiance – SPPL is entirely dependent on power generation for its revenues and cash accruals. Given the single-part tariff, the company may lose revenues and profits if power generation declines due to variability in solar irradiance. The single location and single-asset nature of its operations exacerbate this risk. The generation has remained in line with the P-90 estimates in the last two years.

Exposure to interest rate risk – The tariff for the project is single part in nature and the project remains exposed to interest rate risk as the interest rate is floating in nature.

Liquidity position: Strong

SPPL's liquidity is strong, aided by the presence of a two-quarter DSRA and timely payment from the counterparty. The project has been commissioned and the revenue is expected to adequately meet the company's debt servicing requirement and operational expenses. The liquidity is further supported by the presence of a strong parent, PETRONAS, which is expected to support the operations of the company against any events that may result in debt servicing shortfall.

Rating sensitivities

Positive factors – ICRA could upgrade SPPL's rating if the generation is in line with the P-90 PLF estimates on a sustained basis, or if there is a material reduction in debt levels and improvement in the debt coverage metrics of the company. The rating may also be upgraded if the credit profile of the parent, Amplus Energy Solutions Private Limited (AESPL), improves.

Negative factors – Negative pressure on SPPL's rating could arise if there are adverse regulatory developments that affect the tariff competitiveness of the project or if there is a deterioration in its operational performance, pulling down the cumulative DSCR (for external debt) below 1.20 times. A weakening in the credit profile of AESPL/PETRONAS and/or any weakening in the linkages with the parent PETRONAS will also create pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Implicit of parent or group on an Issuer's credit rating Policy on withdrawal of credit ratings
Parent/Group Support	Parent/Group Company: Amplus Energy Solutions Private Limited, which is owned by Amplus Energy Solutions Pte Limited (a 100% subsidiary of PETRONAS); ICRA expects PETRONAS to be willing to extend financial support to the company, should there be a need in case of cash flow mismatches.
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity

About the company

Sungaze Power Private Limited (SPPL), incorporated in October 2018, has developed an onsite ground mount solar power project of 6.51 MW capacity at Durg, Chhattisgarh. The plant has been developed under the group captive model wherein Amplus Energy Solutions Pvt Ltd holds a 70% stake and the remaining 30% is held by JK Lakshmi Cement Limited (JKLCL). The project was commissioned in September 2020 and has a PPA for 20 years with JKLCL at a fixed tariff of Rs 3.40 per unit.

Key financial indicators

SPPL Standalone	9MCY2020 (Audited)	CY2021 (Audited)
Operating income (Rs. crore)	0.9	3.2
PAT (Rs. Crore)	-1.7	-0.6
OPBDIT/OI (%)	60.1%	82.3%
PAT/OI (%)	-188.0%	-19.2%
Total outside liabilities/Tangible net worth (times)	7.5	10.3
Total debt/OPBDIT (times)	27.7	7.9
Interest coverage (times)	0.4	1.2

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

Note: Amount in Rs. crore; All calculations are as per ICRA Research

Source: Annual Reports and ICRA Research

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 September 21, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					September 30, 2022	June 18, 2021	-	-
1	**Fund based Term Loan**	Long-term	15.02	15.02	[ICRA]AA-(CE) (Stable) withdrawn and [ICRA]AA-(Stable) assigned simultaneously	[ICRA]AA-(CE) (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
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: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund based Term Loan	Feb 2021	NA	FY2037	15.02	[ICRA]AA-(CE) (Stable) withdrawn and [ICRA]AA-(Stable) assigned simultaneously

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis:

Not Applicable

Corrigendum:

Document dated September 30, 2022, has been corrected with revision as detailed below:

- <u>Negative factor (Page 3, Para 5, Line 3):</u> Changed from "cumulative DSCR (for external debt) below 1.30 times" to "cumulative DSCR (for external debt) below 1.20 times".

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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.

For more information, visit www.icra.in

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