October 21, 2022

CSE Solar Sunpark Maharashtra Private Limited: [ICRA]A- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	109.70	[ICRA]A- (Stable); assigned
Total	**109.70**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to CSE Solar Sunpark Maharashtra Private Limited (CSEMPL) factors in the strengths arising from the company's parentage, being a part of the Cleantech Solar Group, which has an experienced management, established track record in developing solar power projects and a diversified solar project portfolio of more than 650 MW tied up with large commercial & industrial customers. The Cleantech Solar Group also draws strength from the presence of reputed sponsors like Keppel Corporation and Shell Plc.

Further, the rating favourably factors in the long-term power purchase agreement (PPA) signed by CSEMPL with Exide Industries Limited (EIL), at a fixed tariff under the captive mode, thereby limiting the demand and pricing risks for the 37.1-MW solar power capacity. The tariff offered under the PPA is highly competitive in relation to the grid tariff for this customer and the PPA would enable the customer to meet its sustainability goals. Further, the rating draws comfort from the strong credit profile of EIL (rated; [ICRA]AAA (Stable)/[ICRA]A1+), which is expected to lead to timely realisation of payments for the company. Going forward, the debt metrics for the company are expected to remain adequate, supported by the PPA at a fixed tariff rate and the long tenure of the project debt. Also, comfort is drawn from the presence of debt service reserve account (DSRA) equivalent to two quarters of debt servicing.

However, the rating is constrained by the vulnerability of the cash flows and debt coverage metrics of the solar power project to the generation performance, given the single part tariff under the PPA. Any adverse variation in weather conditions or equipment performance or inability to ensure adequate O&M practices for the solar assets would impact generation and consequently the cash flows. Out of the 37.1-MW capacity under CSEMPL, 21.0 MW was commissioned in July 2020 and 16.1 MW in August 2022. While the performance of the 21.0-MW asset remained satisfactory so far, achieving a generation performance in line or above the appraised estimate on a sustained basis remains a key monitorable.

The rating also takes note of the risk of cash flow mismatch owing to the lower lock-in period under the PPA in relation to the debt tenure. Moreover, the termination payments under the PPA do not cover for the entire debt outstanding. Nonetheless, comfort can be drawn from the competitive tariff offered by the SPV and the Group's track record in securing PPAs with large industrial and commercial customers. ICRA also takes note of the sensitivity of the debt coverage metrics to the movement in interest rates, considering the leveraged capital structure and fixed tariffs under the PPA. Nonetheless, this is partly mitigated by the fixed interest rate for the debt availed for the 21.0-MW solar asset for a period of five years. Further, the company remains exposed to regulatory risks associated with forecasting & scheduling norms, regulations for captive projects and open access charges. While the open access charges are to be paid by the customers under the PPAs, any significant increase in these charges would impact the competitiveness of the tariff.

The Stable outlook assigned to the long-term rating of CSEMPL factors in the steady cash flow visibility, aided by the long-term PPA and timely cash collections expected from the customer.

Key rating drivers and their description

Credit strengths

Strengths by virtue of being part of Cleantech Solar Group – CSEMPL is part of the Cleantech Solar Group, which in turn is promoted by the Keppel consortium, Shell and Climate Fund Managers. The Keppel consortium is in the process of increasing its stake in CSA by acquiring the shareholding held by Climate Fund Managers. The platform benefits from a diversified portfolio of over 650 MW across seven countries in South Asia and the presence of strong shareholders, who are focused on growing their renewable energy portfolio. CSEMPL is expected to benefit from the presence of strong sponsors, with funding support expected to come from the parent, Cleantech India OA Pte Limited (CIOA), in case of any exigency.

Low offtake risk with presence of long-term PPA with an industrial customer at highly competitive tariff - The solar projects under CSEMPL have tied-up long-term PPAs with large industrial customers under captive mode at a fixed tariff, thereby limiting the demand and pricing risks. The PPA includes a provision for termination payments which cover for a certain portion of the debt under the SPVs. Further, comfort is drawn from the competitive tariffs offered by the projects to the customer against the grid tariff rates. Moreover, the PPAs would enable the customer to meet their renewable purchase obligations.

Strong credit profile of the customers – CSEMPL has tied up PPAs with EIL (rated [ICRA]AAA (Stable)/[ICRA]A1+). The strong credit profile of the customer is expected to result in timely payments, as demonstrated so far.

Adequate debt coverage metrics and comfortable liquidity profile – The debt coverage metrics for CSEMPL are expected to be adequate, supported by a PPA at an attractive rate, long tenure of the debt and competitive interest rates. Also, the liquidity profile of the company is supported by DSRA equivalent to two quarters.

Credit challenges

Vulnerability of cash flows to solar radiation – Given the single part tariff under the PPAs, the revenues and cash flows of the solar power projects under CSEMPL remain vulnerable to actual generation, which is in turn exposed to the variability in solar radiation. This risk is amplified by the geographic concentration of the assets, with both located in Maharashtra. While comfort is drawn from the performance so far, a generation performance in line or higher than the appraised estimate on a sustained basis remains a key monitorable.

Risk of cash flow mismatch owing to lower lock-in period under the PPAs in relation to debt tenure – The PPA signed by CSEMPL has a lock-in period of 10 years against a debt repayment tenure of ~15 years. Also, the termination payments under the PPA do not cover for the entire debt outstanding. Nonetheless, comfort can be drawn from the significant discount offered by the company to its customer against the grid tariff and the track record of the sponsor in securing PPAs with large industrial and commercial customers.

Exposed to interest rate risk – The interest rates on the term loans availed by the company are floating and subject to regular resets. Given the fixed tariff under the PPA and the leveraged capital structure, the company's debt coverage metrics remain exposed to the movement in interest rates. However, this risk is relatively low for the 21.0-MW asset, considering that the interest rate is fixed for a period of five years on the loan availed for this asset.

Regulated risks - The company's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for solar power projects. However, the risk of variation is relatively low for solar power projects compared to wind power projects. Also, the projects are exposed to any revision in policies & regulations for captive projects as well as revision in open access charges, which could impact the competitiveness of the tariff offered.

Liquidity position: Adequate

The liquidity position of CSEMPL is expected to be adequate, with sufficient buffer between cash flows from operations and debt repayment obligation. Moreover, a two-quarter DSRA and timely payments from the customer is expected to support the liquidity profile. The company had cash and liquid investments of Rs. 9.63 crore as on September 30, 2022, including DSRA of 7.47 crore.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company is able to demonstrate a generation performance in line or higher than the appraised estimate along with timely payments from the customer, leading to an improvement in the credit metrics. Also, the rating would remain sensitive to the credit profile of its parent, CIOA.

Negative factors – Pressure on the rating could arise if the generation performance of CSEMPL remains below the appraised estimate on a sustained basis, adversely impacting the debt coverage metrics. Also, delay in payments from the counterparty adversely impacting the liquidity profile is another negative trigger. Further, the rating would remain sensitive to the credit profile of its parent, CIOA. A specific credit metric for downgrade is cumulative DSCR on the project debt falling below 1.15x.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers Rating Approach – Implicit parent or group support
Parent/Group support	The rating assigned to CSEMPL factors in the implicit support from holding company, CIOA, with support expected to be forthcoming in case of any cash flow mismatch.
Consolidation/Standalone	Standalone

Note (for analyst reference only):

About the company

CSE Solar Sunpark Maharashtra Private Limited (CSEMPL) is a subsidiary of CIOA, Singapore, wherein CIOA holds a 72.81% stake and the remaining 27.19% is held by the sole offtaker, Exide Industries Limited. The main holding company of the platform is CSA, which is held by Cleantech Renewable Assets Pte Limited (CRA) and Climate Fund Managers in the ratio of 50:50. In April 2022, the Keppel consortium acquired a 51% stake of CRA, held by Cleantech Energy Corporation Pte Limited. The balance 49% stake would continue to be held by Shell. Further, the Keppel consortium has proposed to acquire the 50% stake held by Climate Fund Managers in CSA, which will increase the stake of the Keppel consortium in CSA to 75.5% from 25.5%.

CSEMPL owns and operates a 21-MW (DC capacity) solar power project in the Osmanabad district of Maharashtra and a 16.10-MW (DC capacity) solar power project in the Latur district of Maharashtra. The 21-MW project was fully commissioned on July 1, 2020, while the 16.1-MW project was commissioned on August 30, 2022. The company has signed 25-year long-term power purchase agreements (PPAs) with Exide Industries Limited. As required under the group captive regulations, the customer has subscribed to the shareholding of the company.

Key financial indicators (audited)

Standalone	CY2021^
Operating income	11.4
PAT	(1.3)
OPBDIT/OI	83.3%
PAT/OI	-11.8%
Total outside liabilities/Tangible net worth (times)	4.4
Total debt/OPBDIT (times)	9.1
Interest coverage (times)	1.2

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

(^) - Provisional and unaudited

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 Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Oct 21, 2022	-	-	-
1	**Term loans**	Long term	109.70	99.46	**[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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	August 2021	NA	FY2036	58.00	[ICRA]A- (Stable)
NA	**Term Loan**	November 2021	NA	FY2038	51.70	[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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 4067 6518
vikram.v@icraindia.com

Dhruv Consul
+91 22 6169 3326
dhruv.consul@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.