February 23, 2023

# Sitac Kabini Renewables Private Limited: Rated amount enhanced

## Summary of rating action

| Instrument* | Previous rated amount (Rs. crore) | Current rated amount (Rs. crore) | Rating action |
|---|---|---|---|
| Long term – Fund based - Term loan | 2,075.00 | 2,165.00 | [ICRA]A (Stable) Outstanding/assigned |
| **Total** | **2,075.00** | **2,165.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating assigned to Sitac Kabini Renewables Private Limited (SKRPL) factors in the benefits of a strong parent group in Electricite de France (EDF, rated by Moody's Baa1 (Negative)), which has a large scale of operations as a leading power utility in France with an installed power generation capacity of 122.0 GW, majority ownership by the Government of France and diverse geographic presence across the United Kingdom and Italy. While EDF's credit profile was adversely impacted by the decline in generation from its nuclear power stations in 2022 owing to operational issues faced by these plants and unfavourable regulatory development limiting the increase in regulated tariffs, the announcement from Government of France to nationalise EDF strengthens the Government support for the Group and alleviates these concerns. ICRA notes that SKRPL remains important to its parent, considering the parent group's plans to expand its renewable power portfolio.

Further, the rating factors in the commissioning of 85.0% of the 300-MW wind power project under SKRPL as of December 2022 and the expected commissioning of the balance capacity by March 2023, thereby largely mitigating execution risks. While the commissioning of the full project is delayed from the scheduled commissioning date of September 5, 2022, the company was able to commission 57% of the project capacity by this date.

Further, the rating factors in the long-term power purchase agreement (PPA) with a strong counterparty, Solar Energy Corporation of India Ltd (SECI; rated [ICRA]AAA (Stable)/[ICRA]A1+), for its 300-MW wind power project at a fixed tariff of Rs. 2.77 per unit, thereby limiting the demand risks and providing visibility on revenues. SECI is an intermediary counterparty and, in turn, has signed power supply agreements (PSA) with the distribution utilities of Delhi and Puducherry. The rating positively considers the high competitiveness of the project tariff for the ultimate offtakers. The presence of a strong counterparty in the form of SECI is expected to result in timely realisation of payments for the company. The payment security mechanism in the PPA/PSA arrangement is relatively superior to the state policy PPAs because of the letter of credit mechanism and the benefits available to SECI under the tripartite agreement (TPA) with the Government of India (GoI), the Reserve Bank of India (RBI) and the state government. Further, the additional provisions in the PPA/PSAs related to compensation in case of grid curtailment and termination payments offer comfort. ICRA notes that the project is registered with the Gold Standard[1] registry making it eligible to obtain carbon credits for sale in the voluntary market, which would provide an additional revenue stream for the company.

However, the rating is constrained by the vulnerability of the revenues and cash flows to seasonality and variation in wind power density across the years, owing to the single-part nature of the tariff under the PPA with SECI. The rating is further tempered by the geographic concentration of the project at a single location. The commissioning of the balance capacity

[1] Gold Standard was established in 2003 by World Wide Fund for Nature (WWF) and other international NGOs to ensure projects that reduced carbon emissions featured the highest levels of environmental integrity and contributed to sustainable development.

without any further delays and demonstration of generation performance in line or above the appraised estimate remains a key monitorable for the company.

The rating is also constrained by the exposure of the project's debt coverage metrics to the movement in interest rates, given the leveraged capital structure and fixed tariff of the project. The project is currently entirely funded through medium-term loans, which are expected to be refinanced through a mix of long-term project debt and promoter contribution in the ratio of 70:30 by March 2026. While this, exposes the company to refinancing risk, comfort is derived from the strong parentage and the long-term revenue visibility of the project. Further, the company's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for renewable energy projects. Any significant variation in scheduled and actual generation would attract penalties and adversely impact the profitability and debt coverage metrics of the company.

The Stable outlook on SKRPL's rating factors in the steady cash flow visibility, aided by the long-term PPA and timely collections expected from the offtaker, along with the benefit of being part of the EDF Group.

## Key rating drivers and their description

### Credit strengths

**Presence of a strong sponsor, with SKRPL being part of EDF Group** – SKRPL is a part of the EDF Group, which holds a 90% stake in the entity with the balance 10% being held by the Sitac Group. EDF {rated by Moody's Baa1 (Negative)} is a leading electric utility in France with the French Government having a majority ownership (89.01%). EDF operates ~122 GW capacity (as of September 2022) globally, comprising nuclear, gas/fossil based, hydro and other renewable capacity. The French Government's announcement in July 2022 on the plan to nationalise EDF further reiterates the growing importance of this entity to France, amid energy security concerns in Europe. The Sitac Group is promoted by Mr. Malvinder Singh and is involved in the construction business in India and abroad (the Middle East), apart from being present in the renewable energy business. EDF and Sitac have an operational renewable energy portfolio of 560 MW and assets under development of ~45 MW in India.

**Revenue visibility of the project due to long-term PPA; superior tariff competitiveness for ultimate offtakers** – SKRPL has signed a PPA for 25 years at a tariff of Rs. 2.77 per unit with the SECI for its full 300-MW capacity, providing revenue visibility post commissioning. Moreover, the provisions in the PPA to compensate developers in case of constraints in grid availability and transmission infrastructure and backdowns provide comfort. The offtake risk is also mitigated by the competitiveness of the PPA tariff for the ultimate offtakers who are state-owned distribution utilities. The project tariff of Rs. 2.77 per unit remains lower than the average power purchase cost of the discoms and competitive compared to the tariff for other wind power projects. The project is registered with the Gold Standard registry, making it eligible to obtain carbon credits for sale in the voluntary market, which would provide an additional revenue stream for the company.

**Presence of strong counterparty expected to result in timely payments -** Given the strong credit profile of the counterparty - SECI (rated [ICRA]AAA (Stable) / [ICRA]A1+) - and its payment track record for other renewable energy projects, the payments against the bills raised are expected to remain timely. SECI acts an intermediary nodal agency and has in turn entered into power sale agreements (PSA) with the distribution utilities of Delhi and Puducherry for the sale of power from this project.

**Satisfactory debt coverage metrics expected post full capacity commissioning –** The company's debt coverage metrics are expected to remain adequate with a cumulative DSCR of ~1.20-1.25x, considering an estimated project cost of Rs. 2,138 crore. This is currently funded primarily through debt and will be refinanced by March 2026 with a debt to promoter contribution of 70:30 and a long debt amortisation schedule post refinancing.

## Credit challenges

**Execution risk for the residual capacity; largely offset with 85% of the project capacity operational –** The wind power project under SKRPL has been partially commissioned. As of December 2022, 256.5 MW capacity has been commissioned, while the remaining capacity is expected to be commissioned by March 2023. The company has completed the acquisition of all the 112 land parcels required for the project. The company has received delivery of all the 112 turbines at the site. It also has the requisite approvals for the residual capacity, except approval from the forest department for a certain patch of area through which the transmission line will be passing. While the company is exposed to execution risk for the residual capacity, the commissioning of 85.0% of the 300-MW capacity and the progress in the construction of the remaining capacity, largely mitigate the execution related risks.

**Vulnerability of debt metrics to generation performance –** The debt metrics of the wind power project remain sensitive to the generation level, given the one-part tariff structure under the PPA. Hence, any adverse variation in wind speed and weather conditions may impact the PLF and consequently the cash flows. The geographical concentration of the asset amplifies the generation risk. Post full capacity commissioning, the project's generation performance in line or above the P-90 PLF estimate remains important from a credit perspective.

**Debt metrics exposed to interest rate movement, given the high leverage level; refinancing requirement –** The debt coverage metrics remain exposed to the movement in interest rates, given the leveraged capital structure and fixed tariff of the project. The project is currently entirely funded through medium-term loans, which are expected to be refinanced through a mix of long-term project debt and promoter contribution in the ratio of 70:30 by March 2026. While this exposes the company to refinancing risk, comfort is derived from the strong parentage and the long-term revenue visibility of the project.

**Regulatory risks from scheduling and forecasting framework for renewable sector** – The company's operations remain exposed to the regulatory risks pertaining to the scheduling and forecasting requirements applicable for renewable energy projects. Any significant variation in the scheduled and actual generation would attract penalties and adversely impact the company's profitability and debt coverage metrics.

## Liquidity position: Adequate

SKRPL's liquidity profile is adequate, supported by the available funding lines for completing the project's construction. The project is capitalised through medium-term loans of ~Rs. 2,075 crore with the drawdown being ~Rs. 1,968.5 crore as on December 23, 2022 and a short-term loan facility of Rs. 35 crore. The cash flows from operations are expected to be sufficient to meet its interest payment obligations, while the outstanding debt would be fully refinanced through a long-term project debt after a period of three years from CoD. Any interim repayments are being met through refinancing with medium-term loans.

## Rating sensitivities

**Positive factors –** The rating may be upgraded if the company is able to demonstrate generation in line or higher than the appraised P-90 estimate post full project commissioning, thereby strengthening the credit metrics and liquidity. Also, the rating would remain sensitive to the credit profile of the EDF Group.

**Negative factors –** The rating could be downgraded in case of significant delays in the commissioning of the balance capacity or significant under-performance in generation against the appraised P-90 estimate, adversely impacting company's debt coverage metrics and liquidity. A specific credit metric for downgrade is the cumulative DSCR falling below 1.20x. Also, any significant delays in payments from the customer adversely impacting the company's liquidity would be a negative factor. Further, the rating would remain sensitive to the credit profile of the EDF Group.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Wind Energy Projects<br>Implicit parent or group support<br>Policy on Withdrawal of Credit Rating |
| **Parent/Group support** | Parent/Group Company: EDF Renouvelables/EDF. ICRA expects SKRPL's ultimate parent, EDF, to be willing to extend financial support to SKRPL, should there be a need, given the strategic importance that SKRPL has for the Group amid its objective to grow its renewable portfolio |
| **Consolidation/Standalone** | The rating is based on the standalone financial profile of the rated entity |

## About the company

SKRPL is developing a 300-MW wind power project in Gujarat. The project comprises 112, 2.7-MW turbines from General Electric (GE) having a rotor diameter of 132 metre and hub height of 130 metre. The project has a 25-year PPA with SECI for the entire capacity. The project was awarded under an auction conducted by SECI (ISTS Tranche 5) and the applicable tariff for this capacity of 300 MW is Rs. 2.77 per unit. The project has been partially commissioned with 256.5 MW operational capacity as of December 2022.

## Key financial indicators: Not applicable as the project was under construction as of March 2022

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | | Current rating (FY2023) | | | | | Chronology of rating history for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Instrument | Type | Amount rated (Rs. crore) | Amount outstanding as on Dec 23, 2022 (Rs. crore) | Date & rating | | Date & rating in FY2022 | | Date & rating in FY2021 | Date & rating in FY2020 |
| | | | | | Feb 23, 2023 | Feb 17, 2023 | Mar 15, 2022 | Dec 02, 2021 | Oct 23, 2020 | Mar 19, 2020 |
| 1 | Term loans | Long-Term | 2165.0 | 1968.5 | [ICRA]A (Stable) | [ICRA]A+ (CE) (Negative) rating withdrawn and [ICRA]A (Stable) assigned simultaneously | [ICRA]A+ (CE) (Negative) | [ICRA]AA- (CE) (Stable) | [ICRA]AA- (CE) (Negative) | [ICRA]AA- (CE) (Stable) |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **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 / Sanction | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | **Term Loan-I** | Aug 2019 | - | FY2025 | 250.00 | [ICRA]A (Stable) |
| NA | **Term Loan-II** | Dec 2019 | - | FY2026 | 900.00 | [ICRA]A (Stable) |
| NA | **Term Loan-III** | Dec 2019 | - | FY2026 | 720.00 | [ICRA]A (Stable) |
| NA | **Term Loan-IV** | April 2022 | - | FY2026 | 295.00 | [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.

For more information, visit www.icra.in

## ICRA Limited

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