October 20, 2023

CSE Solar Sunpark Maharashtra Private Limited: Rating reaffirmed

Summary of rating action

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

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for CSE Solar Sunpark Maharashtra Private Limited (CSEMPL) factors in the strengths arising from the company's parentage as it is a part of the Cleantech Solar Group, which has reputed sponsors like Keppel Corporation and Shell Plc, along with an experienced management, established track record in developing and operating solar power projects and a diversified solar project portfolio of over 850 MW across South-East Asia tied up with large commercial & industrial customers. There are cross-default linkages among the various special purpose vehicles (SPVs) of the Group in India, held by Cleantech India OA Pte. Ltd. (CIOA) under the co-obligor structure of the project debt financing.

The rating favourably factors in the long-term power purchase agreements (PPAs) signed by CSEMPL with Exide Industries Limited (EIL) at fixed tariffs under the captive mode, thereby limiting the demand and pricing risks for its 37.1-MW solar power capacity. The tariffs offered under the PPAs are highly competitive in relation to the grid tariff for this customer and the PPAs 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 company's debt metrics are expected to remain adequate, supported by the PPAs at a fixed tariff rate and the long tenure of the project debt. Also, comfort is drawn from the presence of a 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 PPAs. 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. While the performance of the 37.1-MW project has remained satisfactory so far with PLF above the P-90 estimate, 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 PPAs in relation to the debt tenure. Moreover, the termination payments under the PPAs 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 PPAs. Nonetheless, this is partly mitigated by the fixed interest rate on 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 PPAs 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 and Shell Plc. The platform benefits from a diversified portfolio of over 850 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 receive support from the Group in case of any exigency, given the cross-default linkages with the parent, CIOA and other group SPVs under the co-obligor structure.

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

Strong credit profile of the customer – 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 liquidity profile – The debt coverage metrics for CSEMPL are expected to be adequate, supported by a PPAs at an attractive rate, satisfactory generation performance and the long tenure of the debt. 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 the actual generation, which in turn is exposed to the variability in solar radiation. This risk is amplified by the geographic concentration of the assets, with both projects 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. The inability of the company to continue the PPA beyond the lock-in period or tie up PPAs with new customers could lead to a risk of cash flow mismatch for debt servicing. 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 customers 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 – Given the fixed tariff under the PPAs 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.

Regulatory 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 project is exposed to any adverse revision in 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, the presence of 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. 15.27 crore as on August 31, 2023, including DSRA of Rs. 7.87 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 healthy 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 of the company is a negative trigger. Further, the rating would remain sensitive to the credit profile of its parent, CIOA. A specific credit metric for downgrade is the 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
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, given the cross-default linkages with the other SPVs of the group and parent
Consolidation/Standalone	Standalone

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, EIL. CIOA is a 100% subsidiary of Cleantech Solar Asia Pte. Ltd. (CSA), which in turn is 75.5% owned by the Keppel consortium and 24.5% by Shell.

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 PPAs with EIL. As required under the group captive regulations, the customer has subscribed to the shareholding of the company.

Key financial indicators (audited)

Standalone	CY2021	CY2022
Operating income	11.4	15.3
PAT	(1.0)	(0.5)
OPBDIT/OI	83.0%	84.6%
PAT/OI	-8.7%	-3.3%
Total outside liabilities/Tangible net worth (times)	4.5	2.8
Total debt/OPBDIT (times)	12.0	8.8
Interest coverage (times)	1.3	1.4

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Aug 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 20, 2023	Oct 21, 2022	-	-
1	**Term loans**	Long term	109.70	100.89	**[ICRA]A- (Stable)**	**[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**	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

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About ICRA Limited:

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