January 31, 2024

Sadipali Solar Private Limited: Rating upgraded to [ICRA]A+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based term loan	94.53	85.90	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Total	**94.53**	**85.90**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the improvement in Sadipali Solar Private Limited's (SSPL) cost structure following the downward revision of the operations and maintenance expenses in a new contract, which has improved the company's coverage indicators.

SSPL's rating is based on an assessment of its standalone performance while taking into account the benefit it draws by virtue of being one of the four[1] special purpose vehicles (SPVs) among whom surplus cash flows could be exchanged.

The rating favourably factors in the strong promoter group, viz NextEnergy Capital, which has extensive experience in the solar industry and strong revenue visibility from a long-term power purchase agreement (PPA) for 25 years with Solar Energy Corporation of India Limited {SECI; rated [ICRA]AAA (Stable) /[ICRA]A1+} at a tariff of Rs. 4.43/kWh. A viability gap funding (VGF) of Rs 9.85 crore further mitigates the demand risk. Moreover, the PPA with SECI is relatively superior against the state policy PPAs due to a strong payment security mechanism, comprising letters of credit and a payment security fund provision available with SECI. Moreover, SECI has signed power supply agreements (PSAs) with the ultimate offtakers, the state distribution utilities. The collection efficiency remains adequate at 99.9% in FY2023. ICRA notes that the realisation of payments from SECI has been timely at 70-75 days.

The rating, however, is constrained by the vulnerability of the company's cash flows to module performance and weather conditions, as the revenues are linked to the actual units generated and exported, given the single part and fixed nature of the tariff. ICRA further notes that the asset concentration risk is high due to the lack of geographical diversification as the plant is at a single location in Odisha. The rating is also constrained by the high leverage, considering the capital-intensive nature of the project funded through mix of debt and equity. The solar power project is also exposed to risks associated with the implementation of scheduling and forecasting norms.

The Stable outlook reflects ICRA's opinion that SSIPL will continue to report adequate debt protection metrics, given the fixed rate of interest for the next five years. The Stable outlook also factors in the benefits of a long-term PPA with SECI, a stable generation performance and the receipt of timely payments from the offtaker.

[1] The four SPVs are Belgaum Renewable Energy Private Limited (BREPL, rated [ICRA]A- (Stable)), Omega Solar Projects Private Limited (OSPPL, rated [ICRA]A- (Stable)), Samyama Jyothi Solar Energy Private Limited (SJSEPL, rated [ICRA]A(Stable)), and Sadipali Solar Private Limited (SSPL, rated [ICRA]A+ (Stable). These four SPVs are wholly-owned by NextPower III Singapore Holdco Pte Limited (NPIII).

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters - SSPL is a 100% subsidiary of NextPower III (NP-III), which is a part of NextEnergy Capital (NEC). NEC is a London-based Investment manager which manages solar investments on behalf of some of the largest pension funds in the world. NEC, through NP-III, acquired the company from IBC Solar Ventures India B.V. in Dec 2020 and has adequate experience in operating solar projects. NP-III is a fund which has raised USD 896 million against its initial target of USD 750 million and has a global presence across the US, Spain, Portugal, Chile, Poland, Italy and India with an aggregate installed capacity of ~1.9 GW.

Long-term PPA with SECI mitigates demand risks – The company has signed a long-term PPA with SECI at a tariff of Rs. 4.43/kWh for a period of 25 years from the commercial operations date (COD), along with VGF of Rs. 9.85 crore (Rs 0.49 crore/MW), thereby mitigating the demand and pricing risks. SECI, in turn, has signed power supply agreements (PSA) with state-owned distribution utilities.

Low counterparty credit risk due to PPA with SECI, which has a strong financial profile – The PPA has been signed with SECI {rated [ICRA]AAA (Stable) /[ICRA]A1+}, which in turn has signed PSAs with state distribution utilities. The payments for the bills of generation from SECI have been timely so far, with payments received within 75 days on an average from the date of billing in the last four years. Further, the PPA with SECI is relatively superior against the state policy PPAs due to the strong payment security mechanism, comprising letters of credit (LCs) and the payment security fund provision available with SECI. Moreover, SECI is a beneficiary under the tripartite agreement (TPA) between the Government of India, state governments and the Reserve Bank of India. Also, the change in law for GST pass-through has been implemented since August 2020, as also evident from the receipt of associated payments from SECI. LCs in favour of SSPL has been opened by SECI equivalent to one-month generation bill.

Stable operating performance – SSPL has reported a stable operating performance since its commissioning in April 2018, thereby mitigating the execution risk associated with under-construction projects. The power generation remain stable with an average PLF of 21.34% in FY2019, 22.54% in FY2020, 22.43% in FY2021, 21.52% in FY2022 and 22.29% in FY2023 against the P-90 PLF estimate of 23.7%. The PLF stood at 20.5% in the seven months ended October 2023, which was ~95% of the P-90 design energy. The grid availability and machine availability has also been satisfactory at about 98.55% and 99.40%, respectively, for FY2023.

Improvement in debt protection metrics and liquidity profile – SSPL's liquidity profile improved significantly after it received the pending GST compensation of Rs. 5.86 crore against the initial schedule of annuity payments for 11 years. Additionally, the company reported adequate cash balance of Rs. 8.20 crore as on September 30, 2023, including the presence of a debt service reserve account (DSRA) for one quarter of debt servicing. The company's liquidity profile remains healthy, given the availability of surplus funds. The debt service coverage ratio has improved after the downward revision in the O&M contract rates, which is expected to result in recurring savings for the company.

Credit challenges

Single-asset operations; cash flow remains vulnerable to variability in solar irradiance – SSPL is entirely dependent on power generation from the solar power project for its revenues and cash accruals. Given the single-part nature of the tariff, the company may lose revenues and profits if the power generation declines due to variability in solar irradiance. The single location, single-asset nature of operations exacerbates this risk.

High leverage due to capital-intensive nature of project and cost overrun – The leverage level of the company continues to be high, considering the capital-intensive nature of the solar power projects. Moreover, the project cost rose to Rs. 135 crore from Rs. 121 crore, which increased the leverage levels, as additional debt was taken to fund the cost overrun.

Liquidity position: Adequate

The company's liquidity is adequate. The company's collection efficiency remains satisfactory with SECI (rated [ICRA]AAA (Stable) /[ICRA]A1+) being a counterparty. Additionally, the company reported adequate cash balance of Rs. 8.20 crore as on September 30, 2023, including the presence of a debt service reserve account (DSRA) for one quarter of debt servicing. The company's liquidity profile remains healthy due to the availability of surplus funds.

Rating sensitivities

Positive factors – ICRA can upgrade the rating of the SPV if the company can achieve production in line or above the P-90 levels along with the continuation of timely payments from the offtakers, strengthening the debt coverage metrics and liquidity position.

Negative factors – Pressure on the SPV's rating could arise if the power generation declines below P-90, moderating the DSCR below 1.20 times on a sustained basis. Payment delays from the offtakers, leading to a deterioration of the company's liquidity profile, could also weigh on the rating. Also, any weakening of the liquidity profile or the debt coverage metrics of the pool would be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Power – Solar](#)
Parent/Group Support	ICRA has consolidated the financials of the four SPVs - BREPL, OSPPL, SJSEPL, and SSPL - to arrive at the notional group rating which has been used to notch up the individual SPV ratings, factoring in implicit support from the Group, given the expected fungibility of surplus cash among the SPVs.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SSPL.

About the company

SSPL operates a 20-MW (AC) solar power plant in the Kalahandi district of Odisha. The plant has been operational since April 2018. SSPL's erstwhile promoter, IBC Solar Ventures India B.V., participated in a bid with SECI in 2016 and was awarded the project at a tariff of Rs. 4.43 per unit for 25 years, with a VGF of Rs. 9.85 crore. The bidding was part of a tender of around 270 MW in the state, issued by SECI in August 2016 under Phase II Batch IV of the JNNSM. SSPL was acquired by NEC through its entity, NPIII in 2020 (the holding company is a direct subsidiary of NextPower III LP, a UK based LP. The project is being managed by WiseEnergy (part of NextEnergy Group) which manages 1,450 plants with an overall installed capacity of 1.8GW+ in renewable assets.

Key financial indicators (audited)

SSPL Standalone	FY2022	FY2023
Operating income (Rs. crore)	17.4	17.6
PAT (Rs. crore)	1.6	-1.5
OPBDIT/OI (%)	78.7%	80.2%
PAT/OI (%)	9.0%	-8.5%
Total outside liabilities/Tangible net worth (times)	4.6	4.4
Total debt/OPBDIT (times)	6.7	6.3

Interest coverage (times)	1.5	1.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation
Source: Company, ICRA Research

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 Jan 22, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Jan 31, 2024	Dec 02, 2022	May 31, 2022	-	Mar 15, 2021	Jul 16, 2020
1	Fund based – Term loans	Long term	85.90	85.90	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB- &

& - under rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based facilities	Very 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-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**	June 2022	-	March 2039	85.90	[ICRA]A+ (Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

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

Vikram V
+91 40 4547 4829
vikram.v@icraindia.com

Siddhartha Kaushik
+91 124 4545323
siddhartha.kaushik@icraindia.com

Chinmay Sheth
+91 79 4027 1550
chinmay.sheth@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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