April 04, 2024

Sitac Kabini Renewables Private Limited: Rating upgraded to [ICRA]A+ (Stable) and assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	2,165.00	2,565.00	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable) and assigned for enhanced amount
Total	**2,165.00**	**2,565.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action takes into account the full commissioning and the superior generation performance of the 302.4 MW wind power project developed by Sitac Kabini Renewables Private Limited (SKRPL) in the last 12 months. The rating assigned continues to factor in the benefits of a strong parent group in Electricite de France {EDF, rated by Moody's Baa1 (Stable)}, which has a large scale of operations as a leading power utility in France. EDF is 100% owned by the Government of France and is present in the United Kingdom and Italy. 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 long-term power purchase agreement (PPA) with a strong counterparty, Solar Energy Corporation of India Ltd. (SECI), for its 302.4 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 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 the 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 registry, making the company eligible to obtain carbon credits for sale in the voluntary market, which would provide an additional revenue stream.

However, the rating is constrained by the limited track record of operations, post full commissioning in May 2023, and 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 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 in FY2027. While this exposes the company to refinancing risk, comfort is derived from the strong parentage and the long-term revenue visibility of the project.

ICRA notes that the while the rated amount of the term loans is higher, the overall debt outstanding is expected to remain within Rs. 2,120 crore as the rated amount includes the unavailed portion which will be utilised to refinance the existing debt. 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 the 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, timely collections from the offtaker and 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 (Stable)} is a leading electric utility in France with the French Government having 100% ownership. EDF operates ~117-GW capacity (as of December 2023) globally, comprising nuclear, gas/fossil based, hydro and other renewable capacity. 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 607.4 MW in India.

Revenue visibility from 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 302.4 MW capacity, providing revenue visibility. 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 which 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 is competitive compared to the tariff for other wind power projects. The project is registered with the Gold Standard registry, making the company eligible to obtain carbon credits for sale in the voluntary market, which would provide an additional revenue stream.

Presence of strong counterparty and timely payments – The PPA is signed with a strong counterparty -SECI – which has a strong credit profile (rated [ICRA]AAA (Stable)/[ICRA]A1+) and the payments against the bills have been received within 10-11 days as seen after the partial commissioning from August 2022 till January 2024 . SECI acts as 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.

Commissioning of full capacity with satisfactory debt coverage metrics – The company's debt coverage metrics are expected to remain adequate with a cumulative DSCR of 1.25-1.27x, considering an estimated project cost of Rs. 2,169 crore. This is currently funded primarily through debt and will be refinanced by FY2027 with a debt to promoter contribution of 70:30 and a long debt amortisation schedule post refinancing.

Credit challenges

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. The project was fully commissioned in May 2023 with a lower track record of operations; hence, the project's generation performance in line or above the P-90 PLF estimate remains important from a credit perspective. ICRA notes that in the 12 month period ended January 2024, the PLF of the plant has remained above the P-75 level.

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 that are expected to be refinanced through a mix of long-term project debt and promoter contribution in the ratio of 70:30 by FY2027. The debt availed by the company is to be repaid in bullet repayments in June 2026 and December 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 as the cash flows from operations are expected to be sufficient to meet its interest payment obligations, while the current existing debt is being refinanced at a lower rate of interest with bullet repayments only in FY2027. Also, the company has a cushion of Rs. 400 crore of working capital demand loan which can be used for liquidity purpose.

Rating sensitivities

Positive factors – The rating may be upgraded if the company is able to demonstrate generation in line or higher than the P-90 estimate on a sustained basis, 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 a significant under-performance in generation against the P-90 estimate, adversely impacting the company's debt coverage metrics and liquidity. A specific credit metric for downgrade is the cumulative DSCR falling below 1.25x. 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 Rating Methodology for Power - Wind
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

Sitac Kabini Renewables Private Limited (SKRPL) is a project SPV of the EDF Group and the Sitac Group, engaged in the development of a 302.4 MW wind power plant in Gujarat, India. The project comprises 112 wind turbine generator (WTG) machines of 2.7 MW each supplied by General Electric (GE) having a rotor diameter of 132 metres and a hub height of 130 metres. The project has a 25-year power purchase agreement (PPA) with SECI for the entire capacity. The project was awarded under an auction conducted by the SECI (ISTS Tranche 5) and the applicable tariff for this capacity of 302.4 MW is Rs. 2.77 per unit. The project was partially commissioned in August 2022 and got fully commissioned in May 2023.

Key financial indicators (audited)

Standalone	FY2023
Operating income	77.9
PAT	-61.3
OPBDIT/OI	68.2%
PAT/OI	-78.7%
Total outside liabilities/Tangible net worth (times)	NM
Total debt/OPBDIT (times)	NM
Interest coverage (times)	0.73

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; FY2022 numbers not applicable as project got partially commissioned in August 2022; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: It has come to ICRA's attention that the interest payments due for two of the lenders were missed in the month of March 2023 by a few days. This is reflected in the non-zero amount reported in the 'interest accrued and due' line item appearing in the company's financial statements. However, the lenders concerned have confirmed to ICRA that there were no delays by the company in the above period. Apparently, the above instance of missed payments was on account of operational reasons beyond the control of the company. ICRA has also validated from the company's bank statements that the accounts from which payments were to be made were sufficiently funded prior to the due date.

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 04, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	
					Apr 04, 2024	-	Feb 23, 2023	Feb 17, 2023	Mar 15, 2022	Dec 02, 2021
1	Term loans	Long term	2565.00	1506.00	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)	[ICRA]A+ (CE) (Negative) rating withdrawn and [ICRA]A (Stable) assigned simultaneously	[ICRA]A+ (CE) (Negative)	[ICRA]A+ (CE) (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-I	Dec 2019	-	FY2026	445.00	[ICRA]A+ (Stable)
NA	Term Loan-II	FY2024	-	FY2026	870.00	[ICRA]A+ (Stable)
NA	Term Loan-III	FY2024	-	FY2027	1250.00	[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.

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