May 06, 2024

Huoban Energy 6 Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Term loan	17.20	[ICRA]A- (Stable); assigned
Long term- Unallocated limits	0.80	[ICRA]A- (Stable); assigned
Total	**18.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating for Huoban Energy 6 Private Limited (Huoban 6) takes into account the satisfactory generation performance in FY2024 of the 5.18 MWp solar power project developed by Huoban 6 in Maharashtra. The rating is supported by minimal offtake and counterparty credit risk for the project as the entire generation capacity is tied up with a credit-worthy offtaker under a 25-year long-term power purchase agreement (PPA).

Additionally, the tariff competitiveness for the project remains superior with the company offering significant discount to the offtaker compared to prevailing grid tariff. The project economics/debt service coverage metrics remain satisfactory, aided by the long-tenured debt at an attractive interest rate. The project has been developed under a captive arrangement which insulates the company from the levy of cross-subsidy and additional surcharges.

Huoban 6 - along with Huoban Energy 1 Private Limited, Huoban Energy 2 Private Limited, Huoban Energy 3 Private Limited, Huoban Energy 4 Private Limited, Huoban Energy 5 Private Limited, Huoban Energy 7 Private Limited, Huoban Energy 8 Private Limited, Huoban Energy 9 Private Limited, Huoban Energy 10 Private Limited, Huoban Energy 11 Private Limited, Huoban Energy 12 Private Limited, FP West Solar Private Limited and FPEL Visionary Private Limited – is part of a cash surplus pooling arrangement with cross-default linkages. While no comfort is drawn from cash pooling arrangement pending finalization of necessary documentation, given the cross-default linkage among the SPVs, the rating for Huoban 6 has been arrived at by notching up the assessed standalone credit profile of the company with the assessed notional credit opinion of all the SPVs in the pool taken together.

The standalone credit profile of the company is, however, constrained by the sensitivity of the cash flows and debt protection metrics to its generation performance, given the single-part tariff under the PPA. Any adverse variation in weather conditions and module performance may impact the PLF levels and consequently the cash flows. This is amplified by the geographic concentration of the asset as the entire capacity is in Maharashtra. The ability of the company to demonstrate generation in line with or above the design PLF levels on a sustained basis remains important.

Further, the company's operations remain exposed to the regulatory risks associated with any changes in forecasting & scheduling regulations, captive project norms and open access charges. Any significant increase in open access charges or imposition of new charges would impact the competitiveness of the tariff offered under the PPA.

The Stable outlook reflects ICRA's opinion that the company would benefit from the long-term PPA, satisfactory collections from the offtaker, generation in line with the P-90 estimates and the parentage of the Fourth Partner Energy Group.

Key rating drivers and their description

Credit strengths

Revenue visibility with strong counterparty - The company has tied up a long-term PPA (25-year) for its entire 5.18-MWp capacity at a fixed tariff with reputed commercial and industrial customer.

Superior tariff competitiveness – The PPA tariff offered by the company is at a significant discount to the state grid tariff rates, which enables the customer to realise significant savings. In addition, while the state grid tariffs are expected to show an inflationary trend, the tariff of the project is fixed and therefore expected to remain competitive over the project term.

Satisfactory debt coverage metrics - The company's debt coverage metrics are expected to remain comfortable with a cumulative DSCR of above 1.20x over the debt repayment tenure, supported by the long-term PPA at a remunerative tariff, the long tenure of the project debt and competitive interest rates.

Credit challenges

Limited track record of project performance - The project was commissioned in March 2023 and thus has a track record of only around 1 year. The performance, going forward, will remain a key monitorable.

Cash flows exposed to risk of irradiance levels and interest rate environment - The power production and thus the cash flow generation for the solar power projects remain exposed to the irradiance levels. While the company does not have control over weather-related factors, the cash flows will face headwinds in a scenario of lower-than-expected irradiance because of the one-part nature of the tariff. The cash flows would also remain susceptible to the changes in interest rates for the loan contracted by the entity as the tariff is fixed in nature and the interest rates on the term loans are variable.

Liquidity position: Adequate

The liquidity profile of the company is adequate marked by free cash and bank balance of Rs. 0.20 crore as on March 31, 2024 and DSRA maintained of two quarters of Rs. 1.02 crore. Going forward, the internal cash flow generation from the project is expected to be sufficient to meet the debt servicing obligations with generation close to P-90 estimates.

Rating sensitivities

Positive factors – ICRA could upgrade Huoban 6's rating if the actual generation level is higher than the P-90 estimate on a sustained basis, leading to an improvement in the credit metrics of the company.

Negative factors – Pressure on Huoban 6's rating could arise if the actual PLF remains lower than the P-90 estimate on a sustained basis, and/or the company is unable to maintain a cumulative DSCR of 1.20x on a sustained basis. 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	Given the cross-default linkages among the SPVs in the pool, the rating for the company has been arrived at by notching up the assessed standalone credit profile of the company with the assessed notional credit opinion of all the SPVs in the pool taken together
Consolidation/Standalone	Standalone

About the company

Huoban Energy 6 Private Limited (Huoban 6) is a subsidiary of Huoban Private Limited, which is a wholly-owned subsidiary of Fourth Partner Energy Private Limited. Huoban 6 has set up a 5.18-MW ground-mounted solar power plant at Dhule, Maharashtra, under the group captive model which was commissioned on March 31, 2023. The offtaker has signed a 25-year power purchase agreement (PPA) at a fixed tariff.

Key financial indicators (audited)

Huoban 6 Standalone	FY2022	FY2023
Operating income (Rs. crore)	-	-
PAT (Rs. crore)	-	-0.1
OPBDIT/OI (%)	NM	NM
PAT/OI (%)	NM	NM
Total outside liabilities/Tangible net worth (times)	NM	4.7
Total debt/OPBDIT (times)	NM	NM
Interest coverage (times)	NM	NM

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation, NM- Not Meaningful as project commenced operations in FY23 end.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 06, 2024			
1	**Term loan**	Long term	17.20	17.06	**[ICRA]A- (Stable)**	-	-	-
2	**Unallocated limits**	Long term	0.80	-	**[ICRA]A- (Stable)**			

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based- Term loan	Simple
Long term – Unallocated limits	NA

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	FY2024	NA	FY2043	17.20	[ICRA]A- (Stable)
NA	Unallocated limits	NA	NA	NA	0.80	[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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