October 16, 2024

Huoban Energy 10 Private Limited: [ICRA]A-(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	38.15	[ICRA]A- (Stable); assigned
Total	**38.15**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating for Huoban Energy 10 Private Limited (Huoban 10) factors in the strong operational and financial linkages with the ultimate parent - Fourth Partner Energy Private Limited [FPEPL; rated [ICRA]A-(Stable) /[ICRA] A2+ (Stable)] - which is also the engineering, procurement and construction (EPC) and operations and maintenance (O&M) contractor for the 10.19-MW(DC)/6.88 MW(AC) solar power project developed by the company. The rating also positively factors in the satisfactory generation performance since commissioning in March 2024-end, the limited demand risks due to the long-term power purchase agreements (PPAs) with reputed customers/offtakers for a period of 25 years as well as the low regulatory risks as the project has been developed under the captive mode. The rating also considers the timely collections from the counterparty and the competitive PPA tariff which is at a discount to the state grid tariff rates. Further, comfort is drawn from the company's debt coverage metrics that are expected to remain comfortable over the debt repayment tenure.

ICRA notes that Huoban 10 - 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 6 Private Limited, Huoban Energy 7 Private Limited, Huoban Energy 8 Private Limited, Huoban Energy 9 Private Limited, Huoban Energy 11 Private Limited, Huoban Energy 12 Private Limited and FP West Solar Private Limited – is part of a cash surplus pooling arrangement with cross-default linkages. However, the necessary documentation for the cash pooling arrangement is still pending.

The rating is, however, constrained by the sensitivity of the company's cash flows and debt protection metrics to its generation performance, given the single-part tariff under the PPAs. 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 risk associated with any change 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 PPAs.

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

Key rating drivers and their description

Credit strengths

Strong financial flexibility and operational strengths by virtue of parentage - Huoban 10 is a subsidiary of Huoban Private Limited (HPL), which is a wholly-owned subsidiary of FPEPL that has an established track record in the solar power sector. FPEPL is backed by The RISE fund (TPG), Norfund, International Finance Corporation (IFC), Asian Development Bank (ADB), and Deutsche Investitions- und Entwicklungsgesellschaft (DEG), a subsidiary of the KfW Group. The presence of strong sponsors provides financial flexibility to the Group in securing equity and debt funding. In addition, ICRA expects FPEPL to extend support to the company in the event of any cash flow mismatch due to reduced generation or collections.

Revenue visibility with strong counterparties - The company has tied up long-term PPAs (25 years) for its entire capacity at fixed tariffs with strong counterparties, ensuring timely realisation of payments.

Competitive tariff at a discount to grid tariff - 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 is, therefore, expected to remain competitive over the project term.

Satisfactory debt coverage metrics - The project's debt coverage metrics are expected to be adequate with the cumulative DSCR estimated at 1.25x over the debt tenure, supported by the availability of long-term PPAs, the long tenure of the debt and competitive interest rates.

Credit challenges

Limited track record of project performance - The solar power plant has a limited track record (less than one year) as it commenced operations at full capacity from March 2024-end onwards. Notwithstanding this, the plant's performance remained satisfactory in Q1 FY2025. 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 of solar power projects remains 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 while the interest rates on the term loans are variable.

Liquidity position: Adequate

The company's liquidity profile is expected to remain adequate with significant buffer between the cash flows from the project and debt servicing obligations, supported by a satisfactory generation performance and timely realisation of payments. The liquidity is further by supported by free cash & bank balances of Rs. 1.22 crore, and a debt service reserve account (DSRA) of Rs. 1.06 crore as on October 11, 2024.

Rating sensitivities

Positive factors – ICRA could upgrade Huoban 10's rating if the actual generation level is higher than the P-90 estimate on a sustained basis, leading to an improvement in the company's credit metrics. Also, the rating would remain sensitive to the credit profile of its ultimate parent, FPEPL.

Negative factors – Pressure on Huoban 10's rating could arise if the actual PLF remains lower than the P-90 level on a sustained basis, and/or the company is unable to maintain a cumulative DSCR of 1.15x on a sustained basis. The rating could also be revised downwards if the linkages with the parent weaken, and/or the credit profile of its ultimate parent i.e., FPEPL, deteriorates.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar
Parent/Group support	Not Applicable
Consolidation/Standalone	Parent/Group Company: Fourth Partner Energy Private Limited. The rating assigned to Huoban 10 factors in the high likelihood of its parent extending financial support to it because of the close business linkages between them.

About the company

Huoban 10 is a subsidiary of HPL, which is a wholly-owned subsidiary of FPEPL.

Huoban 10 has set up a 10.19-MWdc solar power project at Dhule, Maharashtra, under the group captive model which was commissioned on March 28, 2024. The offtakers have signed 25-year PPAs at a fixed tariffs. To comply with the captive regulations, the customers have subscribed to the shareholding of the company.

Key financial indicators (audited):

Standalone	FY2024
Operating income	-
PAT	-0.1
OPBDIT/OI	NM
PAT/OI	NM
Total outside liabilities/Tangible net worth (times)	NM
Total debt/OPBDIT (times)	NM
Interest coverage (times)	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 March 2024 end

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs. crore)**	**Oct 16, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Long term - Term loan – Fund-based	Long term	38.15	[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**	April 2024	NA	Sep 2047	38.15*	[ICRA]A-(Stable)

*Source: Company, * outstanding loan as on date: Rs. 38.15 crore*

[*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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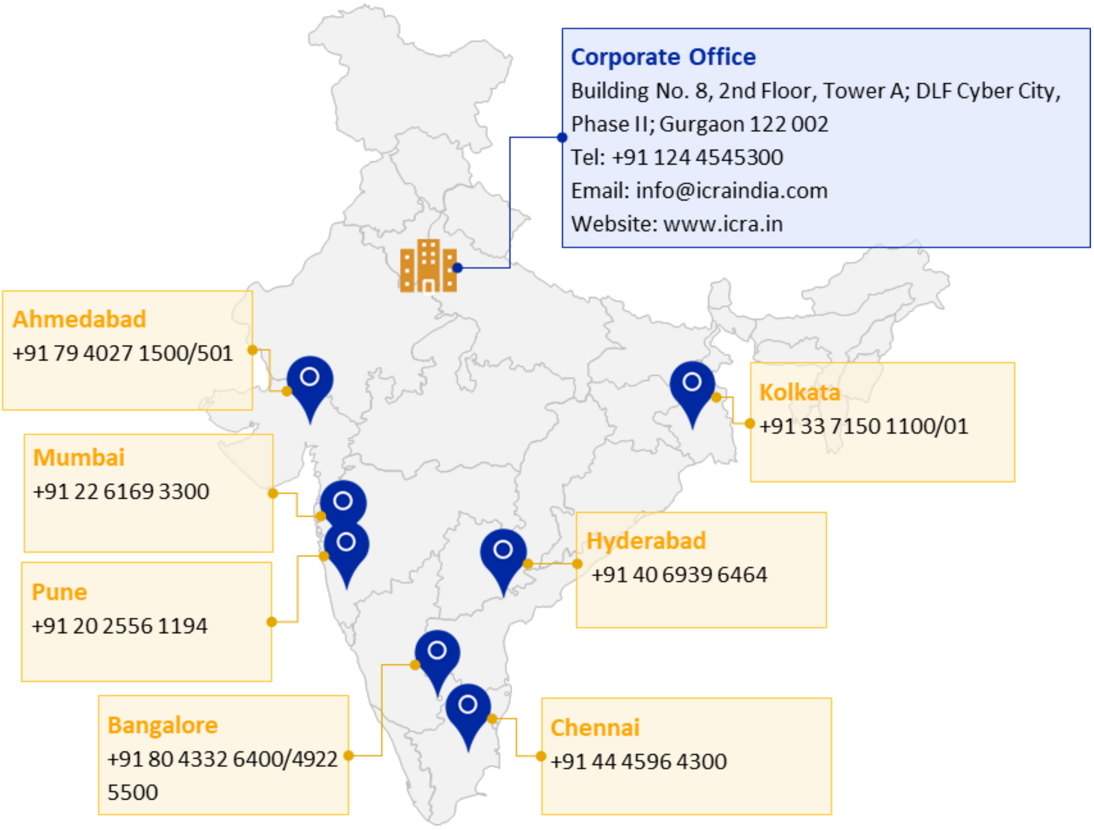

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