January 31, 2024

Belgaum Renewable Energy 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	109.73	98.75	[ICRA]A- (Stable); reaffirmed
Total	**109.73**	**98.75**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Belgaum Renewable Energy Private Limited (BREPL) 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 assigned rating factors in the extensive experience of the promoters in solar energy assets, the revenue visibility from long-term power purchase agreements (PPA) with multiple commercial and industrial (C&I) customers and healthy debt coverage metrics supported by the recent refinancing of the term loans.

The rating is, however, constrained by the vulnerability of the cash flows to solar irradiance levels, the counterparty risk from some of the customers with moderate credit profiles and the upcoming PPA expiry. BREPL's power generation has remained stable since commissioning, though it remains vulnerable to the irradiance levels during any time of the year. While irradiance remains an uncontrollable factor, it will be a key monitorable because of its direct impact on the cash flows and credit profile of the entity.

Moreover, while the payments from the offtakers have been timely so far , there have been instances of significant delays by some of the customers. Thus, the credit risk profile of the customers will continue to have a bearing on the rating of BREPL. Some of the PPAs signed by BREPL are expiring over the course of next five years, which can impact the company's cash generation if it is not able to tie up the freed-up capacity, and/or if the spare power generation is not taken up by other existing customers. Thus, it remains a key risk for the company's credit profile.

The outlook on the rating is Stable as ICRA expects the company's cash flows to remain steady in light of a healthy operating performance and the long-term PPAs with multiple customers. Moreover, the recent refinancing at highly competitive rates and an elongated tenor will keep the credit profile stable.

Key rating drivers and their description

Credit strengths

Extensive experience of promoter in solar energy assets – BREPL is a 100% subsidiary of NextPower III Singapore Holdco Pte Ltd. (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 Canadian Solar Inc. in January 2021 and has adequate experience in operating solar projects. NP-III is a fund which has raised

[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)

USD 896 million against its initial target of USD 750 million and has a global presence in the US, Spain, Portugal, Chile, Poland, Italy and India with an aggregate installed capacity of ~1.9 GW.

Revenue visibility from long-term PPAs of 10-25 years; healthy tariff competitiveness - BREPL has entered into long-term PPAs with multiple commercial & industrial (C&Is) consumers for a period ranging from 10 years to 25 years. While majority of the PPAs are for a 25-year tenor (lock-in period of 10 years, residual lock-in tenor of 6 years), a couple of offtakers have PPAs with a tenor of 10 years and another one for 15 years. As the project was commissioned before March 31, 2018, it is covered under the Karnataka State Solar Policy-2014 wherein the project is exempt from the payment of transmission/wheeling charges and cross-subsidy surcharge. Thus, the tariff (ranging from Rs. 4.45/KWhr to Rs. 5.0/KWhr) remains competitive against the grid tariff on offer. Thus, there remains healthy visibility on the cash flows to be generated by the entity, going forward.

Healthy coverage ratios, driven by competitive cost of borrowing and elongated tenor of debt - The company refinanced the debt obligations on its books in June 2022 at highly competitive interest rates and an elongated tenor. As a result, the ability to service debt has improved significantly. BREPL's debt servicing capability has improved significantly with the reduction in interest rate and elongation in debt tenure. ICRA expects the company's cumulative DSCR to remain around 1.10x over the loan tenor, given the stable cash flows and the recent refinancing. Additionally, the company will maintain a balance equivalent of debt servicing (principle and interest) for the two upcoming quarters in a debt servicing reserve account (DSRA) in the form of fixed deposits, which will provide comfort in terms of debt servicing.

Credit challenges

Cash flows vulnerable to irradiance levels due to dependence on a single asset - BREPL 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 and single-asset nature of operations exacerbate this risk.

Counterparty risk from some customers, given their moderate credit profile and upcoming PPA expiry - The ratings are also constrained by the modest credit risk profile of some of the customers with whom BREPL has PPAs. While the payments have been timely so far, there have been some instances of significant delays by some of the consumers. Thus, the credit risk profile of the customers will continue to have a bearing on BREPL's rating. Some of the PPAs signed by BREPL are expiring over the course of next five years, which can impact the company's cash generation if it is not able to tie up the freed-up capacity, and/or if the spare power generation is not taken up by the other existing customers. Thus, it remains a key risk for the company's credit profile.

Liquidity position: Adequate

The liquidity position of BREPL is expected to remain adequate with unencumbered cash of around Rs. 22.20 crore along with Rs. 6.60 crore of DSRA maintained to meet six months of debt servicing. Going forward, ICRA expects the unencumbered cash to be largely used for capital expenditure to replace the module mounting structures along with additional drawdown of the remaining sanctioned term loan. Going forward, the company's liquidity position will continue to be adequate with a well-distributed repayment schedule and adequate cash flows.

Rating sensitivities

Positive factors – ICRA can upgrade the rating of the SPV if the company can achieve production in line or above 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 1.15 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 BREPL.

About the company

BREPL is a special purpose vehicle that has been operating a 25-MWac solar project in Belgaum, Karnataka, since March, 2018. The special purpose vehicle was acquired by NextEnergy Capital (NEC) through its entity, NPIII, in January 2021 (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)

BREPL Standalone	FY2022	FY2023
Operating income	23.7	22.9
PAT	-1.8	-3.8
OPBDIT/OI	83.1%	74.4%
PAT/OI	-7.5%	-16.7%
Total outside liabilities/Tangible net worth (times)	13.2	24.0
Total debt/OPBDIT (times)	5.9	6.9
Interest coverage (times)	1.5	1.2

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 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	-	-
1	**Fund based – Term loans**	Long term	98.75	79.54	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Term loans	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 loans**	June 2022	NA	March 2038	98.75	[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 – NA

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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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