July 09, 2020

# Clean Solar Power (Dhar) Pvt Ltd: Rating reaffirmed

## Summary of rating action

| Instrument | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Term Loans | 141.0 | 109.5 | [ICRA]A- (Stable); rating reaffirmed |
| Working Capital | 5.0 | 5.0 | [ICRA]A- (Stable); rating reaffirmed |
| **Total** | **146.0** | **114.5** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating reaffirmation factors in Clean Wind Power (Dhar) Pvt Ltd's (CSPD) satisfactory operational track record of more than five years for its 30-MW solar power plant in Madhya Pradesh and timely payment pattern from the offtaker, namely Solar Energy Corporation of India (SECI) with the receivable cycle being around two months as on June 2020. ICRA continues to favourably factor in the revenue visibility on account of the presence of a long-term power purchase agreement (PPA) at a tariff of Rs. 5.45 per unit with SECI. The PPA with SECI is under Phase-II, Batch I of National Solar Mission by Government of India (GoI) and is relatively superior than the state PPAs, given the availability of letter of credit (LC) and payment security fund backed by budgetary provision from MNRE[1], GoI. While SECI is an intermediary and has power supply agreement (PSA) with the ultimate offtakers (state-owned distribution utilities), its position as a beneficiary of the tripartite agreement (TPA) also offers comfort. Moreover, ICRA notes that CSPD has already received 90% of the viability gap funding (VGF) that was due from the MNRE, GoI. The rating continues to factor in the strengths arising from the company's parentage, given that Hero Future Energies Pvt. Ltd. (HFEPL) is its holding company, which in turn is owned by Bahadur Chand Investments Private Limited (BCIPL) and Brijmohan Lal Om Prakash (BMOP) with a majority shareholding. In addition, HFEPL has received equity funding from International Finance Corporation (IFC), and Masdar (ultimately owned by the Government of Abu Dhabi), which together hold a significant minority stake in HFEPL. The HFEPL Group has an operational portfolio of over 1,500 MW and has assets of another ~500 MW in various stages of development.

Nevertheless, the company's profitability and debt protection metrics remain sensitive to its operational performance. Any adverse variation in weather conditions may impact PLF levels and consequently affect cash flows. The risk is further exacerbated by the company's single location asset-concentration risk. While the payments from SECI remain timely so far, the timeliness in payments by the ultimate offtakers to SECI as per the PSA also remains important, given the adverse impact on the cash flows of the state-owned distribution utilities post dip in demand due to lockdown for Covid-19 pandemic. Further, the company remains exposed to variations in interest rate, given the fixed nature of tariff applicable and floating interest rates for the project. However, ICRA takes a note that ~72% of the outstanding long-term debt has fixed interest rate and the company is exposed to interest rates fluctuations only on the remaining portion of debt. CSPD's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for renewable energy projects, given limited experience of developers in India.

[1] Ministry of New and Renewable Energy

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that the company's revenue visibility will remain stable, supported by operational performance in line with past few years and the availability of long-term PPA with the offtaker. ICRA also does not expect the company to depend upon the parent holding company in the near term, given the adequate liquidity and assuming timely payment from the offtaker.

## Key rating drivers

## Credit strengths

**Sponsor strength and experience in renewable energy space** – CSPD benefits from its sponsor strength as it is promoted by Hero Solar Energy Pvt. Ltd. [HSEPL; rated [ICRA]A (Negative)], which is a 100% subsidiary of Hero Future Energies Private Limited (HFEPL). HFEPL is promoted by BCIPL [rated [ICRA]AA (Negative)/A1+], which is also the holding company for Hero MotoCorp (rated [ICRA]AAA (Stable) /A1+). Further, there has been an equity infusion of ~$125 million by IFC and IFC GIF, which are arms of the World Bank and rated by Moody's at AAA, and $150 million from Masdar, which is ultimately owned by the Government of Abu Dhabi. The Hero Group, which is managed by a team of well-experienced promoters, technocrats and investment/finance professionals, has an operational portfolio of more than 1,500 MW and assets under development of another ~500 MW.

**Revenue visibility on account of long-term PPA with SECI**– CSPD has low offtake risk, owing to the presence of a 25-year PPA at a tariff of Rs. 5.45/unit for the 30-MW plant with SECI, which acts as an intermediary and sells to state discoms. Presence of the PPA also provides long-term revenue visibility for the company. SECI, in turn, has signed PSAs with state discoms, which are the ultimate offtakers. For this project, SECI has signed a PSA with a Madhya Pradesh state discom. CSPD is also eligible to obtain VGF of Rs. 49.2 crore, out which 90% has already been received.

**Relatively superior PPA –** PPA with SECI is relatively superior than the state policy PPAs due to availability of payment security fund backed by budgetary provision from the MNRE, and presence of LC mechanism. Further, SECI has the right to regulate power in case of an event of default by PSA counterparty. SECI being a beneficiary of the TPA also provides a strong comfort.

**Established track record of over five years with satisfactory generation performance –** The project was commissioned in March 2015 and has generation track record of over five years. The expected PLF for the first year from the project was 19.5% and subsequently the PLF was expected to decline to factor in the annual degradation in modules. The actual generation over these five years has remained rangebound between 18–19%. The gross PLF for FY2020 was 18.1% against 18.5% for FY2019.

**Timely receipt of payments from counterparty –** SECI has been regular in making payments against the generation invoices of CSPD. On an average, the collection days on an average have remained around 60–75 days. Nonetheless, the timeliness in payments by the ultimate offtakers to SECI as per the PSA have remained important, given the adverse impact on the cash flows of the state-owned distribution utilities post dip in demand due to lockdown for Covid-19 pandemic.

## Credit challenges

**Vulnerability of cash flows to variation in weather conditions –** Key factors that may impact the operations of the solar plant are solar radiation levels, losses in PV systems due to temperature and climatic conditions, design parameters of the plant, inverter efficiency and module degradation due to aging. Given the fixed and single part nature of tariff, the company's revenues and in turn the cash flows, remain exposed to weather pattern and solar irradiation levels, thereby affecting the solar generation level.

**Project remains exposed to interest rate risk** – The door-to-door loan has a tenure lasting till FY2035 and the interest rate on a portion of outstanding debt is floating in nature. Given the single part and fixed PPA tariff, the company's project debt coverage metrics remain exposed to movement in the interest cost. However, ICRA notes that ~72% of the outstanding long-term debt has fixed interest rate and the company is exposed to interest rates fluctuations only on the remaining portion of debt.

**Regulatory risks associated with implementation of scheduling and forecasting framework for renewable energy sector –** The company's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for renewable energy projects, given the limited experience of developers of operating in Indian conditions.

## Liquidity Position: Adequate

At the end of March 2020, the company had cash balances of ~Rs. 9 crore against Rs. 9.5 crore at the end of FY2019. The liquidity is further supported by the presence of overdraft limits of Rs. 5 crore, which is completely unutilised. The overall liquidity available as on date is comfortable, considering the annual debt servicing obligations for FY2021. Moreover, payment of generation invoices from SECI has been timely since commissioning of the asset and ICRA expects payments to be on time going forward as well. While there could be timing mismatch in receiving the last VGF tranche with the corresponding loan repayment due at the end of March 2021, the quantum of the VGF loan repayment is low and the existing cash balances are expected to be sufficient to bridge the gap. The overall liquidity profile of the company is **adequate**. ICRA continues to take factor in the strengths from the CSPD's parent arm, which has previously demonstrated support to this project as well as other projects in case of any material cashflow mismatch.

## Rating sensitivities

**Positive triggers –** The rating may be upgraded in case of the company reporting generation performance above the P90 estimate and receivable cycle remaining under 90 days on a sustained basis. The rating may also be upgraded in case there is a material strengthening of the credit profile of the parent group.

**Negative triggers –** Negative pressure on the rating would arise if generation levels remain below P90 estimate, leading to cumulative annual DSCR falling below 1.25 times on a sustained basis and collection cycle stretching above 180 days, leading to an adverse impact on liquidity profile. Further, any material deterioration in the credit profile of the parent group, affecting the financial flexibility of the company may be a negative trigger.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology<br>Rating Methodology for Solar Power Producers |
| Parent/Group Support | HSEPL is the parent arm for the entity; HSEPL is owned by HFEPL (which is promoted by Hero Promoter Group, IFC and Masdar)<br><br>The rating draws comfort from the likelihood of extraordinary support from the parent group for the rated entity, should there be a need in future, given the reputation sensitivity and strategic importance of the rated entity for the parent group; notwithstanding the above, the current rating opinion of ICRA for the rated entity does not factor any notch up due to parentage |
| Consolidation / Standalone | The rating is based on the standalone financial profile of the company |

## About the company

CSPD is promoted by HSEPL, which is a subsidiary of HFEPL (promoted by BCIPL, which is also the holding company of Hero Motocorp). CWPD operates a 30-MW solar power plant, which was won through an auction under the Phase-II, Batch I bidding of Jawaharlal Nehru National Solar Mission (JNNSM). Of this capacity, 20 MW was won under the open route, whereas the remaining 10 MW was won under the domestic content requirement category. The power generated from this plant is contracted to SECI at a tariff of Rs. 5.45 per unit for a period of 25 years from the date of commissioning. The project was eligible to obtain VGF of Rs. 49.2 crore.

## Key financial indicators (Standalone)

| | FY2018 | FY2019 |
|---|---|---|
| Operating Income (Rs. crore) | 27.6 | 27.7 |
| PAT (Rs. crore) | -1.0 | 0.4 |
| OPBDIT/OI (%) | 80.7% | 80.3% |
| PAT/OI (%) | -3.6% | 1.4% |
| | | |
| Total Outside liabilities/Tangible Net Worth (times) | 3.99 | 3.84 |
| Total Debt/OPBDIT (times) | 5.70 | 5.12 |
| Interest Coverage (times) | 1.69 | 1.83 |

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

| | Instrument | Current Rating (FY2021) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. Crore) | Date & Rating<br>09-July 2020 | Date & Rating in FY2020<br>01-July 2019 | Date & Rating in FY2019<br>10-May 2018 | Date & Rating in FY2018<br>19-May 2017 |
| 1 | Term Loan | Long Term | 109.5 | 102.2* | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) |
| 2 | Working Capital - Overdraft | Long Term | 5.00 | NA | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) |

*May 2020 end

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

## Annexure-1: Instrument Details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Term Loan | March-2016 | NA | Mar- 2035 | 109.50 | [ICRA]A- (Stable) |
| NA | Working Capital - Overdraft | NA | NA | - | 5.00 | [ICRA]A- (Stable) |

Source: Company

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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.

For more information, visit www.icra.in

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