Sprng Suryoday Energy Private Limited

July 02, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	200.21 (Reduced from 205.19)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Total Facilities	200.21 (Rs. Two Hundred Crore and Twenty-One Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Sprng Suryoday Energy Private Limited (SSEPL) takes into account healthy track record of operations of four years with plant operating at around P75 estimated CUF levels, some improvement in receivable days, though the same continues to be elongated and built-up of strong liquidity backups in the form of Debt Service Reserve Account (DSRA) equivalent to six months of debt servicing and fully unutilized working capital lines.

The ratings continues to positively factor in strong parentage and experienced management team under Sprng Energy Private Limited (SEPL, rated CARE A-; Positive) which is backed by Actis through AE4 fund, resourceful promoters with US$ 475 mn committed towards development of renewable energy in India under the Sprng Energy platform, , long-term off-take arrangement in the form of Power Purchase Agreement (PPA) with Northern Power Distribution Company of Telangana Limited (TSNPDCL) for the entire capacity.

The rating is, however, constrained by counterparty credit risk on account of relatively weak financial risk profile of the off-taker (TSNPDCL), elongated receivable cycle from Telangana discom of around 8 months, moderate debt coverage indicators, risks pertaining to interest rate fluctuation and exposure to climatic and technological risks.

Key Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/ upgrade:

- Improvement in receivable cycle from the off-taker, TSNPDCL, to less than 3 months on sustainable basis;
- Improvement in credit risk profile of the offtaker, TSNPDCL.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significantly lower than envisaged CUF (P-90 CUF of 20.65%) negatively impacting the coverage indicators of the project
- Elongation in receivable cycle from the off-taker, TSNPDCL to 12 months or more negatively impacting the overall liquidity profile of the SPV
- Non-receipt or delay in receipt of timely support from the promoters viz. Sprng Energy Private Limited, in case of cash flow mismatches, if any
- Non-compliance of material covenants as per sanctioned terms including continued maintenance of DSRA equivalent to 2 quarters of debt servicing

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful parentage in the form of AE4 Fund:

Sprng Energy Private Limited (SEPL, rated CARE A-; Positive) is a renewable energy platform promoted and wholly owned by Actis Capital [AE4]. Actis Capital is one of the world's leading private equity firms investing in emerging markets across diverse sectors with total assets under management of over US$ 10 billion and total capital raised of US$ 19 billion since inception. Actis has considerable experience of investing in the renewable energy segment

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

worldwide and in India. Actis has committed US$ 475 million to SEPL through the Actis Energy 4 fund (total fund size of US$ 2.75 billion). Also, the management of SEPL is experienced in setting-up and operating renewable energy projects. The investor base for AE4 is diversified and includes long term investors including various pension funds, insurance companies, endowment funds, sovereign wealth funds and other institutional investors from USA, Europe and Asia. As on April, 2021, SEPL has operational capacity of around 1044.5 MW, all of which have tied up under long term PPA for 25 years. In addition, the company has around 517 MW of power projects under implementation. AE4 has committed around USD 475 Mn as equity contribution for under implementation projects out of which around Rs.1930.00 crore has already been infused as on February, 2021.

Satisfactory Operating Performance of more than 4 years with better than P-90 and in line with P-75 CUF Level:
The 34 MW grid connected Poly Crystalline (PC) solar power plant was commissioned in phases till June 1, 2017. The project has been operational for more than 4 years now. The plant has achieved satisfactory generation level better than P-90 estimates with net CUF of 20.96% during FY21 (as against P-90 CUF of 20.65% for first year of operation and FY20 CUF of 21.03%). The CUF levels for FY21 was marginally impacted due to excessive rainfall and floods in the state of Telangana leading to lower solar irradiation. Nevertheless, the plant continues to generate better than P-90 and in line with P-75 CUF levels.

Long Term offtake arrangement in the form of PPA signed with TSNPDCL:
SSEPL is supplying power to TSNPDCL as per the terms of long-term PPA for supply of power for entire capacity [34 MW(AC)] at a fixed tariff of Rs.5.5949 per kWh for a period of 25 years. With a long-term off-take arrangement at a fixed tariff, the company has long-term revenue visibility.

Industry Outlook:
With the great thrust from the government, there had been significant solar power capacity additions in the last 5 years. However, capacity additions remained muted during last three years ended FY21 on the back of imposition of safeguard duty on import of solar cells & modules w.e.f. July 2018 for two years, which was later extended till July 2021, roll out of GST, attempts to renegotiate tariffs for concluded PPAs, cancellation of multiple concluded auctions on the back of declining tariffs and Covid-19 pandemic induced lockdown. However, capacity additions picked up from June 2020 onwards and with large amount of already bidded out capacity, large capacity additions are expected in FY22 & FY23. Solar projects have relatively lower execution risks, long-term revenue visibility with long term off take arrangements at a fixed tariff, minimal O&M requirements, stable power generation, distribution of solar capacity across many states, lower tariffs compared to conventional power generation, must run status of these projects, greater investor interest due to ESG compliance features with attractive returns. However, there are concerns like increased difficulties in land acquisition, inadequate grid connectivity on account of poor evacuation infrastructure, evolving technology advancements with limited satisfactory operational track record in India, very high dependence on imported solar cells and modules, regulatory haze in terms of renegotiation of tariff in concluded PPAs, weak financial risk profile of Discoms with significant delays in payment by few state Discoms, increased difficulties in debt tie-up etc. Overall, positive and negative developments in the sector counterbalance each other, thereby resulting in a stable outlook. Going forward the key monitorables would be prices of solar modules, performance of the modules in Indian conditions, technology advancements, effectiveness of BCD regime & PLI scheme to boost domestic solar cell and module manufacturing, project implementation risks associated with innovative concepts like wind-solar hybrid projects, battery storage solar projects and pumped storage solar projects, developments in claim of offtakers for renegotiation of PPAs, financial health of Discoms, capacity additions of rooftop solar and effect of second wave of Covid pandemic over solar capacity additions.

Key Rating Weakness:

Relatively weak credit profile of the off-taker and receivable cycle of around 8 months:
Northern Power Distribution Company of Telangana Limited (TSNPDCL), the off-taker for the project has a relatively weak credit profile having weak debt coverage indicators along with off-taker operating in a restrictive regulatory environment. With the current payment pattern of TSNPDCL the receivable cycle is of around 8 months as against 30 days as per PPA terms. The company received last payment in the month of May 2021 pertaining to energy billed till August 2020. TSNPDCL cleared bulk payments in March 2021 corresponding to 4 months invoices aggregating Rs.11.83 crore.

Going forward, timely receipt of revenue from the off-taker will be critical from cash flow perspective. The financial profile of the discom and timely payments will be a key monitorable.

Moderate debt coverage indicators:

The door to door tenor of the term loan is elongated, though the coverage indicators are expected to be moderate for the tenure of the term loan. Given that the coverage indicators are moderate, achievement of generation levels at envisaged levels and timely receipt of payments from the off-takers would be crucial, going forward, though the company has liquidity back-ups available of around 1 year (DSRA and fully unutilized working capital limits) to take care of cash flow mismatches to some extent.

Interest rate fluctuation risk:

The term loans availed is floating rate loans and the lenders can reset the interest rates. However, the tariff for off-take arrangement of the power is fixed, thereby, exposing the company to risk of any adverse movement in interest cost.

Exposure to technology and climatic risks:

The company has used multi-crystalline technology, which has a proven history worldwide, suffers relatively lower degradation and requires lesser land leading to reduction in the Balance of Systems (BoS) cost. However, achievement of desired CUF going forward would be subject to changes in climatic conditions, amount of degradation of modules as well as other technological risks.

Impact of Covid-19:

The operations of the project were not impacted much as renewable energy projects enjoy must-run status. Accordingly, the plant continued to operate smoothly including during the lock down period. SSEPL has received the payment till the invoices of August 2020. The company has availed moratorium during the period of April to June 2020 on interest and principal. This resulted in extension of the tenure of debt by one quarter.

Liquidity Position: Adequate

As on May 2021, the company's liquidity position is adequate given debt service reserve account covering 2 quarters of debt service obligations is in place (equivalent to Rs 13.5 crores in the form of Bank Guarantee). In addition to DSRA, cash & bank balance stood at around Rs.1.22 crore as on 1st June, 2021. Also, the company has sanctioned working capital limit of Rs.14 crore which is fully unutilized as in May 2021 providing additional liquidity buffer.
The company has debt repayment obligations of Rs. 6.93 crore and Rs.7.32 crore as against projected GCA of Rs.11.17 crore and Rs.11.78 crore in FY22 and FY23, respectively.

Analytical Approach: Standalone

Applicable Criteria:

Liquidity Analysis of Non-Financial Sector Entities
CARE's methodology for Infrastructure sector ratings
CARE's Policy on Default Recognition
Rating Methodology: Solar Power Projects
CARE's methodology for private power producers
Financial Ratios – Non-Financial Sector

About the Company:

Sprng Suryoday Energy Private Limited (SSEPL), erstwhile Suryoday Energy Private Limited, was incorporated on December 09, 2017 to develop a Solar PV power plant of 34MW AC capacity (19 MW (AC) located at Aragonda village, Rajampet Mandal and 15 MW (AC) located at Chitiiyala village, Tadwai Mandal, Kamareddy dist.) in the state of Telangana at a total project cost of Rs.274.69 crore funded through debt of Rs.203.66 crore and equity/promoter contribution of Rs.71.33 crore (debt/equity ratio of 2.86:1). The SPV was set-up by Shapoorji Pallonji Infrastructure Capital Company Pvt Ltd, a Shapoorji Pallonji group company. Subsequently, in March 2019, SSEPL was acquired by SEPL in a bulk acquisition deal involving acquisition of 4 Solar SPV's (Total Capacity acquired is 194 MW) from Shapoorji Pallonji group.

Brief Financials – SSEPL Standalone (Rs. crore)	FY20 (A)	FY21 (Prov.)
Total Operating Income	34.58	34.83
PBILDT	31.21	31.63
PAT	(3.94)	(3.12)
Overall gearing (times)	2.96	3.23
Interest coverage (times)	1.48	1.53

A: Audited; Prov: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June 2037	186.21	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	14.00	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	186.21	CARE BBB+; Stable	-	1)CARE BBB; Stable (19-Oct-20)	1)CARE BBB; Negative (12-Aug-19) 2)CARE BBB; Stable (13-May-19)	-
2.	Fund-based - LT-Cash Credit	LT	14.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (19-Oct-20)	1)CARE BBB; Negative (12-Aug-19) 2)CARE BBB; Stable (13-May-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument – Term Loan	Detailed Explanation
A. Financial Covenants	
I Debt Service Coverage Ratio	To maintain DSCR of not less than 1.10x
B. Non-financial covenants	
I. Debt Service Reserve Account	The borrower shall open and maintain a Debt Service Reserve Account in the form of bank fixed deposit with bank with necessary lien marking or a guarantee acceptable to the bank
II. Payments to sponsor (Restricted Payment Conditions)	The borrower shall be entitled to declare the dividend, prepay/repay interest/principal amount of sponsor's loan upon compliance of following: a. The financial covenant stipulated by the bank are complied with; b. Maintenance of all reserves including DSRA, O&M Reserve and Inverter Replacement Reserves required by the Lender, as applicable; c. No event of default/ potential event of default is subsisting; d. No breach of covenants or any other terms and conditions as provided in the Financing Document.
III. Put Option	Upon occurrence of the Put Option Events, to seek prepayment/repayment of the Rupee Facility, either in full or part, (along with interest thereon) at the end of the 15th (fifteenth) year from the Initial Drawdown Date after furnishing a Put Option Notice.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications*

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