SB Energy Four Private Limited

March 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	696.82 (Reduced from 807.70)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A (Single A) and removed from Credit watch with Developing Implications; Stable outlook assigned
Total Bank Facilities	**696.82 (Rupees six hundred ninety-six crore and eighty-two lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to SB Energy Four Private Limited (SBEFPL) has been removed from 'credit watch with developing implications'. The removal of credit watch follows successful completion of the acquisition of SB Energy Holdings Limited by Adani Green Energy Limited (AGEL: rated CARE A1+).

The ratings of SBEFPL were placed on 'credit watch with developing implications' on account of SoftBank Corp (SBC), Japan's stake sale plans in their renewable energy business in India which is held through SB Energy Holdings Limited (SBEH, UK-based holding company with 80% stake currently held by SBC and the remaining 20% stake held by Bharti Global Limited). On May 19, 2021, AGEL, a renewable energy platform of the Adani group, announced the signing of a share purchase agreement (SPA) for the acquisition of 100% shareholding in SBEH from its existing shareholders, viz., SBC and Bharti Global Limited.

The rating revision considers the satisfactory operational track record of two years and nine months, healthy generation levels for FY21 (refers to the period April 1 to March 31) which has been better than P75 estimates, along with the timely receipt of payments from the off-taker on a continuous basis since commissioning. The rating also derives strength from the established and resourceful promoter group, viz., the Adani group and TOTAL, having successful track record of setting-up and operating renewable energy projects across India.

Furthermore, the rating continues to derive strength from the long-term power purchase agreements (PPAs) with Solar Energy Corporation of India (SECI) at a fixed tariff, providing revenue visibility and strong credit risk profile of the off-taker, availability of working capital facilities, along with a Debt Service Reserve Account (DSRA) covering around two quarters of debt-servicing obligations in place with comfortable debt coverage indicators.

The rating strengths are, however, tempered by risks pertaining to interest rate fluctuations and exposure to climatic and technological risks.

Rating Sensitivities

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

- Improvement in debt service coverage ratio (DSCR) to more than 1.50x on a sustained basis.

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

- Lower-than-envisaged P-90 levels, leading to lower cash accruals impacting the debt coverage indicators.
- Delay in receipt of payments from the off-taker, viz. SECI, leading to elongation in receivable cycle beyond three months, impacting the overall liquidity profile of the company.
- Inability of the SPV to meet required covenants as per the sanctioned terms, leading to breach in terms of financing agreements including maintenance of a DSRA.
- Deterioration in the credit risk profile of the off-taker, viz. SECI.

Detailed description of the key rating drivers

Key Rating Strengths

Entire capacity fully commissioned, Healthy operational performance with satisfactory operational track record

The entire project capacity of 200 MW under SBEFPL has already been operational and has an operational track record of around two years and nine months years.

The plant achieved a healthy generation level of 28.13% (better than P75 estimates of 28.09%) during FY21, as against P90 CUF of 27.36%, which was 3.32% higher than P-90 estimates.

Furthermore, during 9MFY22, the plant achieved a healthy net CUF of 27.89%, which is more than P75 estimates of 27.60%.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Long-term PPA agreement providing revenue visibility, project part of Bhadla Solar Park
SBEFPL entered into a 25-year PPA for 200-MW capacity with SECI at a fixed tariff of Rs.2.48 per KwH in April 2018. The project is located at village Bhadla, tehsil Phalodi, Jodhpur district, in the state of Rajasthan. This project is in Bhadla Solar Park, Phase-III, Jodhpur, Rajasthan.
The project is part of the solar park, with Saurya Urja Company of Rajasthan Limited (SUCRL) being the designated solar power park developer. As per the terms of the PPA, SECI is required to make a payment within 45 days from the date of the invoice. The company has been receiving payments before due date from the discom. The presence of long-term PPAs with a strong counterparty at a fixed tariff provides long-term revenue visibility and comfort on timely receipt of payments from the off-taker before the due date.

Strong financial risk profile of off-taker
SECI, set up during 2011, is under the administrative control of the Ministry of New and Renewable Energy (MNRE) as an implementation and facilitation institution dedicated to the solar energy sector. SECI has been designated as an implementing agency for many of the GoI's schemes. SECI has been included as a beneficiary in the tri-partite agreement (TPA) to be executed between the Central Government, state governments and the Reserve Bank of India (RBI). Nearly all states/UTs have either already signed the TPA or have provided in-principle approval. The TPA insulates SECI from the payment delays by discoms of the signatory states/UTs. Furthermore, the track record of payments to SECI by most of the discoms over the past more than three years has been regular. This mechanism will, in turn, ensure timely payments to the power suppliers by SECI.

Safeguard duty pass-through approval received in the form of annuity payments from SECI
The imposition of the safeguard duty on import of modules from China by the Ministry of Finance resulted in an increase in the project cost for the company, which is funded through term loan and promoter contribution. The Ministry of Finance imposed safeguard duty on solar cells and modules or panels being imported from China and Malaysia for a period of two years (applicable from July 30, 2018). The notification imposes duty at subsiding rates commencing from July 30, 2018 at 25% for a period of one year; followed by 20% for a period of six months thereafter; and 15% for another six months thereafter. The imposition of the safeguard duty has increased the project cost for all developers importing modules from the above-mentioned countries, including for SBEFPL.
The company filed a petition with CERC for pass-through of safeguard duty as per the changes in law clause of the PPA. Subsequent to this, the company received a letter from SECI, as per which, the company is entitled to receive monthly annuity amount against the claims up to the COD (i.e. April 27, 2019) until April 30, 2032, along with some part to be received upfront as a lump-sum amount. The company has started receiving monthly annuities against SGD from November 2020.
Going forward, the timely receipt of monthly annuities payment from the off-taker will be critical from the cash flow perspective and will be a key rating monitorable.

Established track record of Adani Group and TOTAL in renewable and energy sector with strong financial risk profile
Adani Green Energy Limited (AGEL) has acquired 100% stake in SB Energy Holdings Limited (including SBEFPL). AGEL is promoted by the Adani Group of Gujarat, which has evolved as a diversified conglomerate with primary interests in the infrastructure utility space. The Adani Group has presence mainly in transport and logistics and energy and utility sectors, apart from being present in the natural resources sector.
As of December 31, 2021, AGEL has a total capacity of around 20.28 GW, of which 5.41 GW is operational solar and wind projects and the balance 14.87 MW is under construction and awarded renewable energy portfolio, spread across states like Rajasthan, Gujarat, Karnataka, Tamil Nadu and seven other states, which makes AGEL one of the world's largest solar power generation asset owners.
AGEL's promoters have high financial flexibility, as reflected in the market value of un-pledged promoter holding in listed Adani group entities at over Rs.5 lakh crore, as on September 30, 2021.
Total SA (TOTAL) is a French-broad energy company that produces and markets fuels, natural gas and electricity, and is active in more than 130 countries. Its portfolio encompasses solar, wind, hydro-electric and bio-methane power development projects. TOTAL entered into the renewable energy sector in 2011 through the acquisition of a controlling interest in SunPower, a leading manufacturer of high-efficiency photovoltaic cells. In 2014, TOTAL, through its affiliate, built the world's largest PV power plant in the Mojave Desert, in the US, with a capacity of 700 MW. Currently, TOTAL operates solar farms in South Africa, Japan, the US and Chile. TOTAL Solar, TOTAL's Asian arm, has built many large roof-top projects and has operational projects in Singapore, Thailand, Indonesia, Philippines and India. As on September 30, 2021, TOTAL had a renewable power generation capacity of around 10 GW through various projects across the globe.

Comfortable debt coverage indicators, DSRA covering two quarters in place along with availability of working capital facilities
The door-to-door tenor of the term loan is elongated and the debt coverage indicators are expected to be comfortable. Furthermore, a DSRA comprising around two quarters' repayment obligations (principal and interest) has already been created and maintained. Additionally, the company has working capital facility of Rs.14.70 crore to take care of any cash flow mismatches.

Key Rating Weaknesses

Exposure to technology, climatic and regulatory risks

The company has used poly-crystalline PV 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 the desired CUF, going forward, would be subject to changes in climatic conditions, amount of degradation of modules as well as other technological risks.

Interest rate fluctuation risk

The term loan availed is on a floating rate basis. However, the tariff for off-take arrangement of the power is fixed, thereby, exposing the company to the risk of any adverse movement in interest rates.

Liquidity: Adequate

As on January 2022, the company's liquidity position is adequate, given that a DSRA covering two quarters of debt-servicing obligations is in place (Rs.52 crore kept in the form of fixed deposits). Apart from the DSRA, the project SPV has cash and bank balance of Rs.38.56 crore, as on February 2022. This apart, the company had sanctioned a WC line of Rs.14.70 crore, which is completely unutilised as on January 2022, providing additional liquidity cushion.

GCA for FY22 and FY23 is projected to be around Rs.52.60 crore and Rs.50.49 crore, respectively, as per base case assumptions, as against total scheduled debt repayment of Rs.23.04 crore and Rs.24.47 crore during the same period.

Analytical approach: Standalone

Applicable Criteria

Policy on default recognition
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Infrastructure Sector Ratings
Power Generation Projects
Solar Power Projects

About the Company

SBE Four Limited (U.K), chosen as the successful bidder by SECI for developing the 200-MW solar project under Bhadla Phase-III floated a project company SB Energy Four Private Limited (SBEFPL). SBEFPL, incorporated on April 3, 2018, is engaged in setting-up two photo-voltaic technology-based solar power projects of 100 MW capacities each, in Rajasthan. SBEFPL has entered into a PPA with SECI on April 27, 2018, for a period of 25 years, at a fixed tariff of Rs.2.48 per unit. The scheduled commercial operation date (SCOD) of the entire project was April 27, 2019. However, on account of delays pertaining to handing over the land by the solar park implementation agency, the SCOD of the project was revised to August 15, 2019. Subsequently, the plant was commissioned in phases before the scheduled commissioning date of August 2019.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22
Total operating income	91.50	137.81	NA
PBILDT	70.72	116.72	NA
PAT	-11.95	4.02	NA
Overall gearing (times)	2.33	2.21	NA
Interest coverage (times)	1.34	1.71	NA

A: Audited

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

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	30-Sep-2038	682.12	CARE AA-; Stable
Fund-based - LT-Working Capital Limits	-	-	-	-	14.70	CARE AA-; 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	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	1)Withdrawn (27-Nov-20)	1)CARE A-; Positive (30-Oct-19)	1)CARE A-; Stable (03-Jul-18)
2	Fund-based - LT-Term Loan	LT	682.12	CARE AA-; Stable	1)CARE A (CWD) (25-May-21)	1)CARE A (CWD) (11-Jan-21) 2)CARE A; Stable (27-Nov-20)	1)CARE A-; Positive (30-Oct-19)	1)CARE A-; Stable (14-Mar-19) 2)CARE A-; Stable (23-Oct-18)
3	Fund-based - LT-Working Capital Limits	LT	14.70	CARE AA-; Stable	1)CARE A (CWD) (25-May-21)	1)CARE A (CWD) (11-Jan-21) 2)CARE A; Stable (27-Nov-20)	1)CARE A-; Positive (30-Oct-19)	1)CARE A-; Stable (14-Mar-19)

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Non-financial covenants	
Restricted Payment Conditions	➢ All reserves including any statutory reserve, DSRA and equipment replacement reserves stipulated under the agreement are maintained at the specified levels. ➢ Three months of O&M reserve to be built. ➢ The capacity utilisation for the previous year is not less than 90% of the capacity utilisation as projected in the base case scenario at P90 levels. If capacity utilisation is below 90% of the projected base case scenario, the amount over and above 1.00 DSCR will be kept in the escrow account and no respective payment will be permitted.

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple

Annexure-5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please [click here]

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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