

Flexirural Urja Jalgaon Limited

March 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	84.23 (Reduced from 84.38)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	84.23 (Rs. Eighty-Four Crore and Twenty-Three Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of Flexirural Urja Jalgaon Limited (FUJL) continues to factor in weak operational performance in terms of generation since commissioning leading to low debt service coverage indicators. The rating continues to remain constrained on account of susceptibility of power generation to variations in climatic conditions as well as technological risks and exposure to interest rate risk. The rating, however, continues to derive strength from long-term off-take arrangement in the form of Power Purchase Agreement (PPA) signed with Solar energy Corporation of India Ltd (SECI), recent upward revision in tariff from SECI and timely receipt of payment from off-taker. The rating also takes note of the long-term Operations & Maintenance (O&M) agreement in place and track record of promoter group in infrastructure segment.

Rating Sensitivities

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

- Achievement of generation at better than P-90 estimates on sustainable basis leading to better cash accruals
- Significant improvement in debt service coverage metrics and maintenance of DSRA equivalent to two quarter.
- Improvement in the financial risk profile of promoter
- Acquisition of the company by a strong promoter group

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

- Significant decline in generation from current level or increase in borrowing cost, leading to deterioration in cash accrual
- Deterioration in the credit profile of the off-taker i.e. SECI
- Delay in receipt of payment from off-taker i.e. SECI beyond 3 months

Detailed description of the key rating drivers

Key Rating Weakness

Lower than envisaged generation levels

The project has an operational track record of more than 3 years now and generation levels stood lower viz a viz envisaged level. The project has registered PLF of 17.83% in FY21 and 16.69% in 10MFY22. Going forward, achievement of envisaged generation levels remains crucial for the credit profile of FUJL.

Weak debt coverage indicators & exposure to interest rate risk

The project has leveraged capital structure evidenced from debt to equity funding of 1.54:1 for the project cost. The projected debt coverage indicators are marginal considering the modest generation level as well as the actual revised tariff being lower than the previously envisaged tariff. Further, the project has exposure to interest rate risk due to interest being the primary cost on cash basis. Any adverse change in the cost structure can impact the overall debt service ability of FUJL.

Exposure to climatic conditions and technological risks

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 and generation at envisaged levels remains crucial for the project.

Industry Outlook

The Ministry of New and Renewable Energy (MNRE) has set an ambitious target to set up renewable energy capacities to the tune of 227 GW by 2022, of which about 114 GW is planned for solar, 67 GW for wind and other for hydro and bio among other. India's renewable energy sector is expected to attract investment worth US\$ 80 billion in the next four years. It is expected that by 2040, around 49% of the total electricity will be generated by renewable energy as more efficient batteries will be used to store electricity, which will further cut the solar energy cost by 66% as compared to the current cost. Renewable energy will account for 55% of the total installed power capacity by 2030.

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

Key Rating Strengths

Long-term revenue visibility with off-take arrangement in the form of PPA signed with SECI

FUJL has entered into a long term PPA with SECI in February, 2017 for supply of power for duration of 25 years at a tariff of Rs. 4.43 per unit. However, the tariff was revised downward to Rs.3.06 per unit as a consequence of the delay in COD achievement. The same was contested by FUJL and tariff has been revised upward to Rs. 3.86 per unit vide the letter dated October 08, 2020. Nonetheless, presence of off-take arrangement provides long term revenue visibility of the project. Further, the payment from off-taker is received on timely basis as per terms of PPA.

Long term O&M agreement with Sterling and Wilson Solar Limited (SWSL)

FUJL has entered into a 10-year contract with SWSL in October, 2019 for operation and maintenance (O&M) work of the plant. As per the O&M agreement there will be no escalation in price till initial five years of the agreement and then 2% escalation thereafter till the tenor of the agreement.

Experienced promoters with portfolio of geographically diversified assets

Essel Group has developed an aggregate capacity of about 645 MW in Solar PV generation under various Special Purpose Vehicles (SPVs) floated by EGEPL spread across Uttar Pradesh, Karnataka, Punjab and Maharashtra.

Liquidity: Stretched

The liquidity position of the company is stretched with expected cash accruals of Rs. 1.36 crore in FY22 as against a repayment of Rs. 1.12 crore. The company has been receiving support from the parent company through unsecured loans in case of any shortfall. As per the lending terms, the company needs to maintain DSRA equivalent to two quarters of debt servicing. However, the company has not maintained any DSRA as on date.

Analytical approach: Standalone

Applicable Criteria

[CARE's methodology for Infrastructure Sector Ratings](#)

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Rating Methodology: Solar Power Projects](#)

[Financial Ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[CARE's Policy on Default Recognition](#)

About the Company

Flexirural Urja Jalgaon Limited is a Special purpose vehicle (SPV) of Essel Green Energy Private Limited and has developed solar PV project of total capacity 20 MW in Parbhani District, Maharashtra. The Power Purchase Agreement (PPA) has been executed between FUJL and the power distribution company- Solar Energy Corporation of India Limited (SECI) for the purchase of solar power for a period of 25 years. The project has achieved COD in Jan 2019 as against SCOD of Dec 2017.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov)	
Total operating income	8.93	14.91		NA
PBILDT	7.70	9.09		NA
PAT	-14.60	-13.43		NA
Overall gearing (times)	5.19	16.15		NA
Interest coverage (times)	1.03	0.97		NA

A: Audited; NA: Not Available

Status of non-cooperation with previous CRA: NA

Any other information: NA

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		-	-	June 2035	84.23	CARE B+; 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	84.23	CARE B+; Stable	1)CARE B+; Stable (01-Apr-21)	1)CARE BB; Stable (15-May-20)	-	1)CARE BB+ (CWD) (29-Mar-19) 2)CARE BBB (CWD) (07-Dec-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable**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

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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