4PEL Clean Tech Private Limited
(Formerly known as Renew Clean Tech Private Limited)
October 07, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	13.38 (Enhanced from 11.23)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE A (CE); Stable [Single A (Credit Enhancement); Outlook: Stable]@
Total Bank Facilities	**13.38 (₹ Thirteen Crore and Thirty-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1.
@ In line with RBI's circular and guidance note dated April 22, 2022 and July 26, 2022, respectively, CareEdge Ratings has removed the 'CE' suffix wherever the credit enhancement terms were not fully in compliance with the terms as per the RBI guidelines

Unsupported Rating	**Withdrawn [Withdrawn]**

Note: Unsupported Rating does not factor in the explicit credit enhancement.

Detailed rationale and key rating drivers

CARE Ratings action on the bank facilities of 6.42 MWp rooftop solar plants developed by 4PEL Clean Tech Private Limited (4CTPL) takes into account long track record of approximately three years and satisfactory collection performance. In January 2022, Fourth Partner Energy Private Limited (FPEPL) acquired 4PEL Solar Energy Private Limited (4SEPL, formerly known as Renew Solar Energy Private Limited) from Renew Power Private Limited (RPPL) with capacity of 138.7 MWp of rooftop solar power plants. 4CTPL, a 100% subsidiary of 4SEPL, was also part of the acquisition. The rating continues to derives comfort from the strong parentage of 4CTPL by virtue of it being a part of Fourth Partner Group along with presence of co-obligor structure with 4PEL Solar Daylight Energy Private Limited (4SDEPL) for debt servicing obligations. The rating also factors in the presence of long-term power purchase agreement (PPA) for a tenor ranging from 18-25 years with reputed Commercial and Industrial (C&I) consumers at a fixed tariff for the entire capacity. Also, the coverage indicators are expected to remain comfortable as reflected by cumulative DSCR above 1.2x times for the project.

The rating is, however, constrained on account of lower than envisaged generation levels in addition to the leveraged capital structure given the debt funded nature of capex for setting up the project and interest rate fluctuation risk given the floating interest rate for the project. CareEdge Ratings also factors in exposure of project cash flows to adverse variations in weather conditions given the single part tariff of the project.

Rating sensitivities

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

- Achievement of generation in-line with P-90 estimates on sustainable basis leading to better cash accruals thereby positively impacting coverage indicators
- Significant reduction in the leverage level of the project
- Improvement in credit profile of the parent i.e. FPEPL

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

- Any significant underperformance in generation thereby weakening the cumulative DSCR on project debt to less than 1.15x, on a sustained basis
- Delay in receipt of payments from the off-taker with cycle increasing to 120 days or more on a sustained basis
- Any weakening of the credit profile of the parent, i.e., FPEPL, or any change in linkages/support philosophy between the parent towards 4CTPL would be a negative factor

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

Detailed description of the key rating drivers

Key rating strengths

Strong parentage and operating track record of the Fourth Partner group in the rooftop solar energy segment

FPEPL, incorporated in 2010, is engaged in the evaluation, design, planning, procurement, construction, and operation & maintenance of renewable energy power plants. Started as an EPC company for solar power plants, FPEPL is now an Integrated RE solution provider with focus on Solar, Wind, Hybrid, ISTS, Energy Storage and EV charging. FPEPL develops rooftop as well as Open Access Solar/Wind/Hybrid parks through its SPVs that primarily cater the Commercial and Industrial (C&I) customers. FPEPL is backed by The RISE Fund (TPG) and Norwegian Sovereign Fund, Norfund. The company has achieved equity infusion of US$ 125 million in June 2021 from its existing shareholder, The RISE Fund (TPG) and Norfund. The RISE Fund (TPG) had earlier infused US$ 70 million in June 2018. Along with this, FPEPL has also availed mezzanine debt from CDC of ~Rs.600 crore and infused ~Rs. 300 crore of quasi equity. The investments have been mobilized into various projects which will enable FPEPL to significantly scale up its solar power portfolio over the next few years, thereby improving its revenues and profitability. As on March 2022, FPEPL has total of operational & under construction capacity of 501 MW consisting of roof-top and open access projects. The capacity of under-development projects is 604 MW comprising of both solar and hybrid projects. By the end of FY23, the company aims to achieve the mark of 1 GW capacity.

Presence of Co-obligor structure for debt servicing

4CTPL and 4SDEPL have entered into a co-obligor structure. The co-obligors shall have the obligation for servicing the facility jointly and severally and have undertaken that in the event of insufficiency of funds in debt servicing, the lenders shall utilize the amounts available in surplus account to meet such shortfall to ensure debt service by the due date. The monies provided by the co-obligor shall be in the nature of unsecured interest free inter-corporate deposits (ICDs) and shall rank subordinate to the dues of the borrower to the lenders.

Long term PPA with strong counterparty provides long term revenue visibility

The company has entered into PPA with diversified pool of off-takers comprising of six off-takers having satisfactory credit risk profile located at various locations thereby mitigating the concentration risk. The PPAs are valid for a tenor ranging from 18-25 years at a weighted average tariff of Rs. 3.82/kWh providing necessary revenue visibility.

Modest operational track record and established payment track record

The six rooftop solar plants have a track record of approximately three years. On average, the collection period for the all the projects have remained satisfactory and were as per the timeline mentioned in the PPA, resulting in less amount of funds being blocked as debtors for the company and therefore ensuring satisfactory liquidity. Nevertheless, any elongation in collection cycle going forward will be critical from credit perspective.

Industry Outlook

India has an installed renewable capacity of ~110 GW (excluding large hydro) as on March 31, 2022, comprising solar power of 54 GW, wind power of 40 GW, small hydro of 5 GW and other sources including biomass of 11 GW. There has been a significant traction in solar power installations over the last few years and the cumulative solar power capacity has surpassed the installed wind power capacity, despite its late and slow start. The overall renewable energy installations have increased at a CAGR of 17% from FY16-FY22. Over the years renewable energy industry has benefitted on account of Government's strong policy support, India's large untapped potential, presence of creditworthy central nodal agencies as intermediary procurers and improvement in tariff competitiveness. Going forward, with India setting up an ambitious target of achieving 450-GW renewable capacity by 2030, the regulatory framework is expected to remain supportive. However, developers are expected to face challenges in the near term on account of rising cost of modules, turbines and other ancillary products along with imposition of basic custom duty on cells and modules from April 2022 onwards which is expected to drive up costs and result in increase in bid tariffs for new projects. This apart, challenges for acquisition of land and availability of transmission infrastructure also remains a key bottleneck. However, the Indian renewable industry continues to be a preferred investment alternative for both domestic as well as foreign investors and is expected to post robust growth going forward as well which results in CARE Ratings Ltd assigning a Stable outlook to the industry.

Key rating weaknesses

Generation level remaining lower than the P-90 estimates since commissioning

For all the projects the generation has been lower than the P-90 levels on account of lower irradiation and gaps w.r.t. to O&M activities in pre-acquisition period. The CUF in FY22 was 14.3% (13.5% in FY21) as against the P-90 level of 15.2%. The generational performance in 5MFY23 has also not witnessed an uptick over the last year.

Leveraged capital structure along with exposure to interest rate risk

The capital structure of 4CTPL remains leveraged on account of the debt-funded capex incurred for setting up the project which is a customary to renewable sector. The company has an overall gearing at ~4.0x as on FY22 end (Provisional). The coverage indicators of the company are expected to remain moderately comfortable as reflected by average DSCR above ~1.2x as per CARE's base case scenario. The assets are further exposed to fluctuations in interest rates as the debt which taken at floating interest rates.

Vulnerability of cash flows to variation in weather conditions

As tariffs are one part in nature, the company may book lesser revenues in the event of non-generation of power due to variation in weather conditions and/or equipment quality. This, in turn, would affect its cash flows and debt servicing ability.

Liquidity: Adequate

As on August 31, 2022, 4CTPL had an unencumbered cash and bank balance of Rs. 1.21 crore and DSRA balance of Rs. 4.77 crore in form of FDs covering debt servicing equivalent to four quarter (as against requirement of two quarter of DSRA). As per CARE's base case, adjusted GCA for FY23 and FY24 is expected to be ~Rs. 2-2.6 as against annual repayments of ~Rs. 2 crores. Also, it is a practice of FPEPL to maintain a buffer of Rs.70 crore to Rs.100 crore, crore at the holdco level, to tide over any cashflow mismatches in the underlying assets.

Analytical approach

CARE Ratings has taken a standalone view of the credit profile of 4CTPL along with factoring in linkages with the parent entity viz. FPEPL.

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
Solar Power Projects
Policy on Withdrawal of Ratings

About the company

4CTPL is a special purpose vehicle promoted by 4SEPL with FPEPL being the ultimate parent of the company. The company was incorporated for developing and operating 6.42 MWp solar rooftop capacities at various locations across three states in India. The company has signed Power Purchase Agreements with 6 customers for a period ranging from 18 to 25 years, at weighted average first year tariff of Rs. 3.82/unit.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	Q1FY23
Total operating income	2.74	3.08	NA
PBILDT	2.33	2.78	
PAT	0.35	0.11	
Overall gearing (times)*	2.93	4.02	
Interest coverage (times)	4.66	2.42	

A: Audited; P: Provisional; NA: Not Available

*Overall gearing has been calculated considering the unsecured loan from promoters as a part of total debt

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	30/09/2034	13.38	CARE A-; Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	13.38	CARE A-; Stable	-	1)CARE A (CE); Stable (09-Feb-22) 2)CARE A (CE); Stable (24-Aug-21)	-	-
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	1)CARE A- (09-Feb-22) 2)CARE A- (24-Aug-21)	-	-

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	Minimum Debt Service Coverage Ratio (DSCR) >= 1.15x
B. Non-financial covenants	
DSRA	DSRA equivalent to two quarters of debt servicing to be maintained.

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	Un Supported Rating-Un Supported Rating (Long Term)	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 instruments: CARE Ratings 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 us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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