LONE CYPRESS VENTURES PRIVATE LIMITED

November 18, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	129.42	CARE A; Stable (Single A; Outlook: Stable)	Assigned
Total Bank Facilities	**129.42 (₹ One Hundred Twenty-Nine Crore and Forty-Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of 30 MW (AC) solar power project of Lone Cypress Ventures Private Limited (LCVPL) factors in the strong parentage by virtue of LCVPL being a subsidiary of SunSource Energy Private Limited (SSEPL), wherein SHV Energy N.V. (SHVE) is the major shareholder. SSEPL has demonstrated strong support philosophy for this project as exhibited by the presence of limited period corporate guarantee extended to LCVPL. The rating also draws comfort from the presence of long-term power purchase agreements (PPA) for the entire capacity at a weighted average tariff of Rs 3.77/unit with reputed corporate customers having strong credit profiles. Further, the presence of enabling clauses such as lock in period and compensation to the developer in case of an early exit by the customer act as necessary safeguards. Going forward, as per Care Ratings' base case scenario, the debt protection metrics are expected to be comfortable as reflected by average Debt Service Coverage Ratio (DSCR) being upwards of 1.30x for the tenor of the rated facility.

The rating is, however, constrained on account of limited track record of operations with part capacity (10 MW) achieving commissioning in March 2022 and remaining capacity (20 MW) in July 2022. Further, CARE Ratings also notes that the Long Term Open Access (LTOA) approvals are pending for 10 MW capacity and the company has been selling the power generated through energy exchanges. Also, the rating is adversely impacted due to the expected capital structure being leveraged for the entity. Given the high proportion of debt in the project the company will be exposed to interest rate fluctuation risk given the rate of interest being floating in nature. CARE Ratings also factors in exposure of project cash flows to adverse variations in weather conditions given the single part tariff for the project.

Rating sensitivities

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

- Actual generation levels being in line with estimated P 90 figures along with receivable cycle remaining below 60 days on a sustained basis resulting in strong liquidity position
- Significant reduction in the leverage level of the project
- Improvement in credit profile of parent

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

- Any significant underperformance in generation and/or any increase in the debt levels of the entity thereby weakening the cumulative DSCR on project debt to less than 1.20x times, on a sustained basis
- Non-adherence to the power purchase agreement (PPA) terms by the off-takers including timely receipt of payments and honouring of tariff for full PPA tenor
- Any weakening of the credit profile of the parent, i.e., SSEPL, or any change in linkages/support philosophy between the parent towards LCVPL 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 SunSource Group in renewable energy segment
SSEPL is engaged in development of various kinds of solar projects. The company has been in the solar energy business since 2010 and has gradually built-up assets via organic route through its various SPVs. Over the years, the company has expanded its portfolio to nearly 65 MW capacity as on February 2022 end, with projects spread across the country in multiple states including Rajasthan, Uttar Pradesh, Karnataka, Haryana, New Delhi, Maharashtra, Tamil Nadu, and Madhya Pradesh.

SSEPL is part of the SHV Energy group which is based out of Netherlands and has management control over SSEPL with majority representation on the latter's board and is involved in all strategic decision making of the company. SHVE has also provided equity commitment of Rs. 370 crores to grow the group's solar portfolio to around 550 MW by FY24 end, out of which SSEPL has already received Rs. 250 crores as on October 31st, 2022. Further, SSEPL has demonstrated strong support philosophy for this project as exhibited by the presence of limited period corporate guarantee extended to LCVPL. The Corporate Guarantee would be valid till a minimum of 24 months from commissioning apart from creation of security and Debt Service Reserve Account (DSRA) in favour of the project lender.

Revenue visibility due to the presence of long term PPAs with strong counterparties
LCVPL has entered into long term (25 years) PPAs for the entire capacity with reputed corporate customers having strong credit profile at a weighted average tariff of Rs 3.77/unit for the entire capacity. Further the company is selling power under the 'Group Captive' mechanism wherein open access charges such as cross subsidy surcharge (CSS) and additional surcharge (AS) are not applicable thereby making the power sold more competitive. Moreover, the presence of enabling clauses such as lock in period and compensation to the developer in case of an early exit by the customer act as the necessary safeguards.

Comfortable debt protection metrics
LCVPL has comfortable debt-protection metrics as reflected by average DSCR being upwards of 1.3x for the tenure of the rated facility. Right now, the project has been funded through promoter's equity and debt taken at the holdco level. Once the project loan is disbursed, the holdco loan would be repaid. As a part of pre-disbursement conditions, the project has to create an upfront DSRA of one quarter and the second quarter through cash flow proceeds. The upfront presence of DSRA will provide comfort from a 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

Limited track record of operations
LCVPL has limited track record of operations with part capacity (10 MW) achieving commissioning in March 2022 and remaining capacity (20 MW) in July 2022. Further, CARE Ratings also notes that the LTOA approvals are pending for 10 MW capacity and the company has been selling the power generated through energy exchanges. Going forward, achievement of envisaged generation levels would be critical from a cash flow perspective.

Expected capital structure for the project being leveraged along with exposure to interest rate risk
LCVPL's capital structure is expected to be leveraged post the drawdown of the project debt. As per CARE Ratings' base case, gearing and Total Debt/EBITDA for FY24 is expected to be 2.3x and 6.0x respectively. Given the high proportion of debt in the project the company will be exposed to interest rate fluctuation risk given the rate of interest being floating in nature.

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 September 30th, 2022, the company had a cash balance of Rs. 3.15 crores. Going forward, CARE Ratings expects the generation levels to remain in line with P90 estimates and collection to remain timely as per the PPA norms. The internal accruals are expected to remain adequate to service its debt obligations. As per CARE Ratings' base case, GCA for FY23 and FY24 is expected to be ~Rs. 7-8 crore as against no repayment in FY23 and annual repayment of Rs 4.5 crores in FY24.

Analytical approach: Standalone plus factoring in parent support

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
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
Policy on Withdrawal of Ratings

About the company

LCVPL is a special purpose vehicle (SPV) promoted by SunSource Group. The SPV is operating a 30 MW (AC) solar capacity in the state of Uttar Pradesh. It commissioned part capacity (10 MW AC) in March 2022 and remaining capacity (20 MW AC) in July 2022. LCVPL has signed long term PPAs with multiple corporate customers under the group captive scheme at a weighted average tariff of Rs 3.77/unit for the tenor of the PPA.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	0.00	0.37	NA
PBILDT	-0.19	0.01	NA
PAT	-0.21	-3.13	NA
Overall gearing (times)	0.52	0.04	NA
Interest coverage (times)	NM	0.45	NA

A: Audited; UA: Unaudited

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		-	-	30-06-2040	129.42	CARE A; Stable

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	**129.42**	CARE A; Stable				

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
Financial covenants	• Minimum DSCR >=1.10x

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 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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