IRCON Renewable Power Limited

September 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2,535.00	CARE A; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of IRCON Renewable Power Limited (IRPL), which is setting up a solar power capacity of 500 MW (AC) in Pavagada, Karnataka, factors in the strong and resourceful parentage by virtue of IRPL being a 76% subsidiary of IRCON International Limited (IIL; rated CARE AAA; Stable/ CARE A1+). The remaining 24% is held by Ayana Renewable Power Private Limited which is among the leading renewable energy developers in the country having an operational capacity of 1.3 GW and has assets under development of 2.9 GW. Government of India (GoI) holds 73.18% stake in IRCON which is a Mini Ratna Category-I public sector undertaking (PSU) engaged primarily in construction of railway projects in India and abroad. Furthermore, the rating positively factors in presence of a sponsor undertaking for any cost overrun in executing the project in proportion of their shareholding.

The rating also derives strength from the presence of a long-term power purchase agreement (PPA) with Southwestern Railways which provides long term revenue visibility. Moreover, CARE Ratings expects coverage indicators to remain comfortable with cumulative debt service coverage ratio (DSCR) being around 1.20x for the tenor of the term debt.

The rating is, however, constrained on account of exposure to execution risk as the project is in an under-implementation stage. The ability of the company to execute the project without any material time and cost overrun will be a key credit monitorable. Furthermore, the capital structure of the company is expected to be leveraged as the project is funded through a mix of debt and equity (including Viability Gap Funding (VGF)) (75:25). Consequently, the company remains exposed to variations in the interest rates as the debt is linked to floating rates. CARE ratings also notes that this project is eligible to receive a VGF of Rs. 225 crore which was originally scheduled to be received in two tranches (i) 50% on signing of EPC contract and (ii) 50% on commissioning. Despite signing the EPC contract with KEC International Limited (rated AA-; Stable/ A1+ by CARE) in January 2023, the company is yet to receive the VGF. The timely receipt of VGF will be a key credit monitorable. CARE Ratings also takes into account vulnerability of project cash flows to adverse variation in weather conditions, given the PPA tariff is single part and fixed for the full tenor.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Successful commissioning of the project within the budgeted cost and envisaged timelines
- Actual generation being in line with P-90 levels on a sustained basis resulting in improvement in coverage indicators as reflected by average DSCR above 1.25x
- Faster than expected deleveraging of the project

Negative factors

- Any material time or cost overrun leading to significant delay in commissioning of the project, adversely impacting project's profitability
- Significant underperformance in generation and/or any increase in the debt levels weakening the cumulative DSCR on project debt to less than 1.15x, on a sustained basis
- Weakening of the credit profile of the parent, or any change in linkages/support philosophy of IIL towards IRPL

Analytical approach: Standalone plus factoring in parent linkages. CareEdge Ratings expects IRPL parent, IIL to be willing to extend financial support to IRPL, should there be a need, given the importance that IRPL has for IRPL.

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

Outlook: Stable

The Stable outlook on the CARE A rating of IRPL reflects CARE Ratings' opinion that the company would benefit from its long-term PPA with Southwestern Railway. Moreover, given the tie up of project financing and commitment by both the sponsors for the equity portion (along with any cost over-run), the funding risk is mitigated. The rating outlook is supported by CARE Ratings' expectation that the project will be commissioned in a timely manner without any major cost overrun.

Detailed description of the key rating drivers:

Key strengths

Experienced and resourceful parentage in the form of IRCON International Limited (IIL)

IRCON is a Mini Ratna Category-I public sector undertaking (PSU) since 1998, wherein, the GoI holds 73.18% equity. IRCON is one of the few agencies through which the MoR has implemented railway projects throughout the country for over four decades and has completed more than 398 infrastructure projects in India. The company has diversified into roads, buildings, electrical substation and distribution, airport construction, commercial complexes, and metro segments, but mainly earns its revenue from the railway segment. The company derives strength from its long-established track record of implementing domestic and overseas railway projects and its string order book with around 52% of projects from Ministry of Railways. The company raised funds through an initial public offering (IPO) in September 2018 through an offer for sale and was listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) on September 28, 2018.

Long-term revenue visibility on account of long-term PPA with South Western Railway

The PPA for entire capacity has been signed under the CPSU scheme, Phase -II issued by Ministry of New and Renewable Energy for setting up 12000 MW grid connected solar power projects with the VGF support. IREDA has been entrusted as nodal agency to invite bids for setting up 5000 MW under tranche III of phase II of the scheme. IRCON participated in the bid and formed an SPV as a joint venture between IIL and ARPPL in the ratio of 76% and 24% respectively. Subsequently, IRPL has signed PPA with South Western Railways at a fixed tariff of Rs. 2.45 per unit for a tenor of 25 years which provides long term revenue visibility for the project.

Key weaknesses

Execution risk on account of project being in nascent stage of development

The project is exposed to execution risk on account of project being under preliminary stages of development at present. The total requirement of the land for this project is 2270 acres which is planned to be acquired in seven lots between May 2023 - January 2024. Timely availability of the land is critical to begin the module mounting work and complete the project within proposed timeline. Further, the project has to mandatorily procure domestically manufactured cells and modules given that it is a part of the CPSU scheme. As the domestic cell manufacturing capacity is limited and there is a limited performance track record of domestically manufactured cells, the company is exposed to the actual performance of these equipments in domestic conditions. The same is mitigated as the company has placed orders with top tier module manufacturers viz. Waaree Energies Limited, Emmvee Photovoltaic and Premier Energies, all of which, are integrating their operations backward into manufacturing of cells.
Moreover, CARE Ratings draws comfort from the presence of a credit-worthy EPC contractor i.e. KEC International for executing the project. The EPC contract contains relevant clauses which compensate the project SPV for any delay in commissioning, thereby limiting the liabilities on the project SPV in case of delayed execution. The scheduled commercial operation date is September 30th, 2024. The ability of the company to execute the project without any material time and cost overrun will be a key credit monitorable.

Leveraged capital structure along with exposure to interest rate risks

The company's capital structure is leveraged on account of the debt-funded capex incurred for setting up the project. CARE Ratings expects Total Debt/EBITDA to remain more than 7x as on FY26 end. Furthermore, given the leveraged capital structure, single-part nature of the fixed tariff in the PPA and floating interest rates, the profitability remains exposed to any increase in the interest rates. However, the debt coverage indicators are expected to remain satisfactory as reflected by cumulative DSCR of around 1.20x for the tenor of the term debt.

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

The liquidity of the company is expected to be adequate given the strong linkages with the promotor group. Further, the shareholders have infused ~Rs. 55 crores out of their committed equity contribution of Rs. 468 crores (Excluding VGF).

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
Project stage companies
Infrastructure Sector Ratings
Solar Power Projects
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Generation

IRCON Renewable Power Limited (IRPL), incorporated on January 13, 2022, is a special purpose vehicle (SPV) promoted by IRCON International Limited and Ayana Renewable Power Private Limited in the ratio 76:24 respectively. The SPV is setting up a 500 MW AC solar power photovoltaic (PV) plant in Pavagada, Karnataka. The company has entered into a power purchase agreement (PPA) with South-Western Railway (SWR) for a period of 25 years from scheduled commissioning date September 30, 2024 and will supply power from the entire capacity at a fixed tariff of Rs. 2.45 per unit.

Brief Financials: Not Applicable, as the project is under construction

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	18.50	CARE A; Stable
Non-fund-based - LT-Bank Guarantee		-	-	-	250.00	CARE A; Stable
Non-fund-based - LT-Forward contract/derivative limit		-	-	-	187.00	CARE A; Stable
Term Loan-Long Term		-	-	September 30, 2044	2079.50	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 2023-2024	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
1	Term Loan-Long Term	LT	2079.50	CARE A; Stable				
2	Non-fund-based - LT-Bank Guarantee	LT	250.00	CARE A; Stable				
3	Fund-based - LT-Working Capital Limits	LT	18.50	CARE A; Stable				
4	Non-fund-based - LT-Forward contract/derivative limit	LT	187.00	CARE A; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Working Capital Limits	Simple
2	Non-fund-based - LT-Bank Guarantee	Simple
3	Non-fund-based - LT-Forward contract/derivative limit	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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.

Contact us

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About us:

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