Sunmark Energy Projects Limited (Revised)

September 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	32.00	CARE BBB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of rating assigned to the bank facilities of Sunmark Energy Projects Limited (SEPL) continues to derive strength from long-term off-take agreement from power purchase agreement (PPA) with North Bihar Power Distribution Company Limited (NBPDCL) and South Bihar Power Distribution Company Limited (SBPDCL) for the entire capacity at fixed tariff and promoter's and management's experience in setting up and operating power projects. The rating also continues to take comfort from the presence of debt service reserve account (DSRA) for two-quarters of debt servicing and sustained satisfactory generation levels on account of enhanced operations and maintenance (O&M) practices.

However, the rating continue to remain constrained by the counterparty credit risk on account of relatively weak financial profile of off-takers, exposure to climatic conditions, interest rate risk as well as generation below P-90 levels. The rating also takes cognisance of the ongoing investigation against the promoter by investigating agencies. However, the matter remains sub-judice.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in credit risk profile of the off-takers.
- Achievement of generation above its P-90 levels on a sustained basis along with improvement in coverage indicators.
- Faster-than-expected deleveraging of the asset, as reflected by a significantly lower-than-envisaged total debt (TD)/earnings before interest, taxes, depreciation, and amortisation (EBITDA) on a sustained basis.

Negative factors

- Generation levels lower than the envisaged levels on a sustained basis or significant increase in the borrowing cost or operations and maintenance (O&M) cost, adversely impacting debt service coverage indicators.
- Delay in the receipt of payments from the off-taker beyond 60 days.
- Any materially adverse outcome of the ongoing investigations against the promoter having a negative impact on the business and/or financial risk profile of the company.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE's opinion that the generation levels of the project will remain at satisfactory levels and timely receipt of payments from its off-takers.

Detailed description of key rating drivers:

Key strengths

Long-term revenue visibility and long operational track record

The company's power purchase agreement (PPA) with NBPDCL and SBPDCL for 25 years, for entire capacity at fixed tariff of ₹7.02 per unit provides long-term revenue visibility. Current power allocation between discoms is 46% and 54%, respectively. The project achieved commercial operation date (COD) in line with the PPA schedule. It has completed seven years of operation.

Presence of DSRA and Trust and Retention Account (TRA)

Prevailing sanction condition stipulates maintaining DSRA equivalent to two-quarters of debt service obligation. Furthermore, waterfall mechanism exists as per executed TRA document. The company has DSRA balance of Rs. 3.60 crore as on March 31, 2024, which is equivalent to stipulated requirement of the lender.

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

Comfortable leverage with moderate debt coverage indicators
During FY24, the company reported total operating income of Rs. 10.56 crore, against Rs. 10.63 crore during FY23, due to slightly moderated generation level in FY24. However, debt service coverage indicators stood at moderate levels during the projected period. The capital structure of the company stood comfortable with overall gearing at 1.20x in as on March 31, 2024, improving from 1.58x as on March 31, 2023, on account of accretion of profits to the net worth base and subsequent repayment of term loan.

Management competency in power sector
SEPL is a special purpose vehicle (SPV) of Hindustan Cleanenergy Limited (HCEL) and Peridot Power Ventures Limited (PPVL), which are wholly owned subsidiaries of Hindustan Powerprojects Private Limited (HPPPL). HPPPL was promoted to establish power projects in thermal and solar segments. The group holds substantial expertise in solar projects in India and abroad.

Sustained satisfactory generation leading to satisfactory coverage metrics
The plant load factor (PLF) of the plant sustained and remained at satisfactory levels during last 2 years, at 17.44% in FY24 and 17.50% in FY23, against 16.19% in FY22. This is largely due to better O&M practices such as frequent cleaning and monitoring to minimise breakdowns, however the same still remained below the P90 levels. This along with lower finance cost led to sustenance of satisfactory debt coverage indicators.

Key weaknesses

Relatively weak financial risk profile of off-takers, while payment track record has been largely on time
Discoms of Bihar have high reliance on tariff subsidy income due to a large proportion of agricultural and domestic load, while the realisation has been at below satisfactory level in the past. However, SEPL has been able to realize its receivables on time, in the last 12 months. It has also been passing rebate to off-takers due to prompt payment.

Exposure to climate risk as well as Interest rate risk
Achieving desired PLF going forward would be subject to changes in climatic conditions and degradation of modules. Further, given the capital structure and single-part nature of fixed tariff in the PPA, profitability remains exposed to increase in interest rates, given the company's floating interest rates.

Liquidity: Adequate
The projected gross cash accrual is sufficient to meet the scheduled debt obligation. SEPL has also maintained DSRA equivalent to two quarter debt servicing in the form of FD of Rs. 3.60 crore and has bank balance of Rs. 0.27 crore as on July 31, 2024. The timely payment from the off-taker largely mitigates the absence of working capital limit with the company.

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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power Generation

SEPL, an SPV of Hindustan Power group, is promoted by Hindustan Cleanenergy Ltd and Peridot Powers Venture Limited. SEPL has set-up a 11-MWp solar photovoltaic (PV) power plant at Jalsar and Chilam villages, Gaya, Bihar. The project was commissioned on November 26, 2016, and the PPA was signed with NBPDCL and SBPDCL for 25 years for the entire project capacity.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	10.63	10.56
PBILDT	9.36	8.94
PAT	1.71	4.12
Overall gearing (times)	1.58	1.20
Interest coverage (times)	2.37	2.72

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	15-10-2032	32.00	CARE BBB+; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	32.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (06-Mar-24)	1) CARE BBB; Stable (26-Dec-22) 2) CARE BB-; Stable; ISSUER NOT COOPERATING* (13-Apr-22)	-

*Issuer did not cooperate; based on best available information.
LT: Long term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

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

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Puneet Kansal Director **CARE Ratings Limited** Phone: 120-4452018 E-mail: puneet.kansal@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Dhruv Mittal Assistant Director **CARE Ratings Limited** Phone: 91-120-4452050 E-mail: dhruv.mittal@careedge.in Nikhil Sachdeva Lead Analyst **CARE Ratings Limited** E-mail: Nikhil.sachdeva@careedge.in

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.

For detailed Rationale Report and subscription information,
please visit www.careedge.in