Sunfree North East Renewable Energy Private Limited (Revised)

September 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	53.78 (Reduced from 60.00)	CARE BBB-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating reaffirmation on the bank facility of Sunfree North East Renewable Energy Private Limited (SNEREPL) which is operating a 15 MW (AC) / 21 MW (DC) solar power plant in the state of Mizoram factors in the operational track record of 17 months along with project's strong linkages with the SAEL Group. The project's actual generation in FY24 was lower than the designed energy estimates which was attributable to stabilisation issues. Going forward, CARE Ratings expects the actual generation to improve closer to the designed energy estimates as the project stabilises.

The rating continues to factor in the strong parentage by virtue of SNEREPL being a subsidiary of SAEL Limited (SAEL) and successful commissioning of the project in March 2023. CARE Ratings further factors in low offtake risks and revenue visibility for SNEREPL on account of presence of long-term (25 years) power purchase agreement (PPA) with Power and Electricity Department, Mizoram (P&ED, Mizoram) at a fixed tariff of Rs 3.94 per unit. Moreover, the rating is supported by moderately comfortable debt-coverage indicators as reflected by average Debt Service Coverage Ratio (DSCR) being upwards of 1.2x for the tenor of the term debt.

The rating is however, tempered by the limited track record of operations with the project having a track record of 17 months. Further, the rating is also constrained on account of exposure to P&ED, Mizoram, which has a modest credit profile. The rating also factors in exposure of project cash flows to adverse variations in the weather conditions given the single part tariff for the project. The rating is also constrained by interest rate fluctuation risk and asset concentration risk given the full capacity is located in a single state.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Actual generation levels remaining above P-90 levels on a sustained basis resulting in improvement of coverage indicators with average DSCR increasing beyond 1.3x
- Faster than expected deleveraging of the project

Negative factors

- 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 1.2x times, on a sustained basis
- Delay in receiving payments from the offtaker leading to sustained elongation of receivable cycle
- Weakening of the credit profile of the parent, or any change in linkages/support philosophy of SAEL Limited towards SNEREPL

Analytical approach: Standalone plus factoring in parent support

CARE Ratings expects SNEREPL's parent, SAEL Industries Limited, to be willing to extend financial support to SNEREPL, should there be a need, given the strategic importance that SNEREPL has for SAEL Industries Limited.

Outlook: Stable

The stable outlook on the CARE BBB- ratings of SNEREPL reflects CARE Ratings' opinion that the company would benefit from its long-term PPA with P&ED, Mizoram. Also, the expectations of satisfactory generation and collection performance supports the outlook.

Detailed description of key rating drivers:

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

Key strengths

Experienced and resourceful parentage in the form of SAEL in renewable energy segment

SNEREPL benefits on account of being a part of SAEL Group, which has investments from reputed institutions
SNEREPL is a 100% subsidiary of SAEL. SAEL is a wholly owned subsidiary of SAEL Industries Limited (SIL) which has investments from Awla family, Norfund and DFC and has an operational renewable energy capacity of ~400 MW (DC) comprising solar and biomass assets, and assets under development of ~3.4 GW (DC) as of August 2024. SAEL's stated posture towards SNEREPL is strong, as exhibited by the presence of an unconditional and irrevocable CG from SIL, the ultimate parent company of the SAEL group, covering the entire amount and tenor of the rated debt.

Long-term revenue visibility on account of presence of long-term PPA with P&ED, Mizoram

SNEREPL has low offtake risks owing to the presence of long-term (25-years) PPA with Power and Electricity Department, Mizoram (P&ED, Mizoram) at a fixed tariff of Rs. 3.94 per unit for the entire duration of the project starting from the actual commissioning of the project. Long-term PPA provides revenue visibility for the company.

Comfortable debt protection metrics with healthy tail life

The debt coverage metrics of the entity remain comfortable with average DSCR being upwards of 1.2 times for the tenor of the term debt. Further, the financial health of the company is supported through a healthy tail life of ~10 years for the project.

Key weaknesses

Limited track record of operations, stabilization risk persists
The capacity under SNEREPL was commissioned during March 2023 and thus has a limited operational track record of 17 months. The project's actual generation in FY24 t 21.3% was lower than the designed energy estimates at P-90 level of 23.3%, which was attributable to initial teething issues and stabilization-related bottlenecks. Going forward, the ability of the project to stabilise operations and operate at the designed energy estimate will be a key credit monitorable.

Exposure to counterparty credit risk
The company is exposed to counterparty credit risk as the entire capacity under SNEREPL is tied up with P&ED, Mizoram having a modest credit profile. The same is reflected by moderately stretched receivable cycle of ~150 days for FY24. However, the offtaker has cleared the outstanding receivables in April 2024 and, thereafter, has been clearing its dues within ~70 days of raising invoices, leading to an improvement in the collection cycle to ~75 days for Q1-FY25. Going forward, timely payments would remain critical from a credit perspective.

Leveraged Capital Structure along with exposure to interest rate risk
The capital structure of the company is leveraged and going forward, Total Debt/ EBITDA is expected to remain range bound between 5.2x to 5.5x over the next two years. Given the leveraged capital structure, single part nature of the fixed tariff in the PPA, and floating interest rates, the company's profitability remains exposed to any increase in 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, 2024, the company had cash and bank balance of Rs. 0.53 Crore and DSRA balance of Rs. 5.15 crore equivalent to 2 quarters of debt service obligation.

Going forward, the internal accruals are anticipated to be adequate to service its debt obligations. As per CARE base case scenario, GCA for FY25 and FY26 is expected to be Rs. 4.5 crore and Rs. 4.7 crore as against annual repayments of Rs. 3.0 crore and Rs. 3.8 crore respectively.

Applicable criteria

[Definition of Default]
[Factoring Linkages Parent Sub JV Group]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Financial Ratios – Non financial Sector]
[Infrastructure Sector Ratings]
[Solar Power Projects]

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power Generation

SNEREPL, incorporated on June 12, 2020, is a wholly owned subsidiary of SAEL. The company is operating a 15 MW (AC) / 21 MW (DC) solar power plant in the state of Mizoram. The plant is located in the Vankal village, New Khawzawl district, Mizoram. The plant achieved commissioning in March 2023. The company has a PPA with P&ED, Mizoram for a period of 25 years from the actual COD and supplying power of the entire capacity at a fixed tariff of Rs. 3.94 per unit.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	0.7	11.1
PBILDT	-3.4	8.8
PAT	-4.5	-10.3
Overall gearing (times)	1.0	1.0
Interest coverage (times)	-4.6	1.0

A: Audited UA: Unaudited; 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		-	-	31-12-2037	53.78	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	-	-	-	1) Withdrawn (24-Aug-23) 2) CARE BBB+ (CE); Stable; ISSUER NOT COOPERATING* (07-Apr-23)	1) CARE A- (CE) (RWD) (27-Dec-22) 2) CARE A- (CE) (CW with Developing Implications) (06-Jul-22)	1)CARE A- (CE); Stable (08-Mar-22)
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	1) Withdrawn (24-Aug-23) 2) CARE BB; ISSUER NOT COOPERATING* (07-Apr-23)	1) CARE BB+ (RWD) (27-Dec-22) 2) CARE BB+ (CW with Developing Implications) (06-Jul-22)	1)CARE BB+ (08-Mar-22)
3	Fund-based - LT-Term Loan	LT	53.78	CARE BBB-; Stable	-	1) CARE BBB-; Stable (24-Aug-23)	-	-

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

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About us:
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