First Energy 6 Private Limited

October 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	143.00	CARE A-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of First Energy 6 Private Limited (FE6PL), which is operating a 22.75 MW_{AC} / 33.15 MW_{DC} solar power plant, factors in the strong parentage by virtue of it being a subsidiary of First Energy Private Limited (FEPL). FEPL is a wholly owned subsidiary of Thermax Limited (THL) which has diverse interests globally. FEPL's stated posture towards FE6PL is strong, as exhibited by the presence of a sponsor support undertaking (SSU) from FEPL to (i) infuse funds in FE6PL to maintain a minimum debt-service coverage ratio (DSCR) of 1.0x throughout the tenor of the loan & (ii) cover any revenue shortfalls from PPA termination or tariff reduction, thereby ensuring the project's financial stability.

Further, FE6PL's credit profile derives strength from the presence of a long term 25-year power purchase agreement (PPA) for the full capacity at a fixed tariff with multiple robust C&I offtakers under the group captive mechanism. 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 necessary safeguards. As per CARE Ratings' base case scenario, the debt protection metrics are expected to be moderate as reflected by average DSCR being ~1.10x for the tenor of the term debt. However, CARE Ratings understands that FEPL will proactively provide liquidity support on a pre-default basis to the asset.

CARE Ratings also takes cognisance of the delay in project commissioning on account of project site getting adversely impacted by Cyclone Michaung in December 2023. Owing to the cyclone, there was extensive rainfall and flooding on the project site and subsequently resulted in submerging of the plant's equipment. The company has submitted an insurance claim, for which the plant is currently in a testing phase, which is expected to conclude by October 08, 2024. Management expects the remittance against the insurance claim to be resolved by December 2024, and CoD by March 2025 following the reinstatement of modules. The conclusion of the damage assessment and the consequent timely commissioning of the project will remain a key credit monitorable.

However, the rating is constrained on account of leveraged capital structure on account of debt-funded capex incurred for setting up the project. As per CARE Ratings base case scenario, the total Debt/EBITDA is expected to range-bound between 7.3-7.5x over the next three years. Consequently, the company remains exposed to interest rate fluctuation risk given the floating interest rate for the outstanding debt. 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: Factors likely to lead to rating actions

Positive factors

- Actual generation levels being in line with estimated P-90 figures along with receivable cycle remaining below 30 days on a sustained basis resulting in strong liquidity position
- Improvement in cumulative DSCR on project debt to more than 1.20x times
- Faster than expected deleveraging of the project

Negative factors

- Delay or shortfall in receipt of project damage insurance claim as against estimates and failure to receive funds from parent to fund the resultant shortfall for damage replacement capex, resulting in lower-than-expected operating cashflows due to resultant delay in commissioning
- 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 1.10x times, on a sustained basis
- Non-adherence to the power purchase agreement (PPA) terms by the off-taker
- Weakening of the credit profile of the ultimate parent, i.e., FEPL, or any change in linkages/support philosophy between the parent and FE6PL would be a negative factor

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

Analytical approach: Standalone plus factoring in support from the parent (FEPL)

Outlook: Stable

The stable outlook on the CARE A- ratings of FE6PL reflects CARE Ratings' opinion that the company would benefit from its long-term PPA with multiple C&I offtakers. Also, the expectations of satisfactory generation and collection performance supports the outlook.

Detailed description of the key rating drivers:

Key strengths

Experienced and resourceful parentage in the form of Thermax Limited in renewable energy segment

FE6PL is a 74% subsidiary of First Energy Private Limited (FEPL), which in turn is a wholly owned subsidiary of Thermax Limited (Thermax). Thermax has extensive experience in successfully undertaking engineering, procurement, and construction (EPC) contracts, which include designing, building, and commissioning large boilers for steam and power generation, turnkey power plants, industrial and municipal wastewater treatment plants, waste heat recovery systems, and air pollution control projects. Thermax, through FEPL, has ventured into renewable energy sector. FEPL has total operational renewable power generation capacity of around 200 MWp and capacity pipeline of around 490 MWp up to August 31, 2024. FEPL has set a target to reach 700 MWp of renewable capacity by FY26 and 1 GWp by FY27. As on March 31, 2024, the equity infusion into FEPL by Thermax stood at Rs ~404 crore. In addition to developing renewable energy projects as an Independent Power Producer (IPP), FEPL is involved in Engineering, Procurement, and Construction (EPC), as well as Operations and Maintenance (O&M) for solar rooftop, ground-mounted solar, wind, and hybrid projects. The company also manages a carports business, providing solutions for Thermax's clients.

First Energy Group's stated posture towards FE6PL is strong, as exhibited by the presence of SSU from FEPL to (i) infuse funds in FE6PL to maintain a minimum debt-service coverage ratio (DSCR) of 1.0x throughout the tenor of the loan & (ii) cover any revenue shortfalls from PPA termination or tariff reduction, thereby ensuring the project's financial stability

Long term PPA with multiple robust C&I counterparties provides long term revenue visibility

FE6PL has low offtake risks owing to the presence of long-term (25-years) PPA with multiple robust C&I counterparties at a fixed tariff for the entire duration of the project. Long-term PPA with a credible counterparty provides revenue visibility for the company. Further, the presence of enabling such as lock in period and compensation to the developer to the developer in case of an early exit by the customer act as necessary safeguards.

Moderate debt coverage indicators

FE6PL has moderate debt-protection metrics as reflected by average DSCR being ~1.10x for the tenure of the term debt. However, However, CARE Ratings understands that FEPL will proactively provide liquidity support on a pre-default basis to the asset.

Key weaknesses

Execution risk on account of project under-construction phase

There has been a delay in project commissioning on account of project site getting adversely impacted by Cyclone Michaung in December 2023. Owing to the cyclone, there was extensive rainfall and flooding on the project site and subsequently resulted in submerging of the plant's equipment. The company has submitted an insurance claim, for which the plant is currently in a testing phase, which is expected to conclude by October 08, 2024. Management expects the remittance against the insurance claim to be resolved by December 2024, and CoD by March 2025 following the reinstatement of modules. The conclusion of the damage assessment and the consequent timely commissioning of the project will remain a key credit monitorable.

Leveraged capital structure along with exposure to interest rate risk

Company's capital structure is leveraged on account of debt funded capex incurred for setting up the project. As per CARE Ratings base case scenario, the total Debt/EBITDA is expected to range-bound between 7.3-7.5x over the next three years. Consequently, the company remains exposed to interest rate fluctuation risk given the floating interest rate for the outstanding debt. CARE Ratings also factors in exposure of project cash flows to adverse variations in weather conditions given the single part tariff for the project.

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. The geographical concentration of asset amplifies the generation risk.

Liquidity: Adequate

As on August 09, 2024, the entity had a cash balance of Rs ~3.8 crores, which includes DSRA amounting to Rs ~2.9 crores equivalent to to one quarter of interest payments as per the sanction terms and will establish a reserve for one quarter of both interest and principal repayments following the commencement of repayments. As per CARE Ratings' base case, GCA for FY25 and FY26 is expected to be Rs ~5.5 crore as against annual repayments of Rs 1.4 crore and Rs 2.3 crore respectively.

Applicable criteria

Consolidation
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

FE6PL is a special purpose vehicle formed by First Energy Group. The SPV is operating a 22.75 MW_{AC} / 33.15 MW_{DC} solar power plant located at Tuticorin District of Tamil Nadu. FE6PL has tied up the entire capacity through a 25-year PPA at a fixed tariff under the group captive mechanism with multiple robust C&I counterparties.

Brief Financials (₹ crore)	March 31, 2024 (A)
Total operating income	0.03
PBILDT	-0.57
PAT	-0.78
Overall gearing (times)	2.86
Interest coverage (times)	0.00

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: 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 (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 March 2044	143.00	CARE A-; 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	143.00	CARE A-; Stable				

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 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

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Jatin Arya Director **CARE Ratings Limited** Phone: 91-120-4452021 E-mail: Jatin.Arya@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@careedge.in	Mayuresh Karavade Assistant Director **CARE Ratings Limited** Phone: +91-22-6837-4468 E-mail: Mayuresh.karavade@careedge.in Rahul Chauhan Analyst **CARE Ratings Limited** E-mail: Rahul.Chauhan@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.

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