Isharays Energy Two Private Limited

October 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	44.00	CARE A-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings has applied a combined approach for rating the bank facilities of Isharays Energy One Private Limited (Isha-One), Isharays Energy Two Private Limited (Isha-Two), Isharays Energy Three Private Limited (Isha-Three), Suryaurja Two Private Limited (Surya-Two) and Suryaurja Four Private Limited (Surya-Four) on account of presence of a cash-pooling arrangement (CPA) among the aforementioned companies wherein these entities have undertaken to service the shortfall in debt obligations in any of the other entities. The said agreement is absolute, unconditional, and valid till the expiry of the final settlement date of all the SPVs in the CPA and is characterised by the presence of cross default clause among all the five entities.

The rating assigned to the bank facilities of the restricted group (RG) having an operational solar capacity of ~98.3 MWp factors in the strong parentage by virtue of it being a part of SunSource Energy Private Limited (SSEPL, rated CARE A+; Stable/ CARE A1). Further, the rating derives strength from presence of long-term power purchase agreements (PPAs) at competitive tariffs with multiple reputed commercial and industrial (C&I) counterparties having strong credit profile for the entire capacity. Moreover, the rating positively factors in its comfortable debt coverage metrics as reflected by cumulative Debt Service Coverage Ratio (DSCR) being upwards of 1.20x for the tenor of the debt, along with satisfactory weighted average tail life of more than six years for the project. CARE Ratings notes that the borrowers (excluding Isha-1) have secured a fixed interest rate for the first two years of repayment through an interest rate swap which mitigates interest rate fluctuation risk to a certain extent in the near term.

However, the aforementioned rating strengths are constrained by limited track record of operations as four out of the five SPVs in the CPA, with a cumulative capacity of ~55 MWp achieved commissioning between December 2023 and June 2024 while the remaining capacity of 43.3 MWp has achieved commissioning in October 2024. Furthermore, the generation performance in the initial few months has been below the P-90 estimates on account of stabilisation related challenges. As a result, CARE Ratings expects the generation to remain lower than the designed energy estimates in the first full year of operations i.e. FY25. However, going forward, CARE Ratings expects the generation performance to stabilize and remain in line with P-90 estimates. The ability of the SPVs to stabilise operations and operate at the designed energy estimates will be a key credit monitorable.

The portfolio’s capital structure is leveraged due to debt funded capex which is typical for the projects in renewable energy sector. Going forward, as per CARE Ratings’ base case, the capital structure will continue to remain leveraged with Total Debt/EBITDA remaining above 6.4x over the next three years. The rating is also constrained on account of refinancing risk due to bullet repayment of the term loan (~80% of the loan value) in June 2029. Nevertheless, the same is mitigated by the expectation that coverage indicators will remain strong, with the Project Life Coverage Ratio (PLCR) anticipated to stay above 1.3x at the time of refinancing. 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 60 days on a sustained basis resulting in strong liquidity position
- Significant improvement in cumulative DSCR on project debt on a sustained basis
- Faster than expected deleveraging of the project

Negative factors

- Significant underperformance in generation and/or any increase in the debt levels weakening the cumulative DSCR on project debt on a sustained basis
- Non-adherence to the power purchase agreement (PPA) terms by the off-takers

Analytical approach: Combined plus parent notch-up

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

CARE Ratings has applied a combined approach for rating the bank facilities of the company, on account of the presence of a CPA for pooling of surplus cash flows from the individual entities to service shortfall in debt servicing if any, in any of these entities. The agreement is absolute, unconditional, and valid till the expiry of the final settlement date of all the SPVs in the CPA and is characterised by the presence of cross default clause among all the five entities.

In a 'Combined Approach', CARE Ratings evaluates the group of entities as if it were a single entity and combines the financials and business risk profiles of these entities to take a view on the ratings. CARE Ratings has combined the business and financial risk profiles of the 5-SPVs. The rating is further notched up due to the parentage of SSEPL.

Outlook: Stable

The stable outlook on the CARE A- ratings of the portfolio reflects CARE Ratings' opinion that the portfolio would benefit from its long term PPA. Also, the expectation of satisfactory generation and collection performance supports the outlook.

Detailed description of the key rating drivers:

Key strengths

Presence of a cash-pooling agreement for pooling of surplus cash flows
Isha-One, Isha-Two, Isha-Three, Surya-Two and Surya-Four have entered into a CPA, wherein these entities have undertaken to service the shortfall in debt obligation in any of the other entities. The said agreement is absolute, unconditional, valid full tenor of the rated debt facilities, and is characterised by the presence of cross default clause between all the five entities.

Strong parentage and operating track record of SunSource group in renewable energy segment
SunSource Energy Private Limited (SSEPL, rated CARE A+; Stable / CARE A1) is part of the prestigious Netherlands-based SHV Energy group which operates in India through its Indian arms SHV Energy Private Limited and SSEPL. SSEPL is engaged in the 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 ~220 MW capacity as on September 2024 end, with projects spread across the country in multiple states including Rajasthan, Uttar Pradesh, Karnataka, Haryana, New Delhi, Maharashtra, Tamil Nadu, and Madhya Pradesh. By the end of FY27, the group intends to achieve a total asset portfolio of 1 GW.

Diversified asset pool in terms of geography & offtakers, providing long-term revenue visibility
The combined entity has secured long-term Power Purchase Agreements (PPAs) at competitive tariffs for its full capacity with various customers under the group-captive/third party mechanism, covering 100% of its capacity. This arrangement enhances revenue visibility for the projects. The assets benefit from a diverse C&I customer base having strong credit profiles. Additionally, the assets are located across Uttar Pradesh and Karnataka, which helps mitigate asset concentration risk to a certain extent by diversifying across two regions.

Comfortable debt coverage metrics
The debt coverage metrics of the project are expected to remain comfortable as reflected by the cumulative DSCR being upwards of 1.20x for the combined entity. The SPVs (excluding Isha-1) are maintaining DSRA of one quarter in the form of FD as per the stipulated terms. Additionally, the project has a satisfactory weighted average tail life of more than 6 years which provides comfort from credit perspective.

Key weaknesses

Leveraged capital structure for the RG along with exposure to refinancing risk
The portfolio's capital structure is leveraged due to debt funded capex which is typical for the projects in renewable energy sector. Going forward, as per CARE Ratings' base case the capital structure will continue to remain leveraged with Total Debt/EBITDA remaining above 6.4x over the next three years. Given the leveraged capital structure, single-part nature of the fixed tariff in the PPA, and floating interest rates, its profitability remains exposed to any increase in the interest rates. CARE Ratings notes that the borrowers (excluding Isha-1) have secured a fixed interest rate for the first two years of repayment through an interest rate swap which mitigates interest rate fluctuation risk to a certain extent in the near term.

Another credit concern is the underlying refinancing risk due to bullet repayment of the term loan (~80% of the loan value) in June 2029. Nevertheless, the same is mitigated by the expectation that coverage indicators will remain strong, with the Project Life Coverage Ratio (PLCR) anticipated to stay above 1.3x at the time of refinancing.

Limited track record of operations

The entire 98.3 MWp of capacity was commissioned in a phased manner as four out of the five SPVs in the structure, with a cumulative capacity of ~55 MWp achieved commissioning on dates ranging from December 2023 to June 2024 and the remaining capacity of 43.3 MWp has recently achieved commissioning on October 09, 2024. The generation performance in the initial few months has been below P-90 estimates on account of stabilisation related challenges. As a result, CARE Ratings expects the generation to remain lower than the designed energy estimates in the first full year of operations i.e. FY25. However, going forward, CARE Ratings expects the generation performance to stabilize and remain in line with P-90 estimates. The ability of the SPVs to stabilise operations and operate at the designed energy estimates will be a key credit monitorable.

Vulnerability of cash flows to variation in weather conditions

As tariffs are one-part in nature, the companies may book lesser revenues in the event of non-generation of power due to variation in weather conditions. This, in turn, would affect the group's cash flows and debt servicing ability.

Liquidity: Adequate

As on September 2024 end, the structure had a combined cash balance of Rs. ~11.5 crores which is inclusive of DSRA amounting to Rs. 7.1 crore (except Isha- One) in the form of FDs equivalent to 1 quarter of debt service obligations. As per CARE's base case, adjusted GCAs are expected to be Rs. ~11.7 crore and Rs. ~20.3 crore respectively for FY25 and FY26 as against annual repayments of around Rs. ~2.9 crores and Rs ~14.1 crores 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

Isha-Two, incorporated on April 21st, 2022, is an SPV of SSEPL. Isha-Two is currently operating a solar capacity of ~15 MWp. The entity is supplying energy to multiple reputed (C&I) counterparties having strong credit profile under group-captive mechanism. The plant achieved commissioning in February 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	0.00	0.28
PBILDT	-0.01	-1.89
PAT	-0.01	-2.64
Overall gearing (times)	0.00	2.47
Interest coverage (times)	0.00	-17.49

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		-	-	Mar-2040	44.00	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	44.00	CARE A-; Stable				

LT: Long term
*The actual outstanding amount may be lower than rated amount as the company is yet to draw the entire sanctioned amount.

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: 91-22-68374468 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.

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