First Energy 3 Private Limited

October 04, 2024

Facilities/Instruments	Amount (₹crore)	Rating[1]	Rating Action
Long-term bank facilities	291.43 (Reduced from 295.00)	CARE A-; Stable	Reaffirmed
Short-term bank facilities	15.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings on bank facilities of First Energy 3 Private Limited (FE3PL), which is operating a 25 MW wind-solar hybrid project (solar: 21.38 MW_{AC} / 27.51 MW_{DC}; wind: 24.25 MW) at village Neknam, Morbi district in Gujarat, factors in 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. Rating strengths are also underpinned by its long-term off-take arrangements through power purchase agreements (PPAs) for the entire project capacity with multiple commercial and industrial (C&I) customers providing strong revenue visibility to the project and low counterparty risk considering strong credit profile of majority of its off-takers. Off-take risk is mitigated due to the presence of clauses such as lock-in period, compensation in case of early termination of the agreement by the off-taker, minimum off-take guarantee, among othersin the PPAs. Ratings also draw comfort from operational track record of more than one year and creation of debt service reserve account (DSRA) equivalent to two quarters of debt servicing obligations and stable outlook for the renewable power sector in India.

However, rating strengths are tempered due to the single location of the plant and exposure to climatic and technological risks. Ratings are also constrained due to leveraged capital structure given the debt-funded nature of capex undertaken, while setting up the project and interest rate fluctuation risk considering floating rate term loan availed for the project.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Achievement of generation in line with the envisaged levels on a sustained basis along with receivable cycle remaining below 45 days, thereby positively impacting the debt coverage indicators.
- Significant improvement in the capital structure.

Negative factors

- Decline in capacity utilisation factor (CUF) below the envisaged levels on a sustained basis.
- Significant delays in receipt of payments from the off-takers.
- Availment of additional debt / any major increase in rate of interest adversely affecting the debt coverage indicators.
- Significant deterioration in the credit profile of the promoter or dilution in its support philosophy towards FE3PL.

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

Outlook: Stable

The stable outlook reflects FE3PL's steady operational and financial performance backed by its long-term PPAs with moderate debt coverage indicators in the medium-term.

Detailed description of key rating drivers:

Key strengths

Experienced promoter group with track record in setting-up and operating infrastructure projects

FE3PL 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. Through FEPL, Thermax ventured into the renewable energy sector. FEPL has total operational renewable power generation capacity of around 200 MWp and capacity pipeline of ~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, Thermax's equity infusion into FEPL stood at ₹~404 crore. In addition to developing renewable energy projects as an Independent Power Producer (IPP), FEPL is involved in

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

Engineering, Procurement, and Construction (EPC), and 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.

Long-term PPAs in place with C&I customers providing revenue visibility
FE3PL entered a six long-term PPAs of 25 years with five C&I customers for off-take of the entire power generation capacity of 25 MW solar-wind hybrid power project under group captive route. Availability of long-term PPAs of 25 years imparts strong revenue visibility to the company. Off-take agreements have enabling clauses pertaining to minimum lock-in period, compensation in case of early termination of the agreement by the off-taker, minimum off-take guarantee, among others, which mitigate off-take risk. Off-takers are incentivised to procure power from FE3PL due to significant cost savings to off-takers, considering the prevailing industrial tariff in Gujarat, which is ~₹9/kWh. The project also has a 50% exemption from payment of wheeling charges and additional surcharge and 100% exemption from electricity duty per the Gujarat Wind-Solar Hybrid Power Policy - 2018.

Operational track record of more than a year
The project has an operational track record of ~15 months. The project's actual generation in FY24 was significantly lower than the designed energy estimates due to stabilisation related issues and other operational challenges, which are now resolved as reflected by 5MFY25 combined PLF being in line with P-90 estimates. Going forward, generation performance would remain a key credit monitorable.

O&M of the project in place
The company entered a fixed-price O&M contract with wind turbine generator (WTG) supplier GE India Industrial Private Limited (GE India) for its wind capacity for 10 years from COD of the project with free O&M services for of the first two years. FE3PL has signed a O&M contract for its solar capacity with Onix Structures Private Limited (Onix) for an initial term of two years, which shall be extended further basis mutual agreement between both parties. The experience and technical efficacy of both O&M contractors is expected to alleviate operational risk to a certain extent.

Low counterparty risk
The company has signed six PPAs of 25 years with five C&I customers. Out of five off-takers, the credit profile of three off-takers (comprising around 71% of the tied-up capacity) is strong which reduces the credit risk to a great extent. The credit profile of the remaining two off-takers is moderate. Also, FE3PL has obtained bank guarantees (BGs) from all its off-takers as per the PPA terms in order to mitigate the counterparty risk. Also, as per the PPA terms, the off-takers are required to make payments within 7-10 days from the date of receipt of invoices. The PPAs also provide for levy of late payment surcharge (LPS) payable by the off-takers for any delay in discharge of payments. Furthermore, diversified pool of off-takers belonging to different sectors alleviates the counterparty risk to an extent. During FY24, FE3PL has received amount within 12 days from raising of invoice from all off-takers.

Key weaknesses

Operations of plant being exposed to climatic conditions and technological risks
Renewable power projects are inherently exposed to fluctuations in climatic conditions, which result in variations in CUFs, yielding seasonal generation. Achievement of desired CUF going forward would be subject to changes in climatic conditions, amount of degradation of the modules, and other technological risks. As tariffs are single part in nature, FE3PL may realise lower revenues non-generation of power due to variation in weather conditions and/or equipment quality. This would affect cash flows and debt servicing ability.

Leveraged capital structure given debt-funded nature of capex
FE3PL's capital structure is leveraged considering debt-funded capex incurred for setting up the project, which is customary to the renewable sector. The project has been funded in a debt-to-equity ratio of 3:1. High leverage and fixed tariff and O&M expenditure are expected to lead to moderate debt coverage indicators. The project has a long tail period of around five years, which provides some comfort from credit perspective. However, given the high leverage, achievement of the envisaged generation and build-up of sufficient reserves from the project cash flows remains crucial, as shortfall in the estimated generation could impact the profitability and debt coverage indicators going forward.

Interest rate fluctuation risk given the floating interest rate
The term loan availed is floating rate loan and the lender can reset the interest rates annually. Given the leveraged capital structure and single part nature of the fixed tariff in the PPA, its profitability remains exposed to increase in interest rates for the company.

Liquidity: Adequate

The company's liquidity is adequate with expected cash accruals of ₹14.5 crore in FY25, which is expected to be sufficient to service its scheduled debt repayments of around ₹7.13 crore. FE3PL has also created required DSRA equivalent to two quarters of debt servicing obligations (principal + interest). As on August 28, 2024, the company had cash and cash equivalents of ₹23.4 crore, which includes two quarter DSRA amounting to ₹17.35 crore in the form of FD and liquid MF.
To assist in repaying debt, settling capex creditors, and maintaining liquidity, the parent company injected ₹8.4 crore in FY24. The parent company also contributed ₹17.35 crore for creating the necessary DSRA.

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
Short Term Instruments
Wind Power Projects

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power generation

Incorporated in May 2022, FE3PL is a 74% subsidiary of FEPL which, is a wholly owned subsidiary of Thermax. Balance 26% stake in FE3PL is held by the captive power consumers. FE3PL has set-up a 25 MW captive solar wind hybrid power generation project at village Neknam, Morbi district in Gujarat. The solar capacity is 21.38 MW_{AC} / 27.51 MW_{DC} whereas the wind capacity is 24.25 MW. FE3PL entered six long-term PPAs of 25 years with five C&I for the off-take of the entire power generation capacity of 25 MW solar-wind hybrid power project under group captive route. Tariff of PPAs is fixed for 25 years.
The project cost was ₹396.23 crore which is funded in a debt-to-equity ratio of 3:1. The project achieved COD on June 17, 2023.

Brief Financials (₹crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	0.00	28.36
PBILDT	-2.17	25.55
PAT	-1.71	-8.38
Overall gearing (times)	3.48	3.07
Interest coverage (times)	NM	1.11

A: Audited; NM: Not meaningful; The above financials have been adjusted per CARE Ratings' criteria.
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/Bank Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2043	291.43	CARE A-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	15.00	CARE A2+

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	291.43	CARE A-; Stable	-	1)CARE A-; Stable (09-Aug-23)	-	-
2	Non-fund-based - ST-Bank Guarantee	ST	15.00	CARE A2+	-	1)CARE A2+ (09-Aug-23)	-	-

LT: Long term; ST: 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
2	Non-fund-based - ST-Bank Guarantee	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

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About us:

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