Gro Solar Energy Private Limited

June 29, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	26.45	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Total Bank Facilities	**26.45 (₹ Twenty-Six Crore and Forty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of 7 MW (AC) solar power plant operated by Gro Solar Energy Private Limited (GSEPL) favourably factors in the successful commissioning of the solar power capacity in Dhule district, Maharashtra in June 2021 wherein the generation in the first year of operations has been satisfactory. The rating also factors in the presence of long-term power purchase agreement (PPA) of 25 years with Maharashtra State Power Generation Company (MAHAGENCO) at a fixed tariff of Rs.3.10 per unit which provides long term revenue visibility. The collection efficiency for the project has also remained satisfactory with payments being made by the counterparty within 90 days on an average. The rating also derives comfort from the extensive experience of the promoter/management in the power industry.

The rating is however constrained by the vulnerability of cash flows due to variation in the weather conditions given the single part tariff for the project. CareEdge Ratings also factors in the debt funded nature of capex incurred for these projects which would result in leveraged capital structure. Subsequently the coverage indicators are expected to remain moderate around 1.2x times for the project.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustained improvement in generation performance along with receivables remaining under 90 days on a sustained basis resulting in comfortable liquidity position
- Significant reduction in leverage and improvement in debt protection metrics with average DSCR improving to more than 1.3 times

Negative factors – Factors that could lead to negative rating action/downgrade:

- Underperformance in generation thereby resulting in downward revision of average DSCR to below 1.15 times
- Overall receivables stretching beyond 150 days on a sustained basis

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Long term revenue visibility on account long term PPA with MAHAGENCO

The company has low offtake risks owing to the presence of a long-term PPA for 25 years with MAHAGENCO at a fixed tariff of Rs.3.10 per unit thus limiting the demand and tariff risk. MAHAGENCO further sells the power from this plant to Maharashtra State Electricity Distribution Company Limited (MSEDCL) Long-term PPA provides revenue visibility for the company. The company has also approached Maharashtra Electricity Regulatory Commission (MERC) seeking approval for reimbursement of safeguard duty (SGD) on solar cells/modules and increase in the rate of basic custom duty (BCD) on solar inverters as a "Change in Law" event. The decision of the MERC is a credit monitorable event.

Commissioning of entire project capacity in June 2021; Satisfactory operational performance in the first year

The 7 MW solar power capacity under GSEPL achieved commercial operations in June 2021 thereby alleviating the execution risks. The operations of the company seem to have stabilised and the generation performance in the first year has been broadly in line with the designed energy levels. The collection profile also remains robust with average collection days remaining around 90.

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

Industry Outlook

India has an installed renewable capacity of ~110 GW (excluding large hydro) as on March 31, 2022, comprising solar power of 54 GW, wind power of 40 GW, small hydro of 5 GW and other sources including biomass of 11 GW. There has been a significant traction in solar power installations over the last few years and the cumulative solar power capacity has surpassed the installed wind power capacity, despite its late and slow start. The overall renewable energy installations have increased at a CAGR of 17% from FY16-FY22. Over the years renewable energy industry has benefitted on account of Government's strong policy support, India's large untapped potential, presence of creditworthy central nodal agencies as intermediary procurers and improvement in tariff competitiveness. Going forward, with India setting up an ambitious target of achieving 450-GW renewable capacity by 2030, the regulatory framework is expected to remain supportive. However, developers are expected to face challenges in the near term on account of rising cost of modules, turbines and other ancillary products along with imposition of basic custom duty on cells and modules from April 2022 onwards which is expected to drive up costs and result in increase in bid tariffs for new projects. This apart, challenges for acquisition of land and availability of transmission infrastructure also remains a key bottleneck. However, the Indian renewable industry continues to be a preferred investment alternative for both domestic as well as foreign investors and is expected to post robust growth going forward as well which results in CARE Ratings Ltd assigning a Stable outlook to the industry.

Key rating weaknesses

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.

Exposure to counterparty credit risk

The company's operations remain exposed to the counterparty credit risk of Maharashtra state utility which has a modest credit profile. Nonetheless, the realisation of payments has remained robust with average collection days remaining around 90. Timely collection of payments from MAHAGENCO on a sustained basis will be a key rating monitorable from the credit perspective.

Leveraged capital structure albeit modest debt protection metrics

The capital structure of GSEPL remains leveraged on account of the debt-funded capex incurred for setting up the project which is a customary to renewable sector. The project has been funded in a debt equity ratio of 70:30. Nevertheless, the coverage indicators of the company are expected to be comfortable going forward, as reflected by average DSCR of ~1.26 times as per CARE's base case scenario.

Liquidity: Adequate

As on May 2022 end, the company had cash and bank balances of Rs.0.51 crore and FDs of Rs.0.40 crore which is mainly earmarked for the DSRA creation. The company has to build 2 quarter DSRA from the cash flows and at present have built DSRA reserve of about a quarter. Going forward, payments track record is expected to improve to a certain extent which will aid in creation of the second quarter DSRA reserve. As per CARE's base case, annual gross cash accruals (GCA) for FY23 are expected to be around Rs.1.77 crore as against annual repayments of around Rs.1.01 crore.

Analytical approach

For arriving at the rating, CareEdge Ratings has taken standalone view on GSEPL.

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

Incorporated in August 2017, Gro Solar Energy Private Limited (GSEPL) is a special purpose vehicle (SPV) promoted by Mr. Gulabsing Girase and Mr. Rajdeep Girase. GSEPL is operating a 10 MWp/7 MW solar power plant in village Degaon, district Dhule, Maharashtra. GSEPL has entered into a long-term PPA with MAHAGENCO with a back to back Power Sales Agreement with Maharashtra DISCOM for a period of 25 years at a tariff of Rs.3.10/unit. This project is under the Government of

Maharashtra's "Mukhyamantri Saur Krishi Vahini Yojana". The Project has been designed to be an the AgroPV Project which is first of a kind as the project apart from generating power is also used for agriculture purposes.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	Q1FY23 (UA)
Total operating income	0.00	3.25	NA
PBILDT	-0.07	2.64	
PAT	0.04	-3.33	
Overall gearing (times)	1.75	3.17	
Interest coverage (times)	-3.93	1.20	

A: Audited; P: Provisional; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	April 2039	26.45	CARE BBB; Stable

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	26.45	CARE BBB; Stable	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	The borrower has to maintain the following financial covenants: • DSCR = not less than 1.10 • Debt:Equity = 70:30 In case of adverse deviation by more than 20% for a continuous period of one year, additional interest rate of 1% will be charged over and above the applicable interest rate.
B. Non-financial covenants	
Debt Service Reserve Account (DSRA)	The borrower shall create and maintain DSRA in the TRA to maintain debt service requirement for peak six months / 2 quarters of principal and interest repayment due to the lender.
Promoter Undertaking	• Mr. Gulabsing Girase and Mr. Rajdeep Girase shall submit credit support undertaking for infusion of Promoter's contribution so as to maintain the debt:equity ratio. • The promoters shall agree to maintain minimum stake of 51% of total equity share issued by the borrower during the entire currency of the loan.

Annexure-4: Complexity level of various instruments rated for this company

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

Annexure-5: Bank lender details for this company

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

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

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