Essel Urja Private Limited

May 16, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Proposed Non-convertible Debenture issue – Tranche A	525	**Provisional CARE AA(SO); Stable [Double A (Structured Obligation); Outlook Stable)**	Reaffirmed
Proposed Non-convertible Debenture issue – Tranche B	165 (Reduced from 182.50)	**Provisional CARE AA(SO); Stable [Double A(Structured Obligation); Outlook Stable)**	Reaffirmed
Total Facilities	**690 (Rupees Six hundred Ninety crore only)**		

Details of instruments/facilities in Annexure-1

@ backed by proposed partial unconditional and irrevocable first loss default guarantee (FLDG) from Indian Infrastructure Finance Company Ltd (IIFCL, rated 'CARE AAA') to the extent of 27.5% of the outstanding principal amount.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the NCD issue of Essel Urja Private Limited (EUPL), factors in escrowing of cash flow of operational six solar companies with a total capacity of 110 MW, the long-term Power Purchase Agreements (PPA) for a period of 25 years for the entire capacity at a fixed tariffs providing revenue visibility, geographical and customer diversification of the six solar companies and long-term. Operating and Maintenance contract with Essel Green Energy Private Limited, with adequate warranties, which partly mitigates operational risks.

The rating also draws strength from the proposed credit enhancement in the form of an unconditional and irrevocable First Loss Partial Guarantee from India Infrastructure Finance Company Limited (IIFCL, rated 'CARE AAA') along with a Trustee-Monitored structured payment mechanism for debt servicing of the NCDs. The ratings further derives comfort from creation of debt service reserve and guarantees fee reserve along with other financial covenants and sponsor undertakings.

Well-established promoter group (ESSEL group) possessing vast experience in the media, entertainment and infrastructure sector are other credit positives.

The rating strengths are however, tempered by inherent climatic and technological risks of envisaged module performance over the longer term in Indian conditions which may impact power generation, though these risks are substantially mitigated by funds kept aside in the form of an upfront DSRA, combined with a well-defined waterfall mechanism and sponsor undertakings to make good any cost-overrun on O&M. The rating strengths are further tempered by the limited track record of operations of the six solar companies and weak credit profile of their off-takers (HESCOM, UPPCL, PSPCL) with moderate to satisfactory payment track record.

Going forward, any discrepancies noticed in the robustness of the credit enhancement, power generation at envisaged Plant Load Factor (PLF) and timely receipt of payment against the sale of power from the offtakers shall be the key rating sensitivities.

The above rating(s) are provisional and will be confirmed once the company submits copies of relevant executed documents, to the satisfaction of CARE.

Key Rating Strengths

Resourceful and experienced promoters: EUPL is a wholly owned subsidiary of Essel Green Energy Private Limited (EGEPL). Essel Infraprojects Limited (EIL, rated CARE BBB+; Stable/CARE A3+) is the ultimate holding company. EIL, promoted by Mr Subhash Chandra, is the infrastructure arm of Essel Group with interest in road projects, urban infrastructure, power, water management and solid waste management.

Structure and Credit enhancement: The proposed NCDs are to be credit enhanced by unconditional & irrevocable partial FLDG (partial guarantee) from IIFCL (rated CARE AAA) to the extent of 27.5% of the principal outstanding for both the tranches throughout its tenure. Additionally, the NCDs are backed by unconditional and irrevocable guarantee from pre-identified five solar companies of Essel Group.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Waterfall Mechanism: *Debenture Trustee shall transfer the amounts from the Master Escrow Account in the order mentioned below:*

1. Tax payments, the issuer shall provide an estimate on a semi-annual basis of tax expenses. Debenture Trustee to transfer such amounts on a monthly pro-rata basis.
2. On a monthly basis, an amount transferred to the O&M account at each of the Solar Portfolio Companies as per the O&M schedule.
3. Payment of Guarantee Fee to the Guarantor ("IIFCL").
4. Every quarter, 4 business days before the scheduled interest payment date (10th day of the month), the Debenture Trustee to transfer such amounts from the Issuer's Master Escrow to the Debt Payment Account so that the scheduled interest and principal obligation on Tranche A and scheduled interest obligation on Tranche B can be repaid. In case amounts present in the Issuer's Master Escrow are insufficient for such payments, the debenture trustee would dip into the following (in order mentioned):
    - Excess Proceeds present in the Master Escrow Account of other Solar Portfolio Companies
    - Debt Service Reserve Account.
    - IIFCL Guarantee – Debenture trustee shall inform IIFCL of any shortfall at T-15 days and will be funded by T-4 days.
5. Maintaining Guarantor Fee Reserve to the tune of following ***24*** months every quarter.

- In case the Guarantee limits from IIFCL has been drawn down and not replenished, the Debenture Trustee will use proceeds in the Issuer's Master Escrow to replenish the utilized Guarantee Account to its initial amount.
- In case, the DSRA has been drawn down and not replenished, the Debenture Trustee will use proceeds in the Issuer's Master Escrow to replenish the DSRA Account to its initial amount.
- On an annual basis, two business days prior to the Scheduled Repayment Date on Tranche A, the Debenture Trustee shall transfer to mandatory prepayment account, subject to the availability of cash in the master escrow account after considering Tranche A repayment, an amount as laid out under prepayment Profile for Tranche B. In case of any shortfall in servicing of the mandatory prepayment account in any of the prior years, the Debenture Trustee will make good such short-fall in subsequent years from the Issuer's Master Escrow Account in accordance with the waterfall mechanism. Such amount will be utilised towards mandatory prepayment of Tranche B.
- Subject to covenants being met and no default outstanding, as well as the full availability of the DSRA amount, excess amounts present in the Master Escrow Accounts at each of the six SPVs can be transferred to the Distribution Account.
- Promoters would not be allowed to take out any amount of cash available in Distribution Account for the first 3 years and 100% to be utilized towards debt pre-repayment of Tranche B.
- Post 3 years, promoters may take out 20% of cash available in Distribution Account. (annual Basis) balance 80% to be utilized towards debt pre-repayment of Tranche B.

Moderate financial risk profile of EUPL and other five solar companies: The solar capacity of 110 MW across the six solar companies has become operational in phases from August 2013 to October 2015 and has a moderate financial risk profile. Of the total capacity, 45% of the capacity (50 MW UP project commissioned in October 2015) has a track record of over 1 year, while rest of the 55% (60 MW) capacity has weighted average operating track record of 1.5-3 years.

Long-term PPAs at fixed tariff: All the six solar companies have entered into long term PPAs for a period of 25 years (except in case of UPPCL wherein initial agreement is for 12 years and increased for a further period of 13 years at the price of eleventh year APPC) at fixed tariffs. Presence of long term PPAs with various discoms at fixed tariffs provides long term revenue visibility.

Procurement of Modules from suppliers with performance and manufacturing guarantee: All the modules from the suppliers have performance guarantee upto 25 years of the minimized stabilized rated output power. In addition, there is warranty against manufacturing defects for a period of ranging from 5 to 10 years. However, ability of the module suppliers to honour the warranties and replacement remains to be seen.

Long term O&M agreement with contractor (EGEPL): All the six company has entered into O&M contracts with Essel Green Energy Private Limited. The O&M contractor as per the agreement will ensure average annual guarantee performance ratio (GRP) and plant uptime ratio.

Key Rating Weaknesses

Weak credit profile of majority of some off takers but moderate to satisfactory payment track record: The credit profile of their offtakers (HESCOM, UPPCL, PSPCL) is weak with moderate to satisfactory payment track record. The off-taker of EUPL is Uttar Pradesh Power Corporation Limited (Uttar Pradesh), EBSEPL and EGSPPL is Hubli Electricity Supply Company Limited (Karnataka), PNCEL and PNREL is Punjab State Power Corporation (Punjab) and OSEL is NTPC Vidyut Vyapar Nigam Limited (Maharashtra).

Limited track record of operations of six solar companies and performance is exposed to climatic and technological risks: There exists an inherent climatic and technological risk of envisaged module performance over the longer term in Indian conditions which may impact power generation and in turn affect the revenue generation capability of the company. The solar capacity of 110 MW across the six solar companies has become operational in phase from August 2013 to October 2015.

Analytical Approach: Combined

The NCDs are backed proposed by unconditional and irrevocable first loss partial guarantee from Indian Infrastructure Finance Company Ltd (IIFCL, rated 'CARE AAA') to the extent of 27.5% of the outstanding principal amount.

In addition, the cash flows of following six solar companies including Essel Urja Pvt Ltd are combined and are backed by unconditional and irrevocable guarantee from other five solar companies

1. Essel Bagalkot Solar Energy Private Limited
2. Essel Gulbarga Solar Power Private Limited
3. P N Clean Energy Limited
4. PN Renewable Energy Limited
5. Osmanabad Solar Energy Limited

Applicable Criteria

[**Criteria on assigning Outlook to Credit Ratings**]
[**CARE's Policy on Default Recognition**]
[**Financial ratios – Non-Financial Sector**]
[**Rating Methodology: Factoring Linkages in Ratings**]

About the Company

Essel Urja Private Limited is a wholly owned subsidiary of Essel Green Energy Private Limited. Essel Infraprojects Ltd (EIL, CARE BBB+) is the ultimate holding company.

EUPL has been awarded 50 MW capacity of solar photo voltaic (PV) project under Uttar Pradesh Solar Power Policy 2013 by Uttar Pradesh New and Renewable Energy Development Agency (UPNEDA) in 2013. The project is located at Kalpi Taluka in Jalaun District, Uttar Pradesh. EUPL has entered into power purchase agreement (PPA) with Uttar Pradesh Power Corporation Limited (UPPCL) for a period of 12 years to sell the power at rate of Rs.9.27 /kWh. The project achieved CoD on October 13, 2015. The total cost incurred stood at Rs.405.20 crore (est. cost was Rs. 415.76 crore) funded through debt amounting to Rs.283.90 crore and balance through equity/CCDs. Solar panels for the power project are imported from QS Solar. The project is based on the Polycrystalline technology.

Essel Bagalkot Solar Energy Pvt. Ltd (EBSEPL- CARE BBB) is Special Purpose Vehicle of Essel Infraprojects Ltd which has developed a 5MW grid interactive Solar photovoltaic (PV) power plant at Nimbal (BK) Village, Taluka- Indi in Bijapur District in Karnataka. The company has entered into Power Purchase Agreement with Hubli Electricity Supply Company Limited (HESCOM) at KERC applicable tariffs of Rs.8.46 /KWH for 25 years.

Essel Gulbarga Solar Power Pvt. Ltd (EGSPPL- CARE BBB) is Special Purpose Vehicle of Essel Infraprojects Ltd which has developed a 5MW grid interactive Solar photovoltaic (PV) power plant at Nimbal (BK) Village, Taluka- Indi in Bijapur District in Karnataka. The company has entered into Power Purchase Agreement with Hubli Electricity Supply Company Limited (HESCOM) at KERC applicable tariffs of Rs. 8.37/KWH for 25 years.

P N Clean Energy Limited {PCEL –CARE BBB+ (SO)}, incorporated in June 2013, formerly known as Essel Clean Energy Limited (PCEL) is promoted (100% subsidiary) by Essel Infraprojects Limited, has been awarded 20 MW capacity of solar photo voltaic (PV) project. The company has entered power purchase agreement (PPA) with Punjab State Power Corporation Limited (PSPCL, CARE BB+/ A4+) at applicable tariff of Rs.8.70/KWH for a period of 25 years.

PN Renewable Energy Limited {PREL – CARE BBB+ (SO)}, incorporated in May 2013, is promoted (100% subsidiary) by Essel Infraprojects Limited, has been awarded 10 MW capacity of solar photo voltaic (PV) project. The company has entered into a PPA with Punjab State Power Corporation Limited (PSPCL) at applicable tariff of Rs.8.65/KWH for a period of 25 years.

Osmanabad Solar Energy Limited, formerly known as ESSEL MP Energy Limited, incorporated in 2011, is promoted as a wholly owned subsidiary of Essel Infraprojects Limited (EIL), the infrastructure arm of essel group. It is a SPV formed by EIL to implement the 20 MW Solar Photovoltaic project in Maharashtra. The project is located in Horti Village, Taluka – Tuljapur, District – Osmanabad Maharashtra. The company has entered into a PPA with NVVN at applicable tariff of Rs.9.27/KWH for a period of 25 years

During FY16 (refers to the period April 1 to March 31), EUPL reported a loss of Rs. 11.85 crore (Rs.-0.12 in FY15) on a total operating income of Rs.21.51 crore (Rs. Nil in FY15).

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History (last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non-convertible Debentures	-	-	-	525.00	Provisional CARE AA (SO); Stable
Debentures-Non-convertible Debentures	-	-	-	165.00	Provisional CARE AA (SO); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	294.60	CARE BBB- (SO); Stable	-	1)CARE BBB- (SO); Stable (30-Jan-17) 2)CARE BBB- (SO) (07-Apr-16)	1)CARE BBB- (SO) (21-Aug-15)	-
2.	Debentures-Non-convertible Debentures	LT	525.00	Provisional CARE AA (SO); Stable	-	1)Provisional CARE AA (SO); Stable (30-Jan-17)	-	-
3.	Debentures-Non-convertible Debentures	LT	165.00	Provisional CARE AA (SO); Stable	-	1)Provisional CARE AA (SO); Stable (30-Jan-17)	-	-

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CIN - L67190MH1993PLC071691