Renew Mega Solar Power Private Limited

October 08, 2020

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	44.18 (reduced from 252.88)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed and outlook revised from negative**
Total	**44.18 (Rs. Forty-Four crore and eighteen lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Renew Mega Solar Power Private Limited (RMSPPL) continues to derive strength from experienced and resourceful promoters viz. Renew Power Private Limited (RPPL, rated CARE A+; Stable, CARE A1+) having experience in successfully developing and operating solar power assets across India, operational track record of around 3.5 years, long-term off-take arrangement in the form of Power Purchase Agreement (PPA) signed with Northern Power Distribution Company of Telangana Limited (TSNPDCL) at a fixed tariff for the entire capacity, comfortable debt coverage indicators and Debt Service Reserve Account (DSRA) of two quarters of debt servicing obligations in place.

The rating is, however, constrained by counterparty credit risk on account of relatively weak financial risk profile of the off-taker (TSNPDCL), elongated receivable cycle from Telangana discom of around 5 months though improvement in the receivable cycle in last one year, lower generation levels as compared to P-90 levels so far, risk pertaining to interest rate fluctuation risks and exposure to climatic conditions and technological risks.

Outlook: Stable

The Outlook for the rating has been revised to 'Stable' from 'Negative' on account of improvement in payment pattern from TSNPDCL. The receivable cycle has improved to 5 months from 9 months leading to an improvement in the liquidity position of the company.

Rating Sensitivities:

Positive Factors:

- Generation levels higher than envisaged CUF (P-90 CUF of 23.09% for first full year of operations) positively impacting the coverage indicators of the project
- Significant improvement in receivable cycle from the off-takers, TSNPDCL to less than 2 months on sustainable basis
- Improvement in credit risk profile of the off-taker i.e TSNPDCL

Negative Factors:

- Significantly lower than envisaged CUF (P-90 CUF of 23.09% for first full year of operations) negatively impacting the coverage indicators of the project
- Elongation in receivable cycle from the off-takers, TSNPDCL to 12 months or more negatively impacting the overall liquidity profile of the SPV
- Deterioration in credit risk profile of the off-taker i.e. TSNPDCL
- Non-receipt or delay in receipt of timely support from the promoters viz. Renew Power Private Limited
- Non-compliance of various covenants as per sanctioned terms including continued maintenance of DSRA equivalent to 2 quarters of debt servicing

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters:

RPPL is one of the leading players in the renewable power sector in India which was founded by Mr. Sumant Sinha with majority equity stake held by Goldman Sachs group along with other key investors such as Canada

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

Pension Plan Investment Board (CPPIB), Abu Dhabi Investment Authority (ADIA), Jera Power and South Asia Clean Energy Fund (SACEF). The Goldman Sachs group, through its investment arm, GS Wyvern Holdings (GSH), has been making significant equity investment in RPPL since FY12 and is the majority shareholder. Subsequently, other investors, South Asia Clean Energy Fund (SACEF), Abu Dhabi Investment Authority (ADIA, through its arm Green Rock A 2014 Ltd), Jera Company Inc. and Canada Pension Plan Investment Board (CPPIB) have made significant investment and also GSH has participated in further rounds of equity fund raising by the company. Recently, in June 2019, RPPL raised fresh equity of USD 300 million (~Rs.2100 crore) through rights issue with three of the existing investors participating. The company has expanded its capacity significantly to become one of the largest renewable energy company in India.

As on September, 2020, RPPL has operational capacity of around 5.47 GW, majority of which have tied up long-term PPAs. In addition, Renew has about 4.15 GW of power projects under implementation or in planning stage expected to become operational in next 1-3 years in phases.

Operational track record of around 3.5 years:

The project was commissioned within envisaged timelines and has operational track record of 3.5 years. The 48MW project achieved COD in February 2017 as against the SCOD of June 6, 2017.

Long Term offtake arrangement in the form of PPA signed with TSNPDCL:

RMSPPL is supplying power to TSNPDCL as per the terms of long-term PPA for supply of power at a fixed tariff of Rs.5.59 per kWh for a period of 25 years under the State Solar Power Policy. With a long-term off-take arrangement at a fixed tariff, the company has long-term revenue visibility.

Comfortable debt coverage indicators, DSRA of 2 quarters provides comfort:

The debt coverage indicators of RMSPPL are comfortable for the tenor of the loan.

Debt coverage indicators have improved as the company has prepaid part of term debt FY20 and Q1FY21 from the bulk payments received from off-taker aggregating Rs.38.63 crore. Also, the interest rates are quite competitive via term loan availed from a multilateral institution (ROIs linked to London Inter-Bank Offered Rate (LIBOR)). Also, in line with the sanction terms, the company continues to maintain DSRA equivalent to 2 quarter of debt servicing obligations in the form of Fixed Deposits (FDs) of Rs 13.2 crore as on September 2020.

Industry Outlook:

There is great thrust from Govt. for improving the share of solar power in India's overall power mix which is reflected from various policy initiatives. There had been muted solar power generation capacity additions during FY19 & FY20 on the back of imposition of safeguard duty on import of solar modules, lack of clarity w.r.to GST rate on solar modules and cancellation of large amount of solar auctions. However, looking at the already allotted capacity and govt.'s push for achieving targeted solar capacity of 100 GW by end FY22, capacity additions are likely to improve in next two to three years. Having said that, FY21 is expected to be a muted year in terms of capacity additions given disruption caused by COVID-19 pandemic.

Solar projects have relatively lower execution risks, stable long term revenue visibility with long term off take arrangements at a fixed tariff, minimal O&M requirements, tariffs comparable to conventional power generation, must run status of solar power projects and upward revision in solar RPO achievement targets. However, there are concerns like increased difficulties in land acquisition, inadequate grid connectivity on account of poor evacuation infrastructure, relatively lesser track record of technology in Indian conditions, lack of stricter RPO enforcement by the state regulators, very high dependence on imported solar cells and modules, regulatory haze in terms of renegotiation of tariff in concluded PPAs and cancellation of concluded auctions, weak financial risk profile of Discoms with significant delays in payment by few state Discoms, increased difficulties in debt tie-up. Overall, positive and negative developments in the sector counterbalance each other, thereby resulting in a stable outlook.

Going forward key monitorables would be gradual pick-up in power demand, prices of solar modules, performance of the modules in Indian conditions, developments in claim of off-takers for renegotiation of PPAs, modalities to compensate under change in law for safeguard duty, payment pattern of off-takers given cash flow position have been negatively impacted, imposition of any anti-dumping duty by India to safeguard domestic solar module manufacturers, capacity additions of rooftop solar and regulatory stance.

Key Rating Weaknesses

Lower than envisaged generation levels:

The operational performance of the plant has remained lower than the P-90 estimated levels. The company achieved CUF of 20.38% during FY20 as against 21.69% in FY19 and 22.10% in FY18. The generation levels have been lower than the P90 levels (23.09% for 1st year of operations). The CUF levels for FY20 was impacted during September 2019 to December 2019 on account of relatively lower solar irradiation levels and grid curtailment in the month of October 2019 in state of Telangana. Further, plant generated CUF of 21.61% during 5MFY21 as against 21.91% during 5MFY20. Going forward, achievement of generation levels as envisaged would be crucial from cash flow perspective.

Relatively weak credit profile of the off-taker; elongated receivable cycle of around 5 months, though improvement seen in receivable cycle in last 1 year:

Northern Power Distribution Company of Telangana Limited (TSNPDCL), the off-taker for the project has a relatively weak credit profile having weak debt coverage indicators along with off-taker operating in a restrictive regulatory environment.

However, the payment pattern of TSNPDCL has improved to some extent with receivable cycle of around 5 months (as against earlier receivable cycle of around 9 Months) as against 30 days as per PPA terms. The company received last payment in the end of July, 2020 pertaining to energy billed till February, 2020. Although the payment pattern of the DISCOM has improved slightly and the company has been receiving regular monthly payments from last few months, the outstanding receivable continues to be high at 5 months. Going forward, timely receipt of revenue from the off-taker will be critical from cash flow perspective. The financial profile of the discom and timely payments will be a key monitorable.

Interest Rate Fluctuation Risk:

The term loans availed is floating rate loans and the lenders can reset the interest rates. However, the tariff for off-take arrangement of the power is fixed, thereby, exposing the company to risk of any adverse movement in interest cost.

Exposure to technology and climatic risks:

The company has used multi-crystalline technology, which has a proven history worldwide, suffers relatively lower degradation and requires lesser land leading to reduction in the Balance of Systems (BoS) cost. However, achievement of desired CUF going forward would be subject to changes in climatic conditions, amount of degradation of modules as well as other technological risks.

Impact of Covid-19:

The operations of the project were not impacted much as renewable energy projects enjoy must-run status. Accordingly, the plant continued to operate smoothly including during the lock down period. The payment patterns have improved during the last one year and there has been no impact of covid-19 in the receivable cycle of the company. Moreover, company has not availed any moratorium during the period of April-2020 to August 2020.

Liquidity position: Adequate

As on September 2020, the company's liquidity position is adequate given DSRA covering 2 quarters of debt service obligations is in place (Rs.13.2 crore kept in the form of Fixed Deposits). In addition to DSRA, cash & bank balance stood at around Rs.32.4 crore as on September 2020. The company does not have any sanctioned working capital facilities.

The company has debt repayment obligations of Rs.8.28 crore and Rs.8.62 crore as against projected GCA of Rs.16.38 crore and Rs.19.38 Crore in FY21 and FY22, respectively.

Analytical approach: Standalone

Applicable Criteria

CARE's methodology for Infrastructure sector ratings
Criteria on assigning Outlook and Credit Watch to Credit Ratings
Rating Methodology: Solar Power Projects
CARE's methodology for private power producers
Financial Ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

RMSPPL is a subsidiary of Renew Solar Power Private Limited (RSPPL, rated CARE A; Stable), holding 51% stake and balance 49% stake is held by Hareon Power Singapore Private Limited (HPS, solar holding company of Hareon group, China). RSPPL is a wholly owned subsidiary of Renew Power Private Limited (RPPL, erstwhile Renew Power Limited, rated CARE A+; Stable/CARE A1+) and is a holding company of the solar assets of the group. RMSPPL has set up 48 MW (AC) solar PV capacity at Village Mandamarri, District Adilabad, Telangana using Multi-Crystalline Silicon technology. The project achieved COD in February 2017 (24 MW on February 13, 2017 and 24 MW on February 21, 2017) as against Scheduled COD (SCOD) of June 6, 2017 (15 months from the date of PPA signing).

The project has been set up at a cost of Rs.344.78 crore funded via term debt of Rs.252.88 crore and remaining through promoter contribution. The company is supplying power to Northern Power Distribution Company of Telangana Limited (TSNPDCL) under a 25-year Power Purchase Agreement (PPA) at a fixed tariff of Rs.5.5949/kWh.

Brief Financials – RMSSPL Standalone (Rs. crore)	FY19 (A)	FY20(A)
Total operating income	53.57	50.78
PBILDT	47.19	44.06
PAT	3.70	3.58
Overall gearing (times)	2.13	1.90
Interest coverage (times)	1.76	1.79

A: Audited

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 for this company: Annexure 4

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
Fund-based - LT-Term Loan	-	-	March 33	44.18	CARE BBB+; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	44.18	CARE BBB+; Stable	-	1)CARE BBB+; Negative (17-Dec-19) 2)CARE BBB+; Negative (12-Aug-19)	1)CARE BBB+; Stable (10-Oct-18)	1)CARE BBB; Stable (28-Jun-17)

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

Name of the Instrument-Term Loan	Detailed explanation
A. Financial covenants	
I Debt Service Coverage Ratio	The Debt Service Coverage Ratio in respect of any Relevant Period shall not be less than 1.20x
II Long Term Liabilities to Tangible Net Worth Ratio	The long term liabilities to tangible net worth ratio shall not at any time be more than be more than 3:1x
II Fixed Asset Coverage Ratio	Fixed Asset Coverage Ratio (Net Fixed Asset/Total) should be greater or equal to 1.20x
B. Non-financial covenants	
I Restricted Payment Conditions	The borrower shall not make any payments of dividends, other distributions in cash , any other payments by way of investments/loans, or share capital of the borrower , any warrants or options thereof, any repayments related to subordinated loans in case the following conditions haven't been met : i) The borrower shall have paid all amounts then due to lender in accordance with financial agreements. ii) The borrower is in compliance with the financial covenants as mentioned in the financial agreements. iii) DSRA has been fully funded. iv) No default has occurred and is continuing by the borrower in meeting the debt servicing obligations.

Annexure 4: Complexity level of various instruments rated for this Company

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

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

CARE Ratings
Professional Risk Opinion

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