Renew Mega Solar Power Private Limited

December 17, 2 019

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	252.88	**CARE BBB+; Negative (Triple B Plus; Outlook: Negative)**	**Reaffirmed**
Total	**252.88 (Rs. Two Hundred fifty two crore and eighty eight lakh only)**		

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Renew Mega Solar Power Private Limited (RMSPPL) continues to draw comfort from experienced and resourceful promoters viz. Renew Power Limited (RPL, rated CARE A+; Stable, CARE A1+), operational track record of around 2.75 years, long-term off-take arrangement through Power Purchase Agreement (PPA) with Northern Power Distribution Company of Telangana Limited (TSNPDCL) at a fixed tariff for the entire capacity, moderately comfortable debt coverage indicators and Debt Service Reserve Account (DSRA) of two quarters in place.

The rating is, however, constrained by counterparty credit risk on account of relatively weak financial risk profile of the off-takers along with significant delays in receipt of payments, lower generation levels as compared to P-90 levels, interest rate fluctuation risks and exposure to climatic conditions and technological risks.

Rating Sensitivities:

Positive Factors:

- Achievement of generation at better than P-90 levels (23.09% for first full year of operations along with degradation each year) on sustainable basis
- Timely receipt of payments from the off-taker along with timely clearance of existing outstanding receivables leading to debtor cycle reducing to less than 3 months on sustainable basis

Negative Factors:

- Significantly lower than envisaged CUF levels (P-90 CUF of 23.09% for first full year of operations along with annual degradation each year)
- Elongation in receivable cycle to 12 months or more negatively impacting the overall liquidity profile of the SPV
- Non-receipt or delay in receipt of timely support from the promoters viz. Renew Power Limited

Outlook: Negative

The outlook for the rating continue to be 'Negative' on account of continued delays of 9 months in receipt of payments from TSNPDCL, though the same has come down from earlier debtor cycle of around 10 months. The elongation in payment cycle has negatively impacted the overall liquidity profile of the company, though DSRA continue to be maintained as per stipulated requirements. The ratings may get downgraded in case of further delays in payment receipts from TSNPDCL leading to a further deterioration in the liquidity position. The outlook may be revised to 'Stable' if the receivables cycle from TSNPDCL improves on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Operational track record of around 2.75 years: The project has operational track record of around 2.75 years. The project achieved CUF of 21.69% during FY19 (as against FY18 CUF of 22.10%). The CUF levels have remained largely in-line with FY18 levels but lower than P-90 estimates (P-90 CUF of 23.09% for 1st full year of operations). Generation during 5MFY20 stood at 21.84% (as against 5MFY19 generation of 21.50%). Going forward, achievement of generation levels as envisaged will be crucial.

Long-term PPA: 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.

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

Moderately comfortable debt coverage indicators, DSRA of 2 quarters in place: The door-to-door tenor of the term loan is elongated thereby leading to moderately comfortable debt coverage indicators. Also, in line with the sanction terms, the company continues to maintain DSRA equivalent to 2 quarter of debt servicing obligations.

Experienced and Resourceful Promoters: Renew Mega Solar Power Private Limited (RMSPPL) is promoted by Renew Solar Power Private Limited (RSPPL, rated CARE A+ (CE); Stable, 51% shareholding), solar holding company of the group and a wholly owned subsidiary of Renew Power Limited (RPL, rated CARE A+; Stable/CARE A1+) and Hareon Power Singapore Pvt Ltd (HPS, 49% shareholding). RPL is one of the leading players in the renewable power sector in India (operational capacity of around 5 GW as on December 2019) with single largest equity stake held by Goldman Sachs group along with other key investors such as Canada 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, GSH, has been making significant equity investment in RPL since FY12 and is the majority shareholder. Subsequently, other investors, SACEF, ADIA (through its arm Green Rock A 2014 Ltd), JERA and CPPIB have made significant investment and also GSH has participated in further rounds of equity fund raising by the company. Recently, in June 2019, RPL raised fresh equity of USD 300 million (~Rs.2100 crore) through rights issue with three of the existing investors participating.

Key Rating Weaknesses

Relatively weak credit profile of the off-taker, delay in receipt of payments from the off-taker:
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. The company has been receiving payments from TSNPDCL with a delay of around 9 months as against stipulation of 30 days as per PPA from the date of invoicing with last payment received in November 2019 for invoice of January 2019. Although the payment patter 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. 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.

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 & H1FY20 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.
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 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, imposition of any anti-dumping duty by India to safeguard domestic solar module manufacturers, capacity additions of rooftop solar and regulatory stance.

Liquidity position: Adequate
The company's liquidity position is adequate given DSRA covering 2 quarters of debt service obligations is in place (Rs.12 crore kept in the form of Fixed Deposits). Apart from DSRA, cash & bank balance stood at around Rs.10.10 crore as on

October 2019. The company does not have any sanctioned working capital facilities as on date. The company has debt repayment obligations of Rs.1.68 crore and Rs.8.08 crore as against projected GCA of Rs.17.05 crore and Rs.17.35 Crore in FY20 and FY21, respectively.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's policy on Default Recognition]
[Rating methodology - Infrastructure Sector Ratings]
[Rating Methodology - Private Power Producers]
[Rating Methodology: Solar Power Projects]
[Financial Ratios – Non-Financial Sector]

About the Company
RMSPPL is a subsidiary of Renew Solar Power Private Limited (RSPPL, rated CARE A+ (CE); 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 Limited (RPL, rated CARE A+; Stable/CARE A1+) and is a holding company of the solar assets of the group. RMSPPL has set up 48 MW 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 (Rs.7.18 crore/MW) 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)	FY18 (A)	FY19 (A)
Total operating income	55.43	53.57
PBILDT	48.80	47.19
PAT	20.46	3.70
Overall gearing (times)	2.14	2.13
Interest coverage (times)	2.10	1.76

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

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	-	-	Sep-37	252.88	CARE BBB+; Negative

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	252.88	CARE BBB+; Negative	1)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	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 while subordinated debt is outstanding under a subordinated loan agreement be more than 4:1 and at all other time, be more than 3:1
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 Change in Management and Board of Directors	The borrower shall not, without prior approval of the lender in writing make any material change in Management Structure or Board of Directors
II Any borrowing arrangement	The borrower shall not, without prior approval of the lender in writing, enter into borrowing arrangement, either secured or unsecured with other bank or financial institution or any other party except for those arranged as part of Means of Finance for this project or for meeting working capital requirements for this project as approved by the lender

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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