CRISIL Ratings

Rating Rationale

November 22, 2022 | Mumbai

Dayakara Solar Power Private Limited

Rating migrated to 'CRISIL BBB/Stable'

Rating Action

Total Bank Loan Facilities Rated	**Rs.170.58 Crore (Reduced from Rs.185.25 Crore)**
Long Term Rating	**CRISIL BBB/Stable (Migrated from 'CRISIL BBB+/Stable')**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has migrated its rating on the long-term bank facility of Dayakara Solar Power Pvt Ltd (DSPPL) from 'CRISIL BBB+/Stable' to **'CRISIL BBB/Stable'**. The rating on bank facilities worth Rs 14.67 crore has been **withdrawn** since they have been repaid as confirmed by lender. The withdrawal is in line with the policy of CRISIL Ratings on withdrawal of ratings.

The rating migration is driven by revision in CRISIL Ratings approach towards factoring in the support provided by an obligor-co-obligor group structure. The revised approach is based on guidance from the Reserve Bank of India (RBI) on factoring credit enhancement in the ratings of bank loan facilities. Please note that this rating migration is driven by regulatory guidance.

Earlier, CRISIL Ratings had factored in the presence of the obligor-co-obligor group where any cashflow shortfall in debt servicing of one SPV could be made good by the surplus available with other SPVs.

The company was part of the Acme obligor-co-obligor group (ACG), which comprises three special purpose vehicles (SPVs): Dayakara Solar Power Pvt Ltd (DSPPL), Grahati Solar Energy Pvt Ltd (GSEPL) and Mihit Solar Power Pvt. Ltd (MSPPL). The aggregate amount of rupee term loan outstanding in the three SPVs is Rs 758.14 crore as on date.

As per the revised rating approach, CRISIL Ratings may factor in the benefits of cash flow diversification in an obligor-co-obligor group, if there is a legally binding cross-guarantee instrument across the SPVs.

The ACG, which includes DSPPL, does not have an inter-institutional cross-guarantee, even as the group's management has expressed a strong intent of extending support amongst the three SPVs in ACG.

Accordingly, as per the revised rating approach, the rating of each entity in ACG has factored in the standalone credit risk profile and the expected support to/from ACG.

For more details on the revised rating approach, refer to 'Criteria for rating instruments backed by guarantees'.

The rating reflects the company's revenue visibility, adequate debt servicing metrics and a defined waterfall mechanism. These strengths are partially offset by exposure to counterparty risks and risks inherent in the operations of renewable energy assets.

Analytical Approach

CRISIL Ratings has assessed DSPPL based on the following analytical approach:

(i) Assessment of the standalone credit risk profile of DSPPL
(ii) Assessment of the credit risk profile of ACG
(iii) Arriving at the final rating by factoring in the expected support from ACG

Each of the three SPVs have executed an undertaking stating that surplus in any of the individual SPVs can be utilized for debt obligation in the other two SPVs, if required. This undertaking is part of the financing documents. Default under the undertaking will result in an event of default under the financing agreement. Thus, post debt servicing in each SPV, excess cash flow is largely available for use across the group. Power Finance Corporation (PFC) is the sole lender in each of the SPVs.

Key Rating Drivers & Detailed Description

Strengths:

Revenue visibility through power purchase agreement (PPA)

The 25-year PPA in DSPPL signed with Southern Power Distribution Company of Telangana Ltd (TSSPDCL) for a capacity of 30 megawatt (MW) minimizes the offtake risk and provides revenue visibility. The PPA has a tariff of Rs 6.848 per kilowatt hour (kWh) fixed for the entire tenure.

The aggregate capacity of MSPPL, DSPPL and GSEPL under ACG is 154 MW. The capacity of 74 MW in MSPPL is tied up through a 25-year PPA with Punjab State Power Corporation Ltd (PSPCL) at a fixed tariff of Rs 7.09/kWh, and capacity of 50 MW in GSEPL is tied up through a 25-year PPA with Southern Power Distribution Company of Telangana Ltd (TSSPDCL) at a fixed tariff of Rs 6.74/kWh. The entire 154-MW capacity became operational in fiscal 2017.

Adequate debt servicing metrics

Fixed-tariff PPA with PSPCL and TSSPDCL should ensure adequate average debt service coverage ratio over the tenure of the debt for DSPPL and ACG. Furthermore, all the three SPVs have a healthy PPA tail period of ~5 years.

Debt service reserve account (DSRA) covering one quarter of debt servicing (~Rs. 6.61 crore for DSPPL and ~Rs. 32.36 crore for ACG) is maintained in the form of fixed deposits. The entities have also confirmed that additional cash liquidity of one quarter, over and above the DSRA, will be maintained in all SPVs going forward. Any deviation in this understanding will be a rating sensitivity factor.

A defined waterfall mechanism

The lender has control over the cash flow of the three SPVs through a separate Trust and Retention Account (TRA) for each SPV, with a defined waterfall mechanism for prioritisation of cash flow for repayment of debt. As per the TRA agreement, any outflow, including transfer of surplus, is subject to the defined TRA waterfall mechanism (detailed subsequently).

Weaknesses

Exposure to counterparty risk

DSPPL and GSEPL contribute to 52% of the capacity of ACG, which is tied up with TSSPDCL. MSPPL contributes to the remaining 48% capacity, which has PSPCL as the counterparty. While the payments in MSPPL are received within 2-3 months of billing date since commissioning, the receivable cycles in DSPPL and GSEPL has been stretched due to delayed payments from TSSPDCL. The receivable position in DSPPL and GSEPL was ~Rs. 50.6 crore (470 days) and ~Rs. 81.3 crore (473 days) respectively as on March 31, 2022.

Due to delays in receipts from TSSPDCL, both DSSPL and GSEPL have also had to rely on surpluses from MSPPL to meet their debt servicing requirement. As on date, MSPPL has provided cumulative financial support of ~Rs. 57 crore to DSPPL & GSEPL.

Thus, the SPVs remain exposed to risks related to delay in payment on account of high dependence on each of the two counterparties. Considering that DSPPL and GSEPL had to utilise surplus from MSPPL and existing cash balance, including DSRA, in respective SPVs to meet their debt servicing requirement, the rating is highly sensitive to delays in the payment cycle from these counterparties; timely receipts of payments from the discoms will be critical in this regard.

DSPPL and GSEPL have now started receiving prior dues in the form of instalments under new Electricity (Late Payment Surcharge and Related Matters) Rules, 2022, under which the dues from March 2021 till April 2022 will be paid by TSSPDCL in 12 equated monthly instalments (EMIs), out of which three EMIs cumulating to Rs 11.64 crore in DSPPL and Rs 18.57 crore in GSEPL have been received till October 2022. Additionally, monthly dues from June 2022 to August 2022 have been received with a lag of 2-3 months from billing date. This has led to easing of the receivables position for DSPPL and GSEPL to ~390 days as of October 2022.

Continuation of timely receipts of the dues from TSSPDCL will remain a key monitorable.

Susceptibility to risks inherent in renewable power projects

Cash flow of DSPPL remains sensitive to plant load factor (PLF), which depends entirely on solar irradiance and weather patterns, which are inherently unpredictable. This uncertainty may impact the debt servicing capability of the company. All the projects in ACG have performed close to P90 PLF in the past five years.

Liquidity: Adequate

Cash accrual in DSPPL, expected at Rs 34-35 crore each in fiscals 2023 and 2024 (at P90 PLF), should cover yearly debt servicing of around ~Rs 28-29 crore. DSPPL has DSRA fixed deposit of Rs 6.61 crore covering three months of debt servicing. Additionally, cash and fixed deposits (excluding DSRA) stood at Rs 6.83 crore as on October 20, 2022.

For ACG, cash accrual is expected at ~Rs 160-165 crore each in fiscals 2023 and 2024 (at P90 PLF) which should cover yearly debt servicing of ~Rs 120-125 crore. The entities have cumulative DSRA FDs of ~Rs. 32.3 crore covering 3 months of debt servicing and additional cash and fixed deposits (excluding DSRA) of ~Rs. 49 crore as on October 20, 2022. Furthermore, all the three SPVs shall maintain additional cash liquidity equivalent to three months of debt servicing over and above the DSRA.

Outlook: Stable
DSPPL is expected to benefit from the long-term PPA and adequate operational performance (PLF).

Rating Sensitivity Factors
Upward Factors
- Stable receivables period of 2-3 months for at least 12-18 months
- Sustained higher generation at ~P75 levels for 2-3 years
- Faster-than-expected deleveraging leading to sharper improvement in average DSCR (at P90 performance)

Downward Factors
- Deterioration in the receivable cycle
- Significant weakening in performance from P90 PLF levels
- Higher-than-budgeted operations and maintenance (O&M) expenses
- Weakening of the credit risk profile of MSPPL

TRA waterfall mechanism
The receivables deposited or credited into the designated account shall be appropriated for the following purposes in the following order of priority:
- Statutory dues, with prior written consent of the lender
- O&M expenses, with prior written consent of the lender
- Debt service payments, with prior written consent of the lender
- DSRA, with prior written consent of the lender
- Major maintenance, with prior written consent of the lender
- Amount to replace the solar modules and Balance of Plant (BoP), if required, to bridge the shortfall from insurance receipt to ensure that capacity is in line with bid condition/PPA at all times
- To meet the obligation of the borrower under the co-obligor undertaking to meet any shortfall in the debt servicing of the lenders of the co-obligors. The aforesaid amount required to service the debt repayment of the lenders of the co-obligors shall have been initiated by the lenders of the co-obligor by giving a written notice of not less than 5 business days prior to any monthly distribution date (12th day of each month and if such day is not a business day, then the immediately preceding business day).

Surplus, if any, shall be allowed to overflow to the borrower.

About the Company
DSPPL was incorporated on January 19, 2015, under the Companies Act, 2013. The company operates a solar power project of 30 MW in Telangana and has executed a PPA with a fixed tariff of Rs 6.848 per kWh for a period of 25 years. It is a part of the Acme Solar group.

Key Financial Indicators

As on/for the period ended March 31	Unit	2022	2021
Operating income	Rs crore	39.36	40.38
Reported profit after tax (PAT)	Rs crore	2.76	4.04
PAT margin	%	7.01	11.57
Adjusted debt/adjusted networth	Times	2.35	2.57
Interest coverage	Times	2.09	2.00

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure – Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities – including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisil.com/complexity-levels. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Rupee Term Loan	NA	NA	July-2035	170.58	NA	CRISIL BBB/Stable
NA	Rupee Term Loan	NA	NA	NA	14.67	NA	Withdrawn

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	185.25	CRISIL BBB/Stable		--	06-09-21	CRISIL BBB+/Stable		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Rupee Term Loan	14.67	Power Finance Corporation Limited	Withdrawn
Rupee Term Loan	170.58	Power Finance Corporation Limited	CRISIL BBB/Stable

This Annexure has been updated on 22-Nov-2022 in line with the lender-wise facility details as on 06-Sep-2021 received from the rated entity

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
The Rating Process
Criteria for rating instruments backed by guarantees
Criteria for rating solar power projects
Criteria for Notching up Stand Alone Ratings of Companies based on Group Support

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