Rating Rationale

December 14, 2023 | Mumbai

Grahati Solar Energy Private Limited

Rating upgraded to 'CRISIL BBB+/Stable'

Rating Action

Total Bank Loan Facilities Rated	**Rs.264.14 Crore (Reduced from Rs.281.42 Crore)**
Long Term Rating	**CRISIL BBB+/Stable (Upgraded from 'CRISIL BBB/Stable')**

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1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the long-term bank facility of Grahati Solar Energy Pvt Ltd (GSEPL) to **'CRISIL BBB+/Stable'** from 'CRISIL BBB/Stable'. The rating on bank facilities worth Rs.17.28 crore has been **withdrawn** as GSEPL has repaid the same as confirmed by the lender. This is in line with CRISIL Ratings policy on withdrawal of ratings.

The rating upgrade factors in the significant improvement in receivable cycle from Southern Power Distribution Company of Telangana Ltd (TSSPDCL) and track record of liquidity being maintained at six months of debt servicing for the Acme obligor-co-obligor group (ACG), comprising the three special purpose vehicles (SPVs): Dayakara Solar Power Pvt Ltd (DSPPL), GSEPL and Mihit Solar Power Pvt Ltd (MSPPL). Receivables position for DSPPL has improved from ~Rs. 81.3 crore (473 days) as on March 31, 2022 to ~Rs 9.4 crore (payment being received on average of 75 days) as on September 30, 2023.

The rating continues to reflect 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 GSEPL based on the following analytical approach :
(i) Assessment of the standalone credit risk profile of GSEPL.
(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 has executed an undertaking stating that surplus in any of the SPVs can be utilised for debt obligation in the other two, 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, the excess cash flow is largely available for use across the group. The Power Finance Corporation (PFC) is the sole lender for each SPV.

Key Rating Drivers & Detailed Description

Strengths:

- **Revenue visibility through power purchase agreement (PPA):** The 25-year PPA in GSEPL signed with TSSPDCL for a capacity of 50 megawatt (MW) minimises the offtake risk and provides revenue visibility. The PPA has a tariff of Rs 6.74 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 30 MW in DSPPL is tied-up through a 25-year PPA with TSSPDCL at Rs 6.848/kWh. The entire 154 MW capacity became operational in fiscal 2017.

- **Adequate debt servicing metrics:** Fixed tariff PPAs with PSPCL and TSSPDCL should ensure adequate average debt service coverage ratio (DSCR) over the tenure of the debt for GSEPL 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 obligation (~Rs 11.9 crore for GSEPL and ~Rs 34.50 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.

- **Defined waterfall mechanism:** The lenders have 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 and has PSPCL as its counterparty. While the payments in MSPPL are received within 2-3 months of the billing date since commissioning, the receivables in DSPPL and GSEPL were earlier stretched due to delayed payments from TSSPDCL. However, this has improved to 127 and 126 days for DSPPL and GSEPL, respectively, in fiscal 2023.

  The receivables 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 had to rely on surpluses from MSPPL to meet their debt servicing requirement.

  DSPPL and GSEPL have received all prior dues in the form of instalments under the new Electricity (Late Payment Surcharge and Related Matters) Rules, 2022, under which the dues from March 2021 till April 2022 were to be paid by TSSPDCL in 12 equated monthly instalments (EMIs), the last of which was received in June 2023. Additionally, monthly dues since the implementation of the scheme have been received with a lag of 2-3 months from the billing date. This has led to improvement of the receivables position for DSPPL and GSEPL to ~75 days as of October 2023.

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

- **Susceptibility to risks inherent in renewable power projects:** Cash flows of GSEPL remain sensitive to plant load factor (PLF), which depends entirely on solar irradiance and weather patterns that 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 GSEPL, expected at Rs 58-60 crore each in fiscals 2024 and 2025 (at P90 PLF), should cover yearly debt servicing of around ~Rs 45 crore. GSEPL has DSRA fixed deposit of Rs 11.9 crore covering three months of debt servicing. Additionally, cash and fixed deposits (excluding DSRA) were Rs 9.27 crore as on October 31, 2023.

For ACG, cash accrual is expected at Rs 158-160 crore each in fiscals 2024 and 2025 (at P90 PLF), which should cover yearly debt servicing of Rs 120-122 crore. The entities have cumulative DSRA fixed deposits of ~Rs 34.5 crore covering three months of debt servicing and additional cash and fixed deposits (excluding DSRA) of ~Rs 48 crore as on October 31, 2023. Furthermore, all the three SPVs shall maintain additional cash liquidity equivalent to three months of debt servicing over and above the DSRA.

Outlook: Stable

GSEPL is expected to benefit from the long-term PPA and adequate operational performance (PLF).

Rating Sensitivity factors

Upward factors

- Sustained higher generation at ~P75 levels for 2-3 years and stable receivables period of 2-3 months for sustained period of time.
- Faster-than-expected deleveraging leading to a 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 the bid condition/PPA at all timesy.

- 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 five 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

GSEPL was incorporated in January 2015 under the Companies Act, 2013. The company operates a solar power project of 50 MW in Telangana and has executed a PPA with a fixed tariff of Rs 6.74 per kWh with TSSPDCL for a period of 25 years. It is a part of the Acme solar group.

Key Financial Indicators

Particulars	Unit	2023	2022
Revenue	Rs crore	64	63
Profit after tax (PAT)	Rs crore	7.5	4.4
PAT margin	%	12%	7%
Adjusted gearing	Times	2.17	2.45
Interest coverage	Times	2.20	2.04

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.

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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	264.14	NA	CRISIL BBB+/Stable
NA	Rupee term loan	NA	NA	NA	17.28	NA	Withdrawn

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	281.42	CRISIL BBB+/Stable		--	22-11-22	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	264.14	Power Finance Corporation Limited	CRISIL BBB+/Stable
Rupee Term Loan	17.28	Power Finance Corporation Limited	Withdrawn

Criteria Details

Links to related criteria
The Rating Process
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
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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