SunSource Energy Private Limited

April 04, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	420.00	CARE A+; Stable / CARE A1 (Single A Plus; Outlook: Stable / A One)	Assigned
Total Facilities	**420.00 (Rs. Four Hundred Twenty Crore Only)**		

Details of instruments/facilities in Annexure 1

Detailed Rationale & Key Rating Drivers

CARE has combined the business and financial risk profiles of SunSource Energy Private Limited (SSEPL) and its various special purpose vehicles (SPVs), together referred as the SunSource Group/Group. Furthermore, CARE has applied its parent notch-up approach to factor in the extent of support available to SSEPL from its holding company i.e., SHV Energy N.V. (SHVE), and the corporate guarantee extended for the bank facilities of SSEPL.

The ratings assigned to the bank facilities of SSEPL derives strength from the strong parentage with SHVE holding 79.8% stake in the business, and the strategic importance of SSEPL portfolio for SHVE as reflected by its strong capital commitments. SHVE has committed total equity of Rs. 370 crore for the near term which will enable the portfolio to grow up to nearly 550 MW by FY24 end and has already infused Rs. 180 crore since takeover in May 2021.

The ratings also factor in the track record of the group in developing solar projects, along with the revenue visibility due to presence of long-term power purchase agreement (PPA) for a period of 25 years with commercial and industrial (C&I) customers for the entire operational capacity of 64.3 MW. CARE also factors in the moderate counterparty credit risk profile of the operating portfolio which results in healthy collection cycle for the company. The ratings derive comfort from the presence of lock in tenor of 15 years and termination penalties for the open access projects under development thereby mitigating the project related risks. The coverage indicators for the portfolio are expected to remain healthy as reflected by average DSCR of around 1.4x, Moreover, the availability of Rs. 420 crore working capital lines results in adequate liquidity cushion for the group.

Nevertheless, the ratings remain constrained on account of the modest operational track record of the portfolio, and risks relating to execution and offtake for the various under-implementation/planned projects. CARE also factors in the vulnerability of company's cash flows to variation in weather conditions given the single part tariff for the projects, as well as the leveraged capital structure given the debt funded nature of capex for setting up the projects and exposure to any adverse movements in interest rates.

Rating Sensitivities

Positive Factors: Factors that could lead to positive rating action/upgrade:

- Performance of the overall portfolio in line with designed energy P-90 levels on a sustained basis
- Significant reduction in leverage or improvement in debt protection metrics for the portfolio

Negative Factors: Factors that could lead to negative rating action/downgrade:

- Underperformance in generation of the overall portfolio thereby resulting in weakening of debt protection metrics
- Any major time and cost overruns in execution of under-implementation projects
- Deterioration in counterparty credit risk profile or overall receivables cycle/attaining tie-ups for incremental projects
- Any adverse change in the form of support/strategic importance from parent i.e., SHVE

Detailed description of the key rating drivers

Key Rating Strengths

Strong management and financial support from the parent

SHVE, a Netherlands based entity which primarily operates in the off-grid energy industry, views India as a high growth geography and SSEPL's operations are considered strategically important to the entity since this is its first major acquisition in the renewable energy industry. Post the acquisition of majority stake in the company in May 2021, SHVE has management control over SSEPL with majority representation on the latter's board, and the parent is involved in all strategic decision making of the company. SHVE has also provided equity commitment of Rs. 370 crore to grow the group's solar portfolio to around 550 MW by FY24 end, out of which SSEPL has already received Rs. 180 crore as on March 29, 2022. Moreover, SHVE has extended corporate guarantee to the bank facilities of the company.

---

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Considering the strong management and financial linkages, SSEPL should remain strategic to the parent and will receive need-based support in case of any short-term cash flow requirement. Any adverse change in the extent of support, or strategic importance of SSEPL to the parent will be a key rating sensitivity.

Experienced promoters and track record of the group in developing solar projects
The promoters have long standing experience of more than two decades in the renewable industry, and the group has been involved in the business of developing solar projects since 2010. Over the past few years, the group has expanded its operational portfolio to 64.3 MW capacity across multiple states in India and has assets under development of 105 MW capacity which are in advanced stages of execution. Additionally, the group has various other projects in pipeline the states of Uttar Pradesh (U.P), Tamil Nadu, and Maharashtra.

Revenue visibility on account of long-term PPA for entire capacity
The operational portfolio has low offtake risks owing to the presence of a long-term (25-year) PPA with various commercial and industrial (C&I)) clients across multiple industries. The average tariff for the portfolio is around Rs.3.9 per unit thereby indicating moderate cost competitiveness. The long-term PPAs provide revenue visibility for the company.
Furthermore, the company has also tied-up long-term PPA (25-year) for the under-implementation open access projects aggregating 78 MW capacity, which has a minimum lock-in period of 15 years and termination penalty clauses as per the terms of the agreement.

Healthy collection cycle for operational portfolio on account of moderate counterparty credit risk profile
The counterparty credit risk profile of the overall portfolio is moderate, with the C&I off takers making payments within 45 days from submission of invoices on average for the portfolio. The healthy collection cycle results in less amount of funds being blocked as debtors for the company and therefore ensuring satisfactory liquidity.

Stable industry outlook
India had an installed renewable capacity of nearly 105 GW (excluding large hydro) as on December 31, 2021, comprising solar power of 49 GW, wind power of 40 GW, small hydro of 5 GW and other sources including biomass of 11 GW. There has been a significant traction in solar power installations over the last few years and the cumulative solar power capacity has surpassed the installed wind power capacity despite its late and slow start. Over the years renewable energy industry has benefitted on account of Government's strong policy support, India's large untapped potential, presence of creditworthy central nodal agencies as intermediary procurers and high tariff competitiveness. Going forward, with India setting up an ambitious target of achieving 450 GW non-fossil fuel capacity by 2030, the regulatory framework is expected to remain supportive. However, developers are expected to face challenges in the near term on account of rising cost of modules, turbines and other ancillary products along with imposition of basic custom duty on cells and modules which will become effective from April 2022 and is expected to drive up costs and result in increase in bid tariffs for new projects. This apart, the challenges for acquisition of land and availability of transmission infrastructure also remains a key bottleneck. However, the Indian renewable industry continues to be a preferred investment alternative for both domestic as well as foreign investors and is expected to post robust growth going forward as well.

Key Rating Weakness
Modest operational track record
Since 2010, the group has primarily developed behind-the-meter (BTM) projects, wherein the off taker has the option to purchase the unit after a period of 15 years. However, the group's operational portfolio has a modest track record, having a weighted average track record of 1.7 years.

Execution and offtake risk for under-implementation projects
The group has projects aggregating around 105 MW capacity under-construction, which primarily includes open access projects in U.P (45 MW), Karnataka (27 MW), and floating solar & battery storage project in Andaman (6 MW). The relatively large U.P project is being developed in multiple phases and SSEPL has commissioned the first phase of 15 MW capacity in Feb 2022. Given the relatively large capital outlay, the group is exposed to execution risks which emanate from implementation of these projects. Furthermore, the financial closure for entire under-implementation capacity is yet to be achieved.
CARE expects the group's strong expertise and track record in developing solar projects to aid in project execution. Nevertheless, the ability of the company to execute these projects without any regulatory bottlenecks and major time and cost overrun and entering into offtake agreements for entire capacity would be critical from a credit standpoint.

Vulnerability of cash flows to variation in weather conditions
As tariffs are one part in nature, the company may book lesser revenues in the event of non-generation of power due to variation in weather conditions and/or equipment quality. This in turn would affect its cash flows and debt servicing ability.

Leveraged capital structure along with exposure to interest rate risk albeit comfortable debt protection metrics
The capital structure is leveraged on account of the debt-funded capex incurred for setting up the projects under SPVs. CARE expects Debt/EBITDA to remain between 5.0-6.5x over the next two years. Given the leveraged capital structure,

single-part nature of the fixed tariff in the PPA and floating interest rates, its profitability remains exposed to any increase in interest rates.
Nevertheless, SSEPL has relatively comfortable debt coverage indicators as reflected by the average DSCR of around 1.4x for the tenure of the term debt.

Liquidity: Adequate
As on February 2022 end, SSEPL had free cash and bank balance of Rs. 7.4 crore, in addition to unutilised bank limits amounting Rs. 179 crore. CARE expects the generation performance to remain broadly in line with the existing trends over the next couple of years. The internal accruals are expected to be adequate to service its debt obligations. As per CARE's base case, annual gross cash accruals (GCA) for FY23 are expected to be around Rs. 25 crore, as against annual repayments of around Rs. 14 crore.

Analytical approach:
CARE has combined the business and financial risk profiles of SunSource Energy Private Limited (SSEPL) and its various special purpose vehicles (SPVs), together referred as the SunSource Group/Group. Furthermore, CARE has applied its parent notch-up approach to factor in the extent of support available to SSEPL from its holding company i.e., SHV Energy N.V. (SHVE), and the corporate guarantee extended for the bank facilities of SSEPL.

Applicable Criteria
CARE's methodology for Infrastructure Sector Ratings
Criteria on assigning Outlook and Credit Watch to Credit Ratings
Factoring Linkages Through Parent Support
Criteria for Default Recognition
Short Term Instruments
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
Incorporated in 2010, SSEPL is engaged in development of various kinds of solar projects, including rooftop, ground mount, solar plus storage projects, and floating solar projects through its various subsidiaries. The company also provides Engineering, Procurement, and Construction (EPC) services for solar projects developed by the group as well as for other developers at standalone level. In May 2021, Netherland based SHV Energy N.V acquired majority stake of 79.8% in SSEPL.

Brief Financials (Rs. crore) – Standalone	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	77.58	60.38	NA
PBILDT	4.07	1.33	
PAT	0.99	-1.70	
Adjusted overall gearing (times)	0.52	0.67	
Interest coverage (times)	1.55	0.35	

A: Audited; UA: Unaudited; NA: Not Available

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 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/Non-fund-based-LT/ST	-	-	-	420.00	CARE A+; Stable / CARE A1

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	420.00	CARE A+; Stable / CARE A1	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

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

Sr. No	Name of Instrument	Complexity level
1	Fund-based/Non-fund-based-LT/ST	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

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@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Jatin Arya
Contact no.: +91-11-4533 3246
Email ID: jatin.arya@careedge.in

Relationship Contact
Name: Swati Agrawal
Contact no.: +91-11-4533 3201
Email ID: swati.agrawal@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**