Sunsource Energy Private Limited

April 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	420.00	CARE A+; Stable / CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings 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 Ratings 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 rating reaffirmation of the bank facilities of SSEPL takes into account the satisfactory construction progress of the underlying portfolio along with infusion of the balance portion of equity capital by SHVE. Further, the rating also factors in the change in shareholding pattern with SHVE becoming the 100% shareholder in the platform. Going forward, it is envisaged that SHVE would continue to provide growth capital to the platform and reach a targeted capacity of 1 GW by 2027.

The rating continues to factor in the track record of the group in developing and operating 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 around 113 MW. CARE Ratings also factors in the moderate counterparty credit risk profile of the operating portfolio which results in healthy collection cycle for the company. The rating derives comfort from the presence of lock in tenor of 15 years and termination penalties for the open access projects thereby mitigating the project related risks. The coverage indicators for the portfolio are expected to remain healthy as reflected by average DSCR being upwards of 1.25x. Moreover, the availability of Rs. 420 crore working capital lines results in adequate liquidity cushion for the group.

Nevertheless, the rating remains 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 Ratings 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, which are customary to the renewable sector. The company is also exposed to any adverse movements in interest rates.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- 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

- 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

Analytical approach: CARE Ratings 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 Ratings 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.

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

Outlook: Stable

The stable outlook on CARE A+ rating of SSEPL reflects CARE Ratings' opinion that the company will be able to scale up its operating portfolio by commissioning the underlying projects within scheduled timelines. Further, the outlook is supported by the presence of long term PPAs for the underlying capacities.

Key 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. During November 2022, SHVE infused the balance portion of the equity capital. Further, there has been a change in the shareholding pattern with SHVE becoming the 100% shareholder in the platform. Going forward, it is envisaged that SHVE would continue to provide growth capital to the platform and reach a targeted capacity of 1 GW by 2027.

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 around 113 MW capacity across multiple states in India and has assets under development of around 200 MW capacity which are in advanced stages of execution.

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 187 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.

Key Weaknesses

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 around 2 years.

Execution and offtake risk for under-implementation projects

The group has projects aggregating around 200 MW capacity under-construction, which primarily includes open access projects in Karnataka (102 MW), UP (75 MW) and BTM projects at multiple locations (10 MW). 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 this under-implementation capacity is yet to be achieved.

CARE Ratings 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, which is customary to the renewable. Sector CARE Ratings expects Debt/EBITDA to remain between 6.0x-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 being above 1.25x for the tenure of the term debt.

Liquidity: Adequate
As on February 2023 end, the company had unencumbered cash balance of Rs. 112 crores in addition to unutilised working capital limits of Rs. 223 crores. CARE Ratings 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 Ratings' base case, annual gross cash accruals (GCA) for FY23 are expected to be around Rs. 5 crores and Rs 22 crores as against annual repayment of Rs. 1.7 crores and Rs 17.3 crores.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Consolidation
Short Term Instruments
Infrastructure Sector Ratings
Power Generation Projects
Solar Power Projects
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Generation

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.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	60.4	328.3
PBILDT	1.3	8.7
PAT	-1.7	1.0
Overall gearing (times)	0.7	0.8
Interest coverage (times)	0.4	1.1

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ 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 for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	420.00	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1 (04-Apr-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Dinesh Sharma Director **CARE Ratings Limited** Phone: +91-11-4533 3288 E-mail: dinesh.sharma@careedge.in	Name: Sudhir Kumar Director **CARE Ratings Limited** Phone: +91-11-4533 3232 E-mail: sudhir.kumar@careedge.in Name: Jatin Arya Associate Director **CARE Ratings Limited** Phone: +91-11-4533 3246 E-mail: jatin.arya@careedge.in Name: Anuvrat Dutta Analyst **CARE Ratings Limited** Phone: +91-11-4533 3255 E-mail: anuvrat.dutta@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in