

Rating Rationale

November 22, 2022 | Mumbai

Yarrow Infrastructure Private Limited*Rating placed on 'Watch Developing'***Rating Action****Rs.581 Crore Non Convertible Debentures****CRISIL AAA/Watch Developing (Placed on 'Rating Watch with Developing Implications')**

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has placed its ratings on the non-convertible debentures (NCDs) of Yarrow Infrastructure Pvt Ltd (YIPL) on '**Rating Watch with Developing Implications**'. YIPL is a part of Vector Green Restricted Group (VGRG), which comprises six special purpose vehicles (SPVs), including YIPL, Citra Real Estate Ltd (CIREEEL), , Malwa Solar Power Generation Pvt Ltd (MSPGPL), Vector Green Prayagraj Solar Pvt Ltd (VGPSPL), Sepset Constructions Ltd (SCL) and Priapus Infrastructure Limited (PIL). The aggregate amount of these NCDs of VGRG is Rs 1,237 crore.

The rating action is following account of transaction announcement of Sembcorp Green Infra Limited (SGIL), part of Sembcorp Industries, entering into an agreement with India Infrastructure Fund II (IF2), a fund managed by Global Infrastructure Partners India Pvt LLP, to acquire 100% interest in Vector Green Energy Private Limited (VGEPL, ultimate holding company for YIPL). The watch developing reflects the ongoing transaction between SGIL and IF2. CRISIL Ratings understands that investors in NCDs of YIPL would be given 30 days for approving or rejecting change in sponsor because of the transaction. In the event, majority investors do not agree with this, YIPL shall have the right to refinance the NCDs within 90 days. The rating will be removed from watch and a final rating action will be taken once CRISIL Ratings has more clarity on action of approval of NCD investors.

The rating reflects strong revenue visibility and counterparty profile, co-obligor structure of the SPVs, providing diversity, and healthy financial risk profile. These strengths are partially offset by exposure to risks inherent in operating solar energy assets and those related to refinancing.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of the six SPVs of VGRG, in line with the criteria of CRISIL Ratings for rating entities in homogeneous groups, and equated the rating of the individual SPVs to the group. The six entities consolidated as VGRG are MSPGPL, CIREEEL, YIPL, VGPSPL, SCPL and PIL. These entities are in a homogeneous group as they are in the same line of business of operating solar power assets, have common management and treasury team and are critical to VGRG.

Each of the SPVs acts as a co-obligor to the other, with each providing a corporate guarantee to the debt obligation and cross-default (that is, default on any condition in one SPV leads to default in all other SPVs) of all other SPVs. Following debt servicing in each SPV, excess cash flow is largely available for use across the group. Any deviation in this understanding shall be a key rating sensitivity factor.

Please refer Annexure - List of a Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

Strong revenue visibility and counterparty profile

All 256-megawatt (MW) projects within VGRG have 25-year power purchase agreements (PPAs) at pre-determined tariffs. The 250-MW projects (around 98% of portfolio by capacity) have PPAs with central counterparties—that is, Solar Energy Corporation of India and National Thermal Power Corporation—at tariffs ranging from Rs 4.36/kilowatt-hour (kWh) to Rs 5.45/kWh. The remaining 6-MW projects have PPAs at a fixed tariff for 25 years with Maharashtra State Electricity Development Corporation Ltd and Uttar Pradesh Power Corporation Ltd, with tariffs ranging from Rs 17.91/kWh to Rs 18.41/kWh.

The long-term PPAs provide revenue visibility and stability to cash flow. Payment track record across the projects has been healthy, with payment cycle largely in line with the PPA terms in the past few years. Additionally, projects have been operational for five years (capacity weighted average) and have a satisfactory performance track record, with above P90 plant load factor (PLF) performance (on aggregate basis) over the past four fiscals. PLF of fiscal 2022 stood at 23.85% as against P90 PLF of 23.25%.

Going forward, the payment cycle should remain stable while PLF may remain at P90 levels or better. However, any significant build-up of receivables or continuous underperformance in the PLF will remain a key rating sensitivity factor.

Diversified geographical spread of assets with Co-obligor structure of SPVs providing diversity benefit to the group

The assets are spread across Rajasthan (27% of total capacity), Karnataka (20%), Uttar Pradesh (20%), Maharashtra (17%) and Madhya Pradesh (16%). The projects in Karnataka and Rajasthan are in solar parks, with a record of healthy irradiation levels.

All projects within each SPV are co-obligors for projects in the other five SPVs. Diversity of the group is reflected in its presence in five states and PPAs with four counterparties. With the presence of this co-obligor structure, surplus cash flow after debt servicing in any SPV will be available to fund shortfall (if any) in other SPVs, thus supporting the consolidated debt service coverage ratios (DSCRs). Additionally, as part of structure conditions, SPVs have undertaken that distributable surplus amount in any SPV shall first be utilised to cover any shortfall in debt servicing or maintain reserve in other SPVs before distribution to the sponsors.

Healthy financial risk profile

Financial risk profile is expected to be adequate, indicated by strong DSCR through the three-year tenure of the NCDs (at CRISIL Ratings-sensitised projections done at P90 PLF). Furthermore, liquidity is supported by a debt service reserve account (DSRA) of six months of debt obligation in the form of cash or bank guarantee without any recourse to project assets.

Financial risk profile is also supported by a cash sweep covenant. It specifies that if DSCR falls below 1.40 times in any year or 12-month period (depending upon the period of testing), then the entire surplus shall be swept and used for debt prepayment.

Weaknesses

Exposure to refinancing risk

The VGRG SPVs are exposed to the risk of refinancing bullet of Rs 1,061 crore at the end of the three-year tenure. That said, healthy business risk profile of the underlying assets and robust blended DSCRs over the available useful life of projects, extending to around 15 years (on a capacity weighted basis), partially offset refinancing risks. Moreover, refinancing would be initiated nine months before the bullet at the end of the third year.

Susceptibility to risks inherent in operating solar energy assets

The PLF for solar power projects is exposed to variability in climatic conditions and equipment, and evacuation-related risks. Given that the sensitivity of cash flow of a solar power project is the highest for PLF, these risks could severely impair debt servicing and free cash flow of such projects.

Liquidity: Superior

Liquidity in VGRG solar SPVs is driven by expected earnings before interest and depreciation of over Rs 216 crore and Rs 213 crore each in fiscals 2023 and 2024, respectively at P90 level of plant generation. The SPVs have yearly debt obligation of less than Rs 140 crore in both the fiscals. Additionally, no major capital expenditure has been planned in these years. The SPVs will have a DSRA of six months to cover any cash flow mismatch.

Rating Sensitivity factors**Downward factors**

- Performance below P90 PLF
- Increase in receivables to beyond three months (on an aggregate portfolio basis)
- Non-adherence to the terms of the structure

About the Company

YIPL operates a 70-MW solar power plant in Rajasthan (Bhadla Solar Park) and a 50-MW solar power plant in Karnataka (Pavagada Solar Park). The plants became operational in 2017. The company has long-term PPAs at pre-determined tariffs with NTPC.

YIPL is a 100% subsidiary of Vector Green Energy Pvt Ltd, which operates wind and solar power projects aggregating 652-megawatt peak located across 19 projects and 12 states in India. It is owned by funds managed by Global Infrastructure Partners India LLP, the Indian affiliate of Global Infrastructure Partners, a leading infrastructure investor managing over \$70 billion of assets, including 15 gigawatts of renewable assets globally.

Key Financial Indicators*

| Particulars | Unit | 2022 | 2021 |
|----------------------------------|----------|------|-------|
| Operating income | Rs crore | 123 | 124.5 |
| Profit after tax (PAT)^ | Rs crore | 14.1 | -2.1 |
| PAT margin | % | 11.5 | -1.7 |
| Adjusted debt / adjusted network | Times | 3.9 | 4.0 |
| Interest coverage | Times | 1.4 | 1.5 |

*Audited

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 |
|--------------|----------------------------|-------------------|-----------------|---------------|-----------------------|------------------|------------------------------|
| INE001W07011 | Non-convertible debentures | 01-07-2021 | 6.49% | 01-Jul-24 | 581 | Simple | CRISIL AAA/Watch Developing |

Annexure – List of entities consolidated

| Names of entities consolidated | Extent of consolidation | Rationale for consolidation |
|--------------------------------|-------------------------|--|
| CIREEL | Full | Common management and sharing of cash flow |
| YIPL | Full | Common management and sharing of cash flow |
| MSPGPL | Full | Common management and sharing of cash flow |
| VGPSPL | Full | Common management and sharing of cash flow |
| SCL | Full | Common management and sharing of cash flow |
| PIL | Full | Common management and sharing of cash flow |

Annexure - Rating History for last 3 Years

| Instrument | Current | | | 2022 (History) | | 2021 | | 2020 | | 2019 | | Start of 2019 |
|----------------------------|---------|--------------------|-----------------------------|----------------|-------------------|----------|-------------------------------|------|--------|------|--------|---------------|
| | Type | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |
| Non Convertible Debentures | LT | 581.0 | CRISIL AAA/Watch Developing | 12-05-22 | CRISIL AAA/Stable | 29-06-21 | CRISIL AAA/Stable | | – | | – | – |
| | | | – | | – | 14-04-21 | Provisional CRISIL AAA/Stable | | – | | – | – |

All amounts are in Rs.Cr.

Criteria Details

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| Links to related criteria |
| The Infrastructure Sector Its Unique Rating Drivers |
| Criteria for rating solar power projects |
| Criteria for rating entities belonging to homogenous groups |

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