CRISIL Ratings

Rating Rationale

January 30, 2023 | Mumbai

Yarrow Infrastructure Private Limited

Rating removed from 'Watch Developing'; Rating Reaffirmed

Rating Action

Rs.581 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)**

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

Detailed Rationale

CRISIL Ratings has removed its ratings on the non-convertible debentures (NCDs) of Yarrow Infrastructure Pvt Ltd (YIPL) from 'Rating Watch with Developing Implications' and has reaffirmed its rating at '**CRISIL AAA',** while assigning a '**Stable**' outlook. YIPL is a part of Vector Green Restricted Group (VGRG), which comprises six special purpose vehicles (SPVs), including YIPL, Citra Real Estate Ltd (CIREEL), 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 on account of completion of sale transaction between Sembcorp Green Infra Limited (SGIL), part of Sembcorp Industries to acquire 100% interest in Vector Green Energy Private Limited (VGEPL, ultimate holding company for YIPL). As part of the ongoing transaction, CRISIL Ratings was of the understanding that investors in NCDs of YIPL would be given 30 days for approving or rejecting change in sponsor because of the transaction. CRISIL ratings understands that NCD investors have approved the transaction. Consequently, ratings are being removed from watch and YIPL continues to be analysed as part of co-obligor group of VGRG, which is in turn ring-fenced from sponsors.

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, CIREEL, 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 entities 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.

Outlook: Stable
The VGRG SPVs will continue to benefit from comfortable cash flow, backed by long-term PPAs and stable operational performance.

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

Unsupported ratings: CRISIL AAA

Unsupported rating disclosure for ratings without ‘CE’ suffix, where the instruments are backed by specified support considerations, is in compliance with SEBI’s circular dated September 22, 2022.

Key drivers for unsupported ratings

CRISIL Ratings has combined the business and financial risk profiles of all SPVs under Vector Green RG (together referred as the group) and has equated the ratings with that of the group. This is driven by expected high fungibility of cash flows across all SPVs and timely support to all SPVs at the time of distress for any debt repayments. The Management’s intention to have high fungibility is also supported by cross guarantees across the SPVs, presence of TRA waterfall mechanism, mandatory cash sweeps/ traps, cross default clauses and other financial covenants. Consequently, unsupported and supported ratings, with the cross guarantees, stand at the same level and are equated to that of the group

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 part of Sembcorp Industries, which is 49.5% owned by Temasek Holdings Pte Ltd (rated ’AAA/Stable/A-1+’ by S&P Global Ratings), and is a leading energy, water and urban development group operating across five continents. It has around 6 gigawatt (GW) of renewable energy capacity, 9 GW of conventional energy capacity and close to 9 million cubic metres of water treatment per day in operation and under development.

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 networth	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.

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.

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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-Jul-21	6.49%	01-Jul-24	581	Simple	CRISIL AAA/Stable

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

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	581.0	CRISIL AAA/Stable		--	22-11-22	CRISIL AAA/Watch Developing	29-06-21	CRISIL AAA/Stable		--	--
			--		--	12-05-22	CRISIL AAA/Stable	14-04-21	Provisional CRISIL AAA/Stable		--	--

All amounts are in Rs.Cr.

Note: This Rating Rationale was updated on February 14 , 2023 to include disclosure of Unsupported rating.

Criteria Details

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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