

Orange Suvaan Energy Private Limited

August 24, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	450.0	450.0	[ICRA]A- (Stable); upgraded from [ICRA]BBB (Stable)
Cash Credit	19.0	19.0	[ICRA]A- (Stable); upgraded from [ICRA]BBB (Stable)
Total	469.0	469.0	

Rating action

ICRA has upgraded its long-term rating to [ICRA]A- (pronounced ICRA A minus) from [ICRA]BBB (pronounced ICRA triple B) for the Rs. 469-crore¹ bank limits of Orange Suvaan Energy Private Limited (OSEPL)². The outlook on the long-term rating is Stable.

Rationale

The revision in rating favourably factors in OSEPL's commencement of operations with satisfactory generation track record for the 100-MW (AC Capacity) plant since June 2017. The rating continues to factor in the long track record of the promoters in the renewable energy sector and the support derived as a part of the Orange Group. The Group has operational renewable power portfolio of ~707 MW (567-MW wind, 140-MW AC [191-MW DC] solar) with another 200 MW in various stages of development (till July 31, 2018). ICRA continues to factor in the low offtake risk and revenue visibility of the project due to the presence of long-term power purchase agreement (PPA) at a tariff of Rs. 4.43 per unit with Solar Energy Corporation of India (SECI) for a period of 25 years. SECI in turn has signed power supply agreements (PSA) with state-owned distribution utilities. ICRA further takes note of the favourable payment security mechanism under the PPA and PSA, including the provision of Payment Security Fund or PSF (which is equivalent to three months of receivables) supported by budgetary allocation of the Ministry of New and Renewable Energy (MNRE), Government of India under the National Solar Mission policy framework. Moreover, the project is eligible for a cumulative Viability Gap Funding (VGF) of Rs. 47.74 crore, which would further support cash flows during the initial few years.

Nevertheless, the rating is constrained by the still limited track record of the company's solar PV facility and risk of variability in cash flows due to changes in solar irradiance level/weather conditions, given the single-part nature of the PPA tariff, which is linked to actual generation. While there has been delay in the receipt of the first two tranches of VGF, comfort is derived from the fact that the project cash flows without considering VGF receipts are expected to remain comfortable from the credit perspective. This, along with sanctioned working capital facilities, provides additional liquidity cushion. Further, the company remains exposed to an interest rate risk, given the competitively-bid fixed- and single-part nature of tariff. ICRA notes that the company's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for renewable energy projects, given the limited experience of developers of operating in Indian conditions. Going forward, the ability of the company to report satisfactory operational parameters, receive timely payments against generation invoices and VGF from SECI and ensure timely debt servicing would be the key rating sensitivities.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes that OSEPL will continue to benefit from its long-term fixed tariff-based PPA with the intermediary counterparty, SECI and timely collections from the same. The outlook may be revised to Positive if there is a sustained improvement in the PLF level. The outlook may be revised to Negative in case of deterioration in operational performance as well as any material delays from the counterparty affecting the liquidity profile.

Key rating drivers

Credit strengths

Strong position of Orange Group in India's renewable energy space – The Orange Group is one of the leading renewable energy players in the country, with ORPPL as the primary holding company for all power assets in India. AT Holdings Pte Ltd. (ATH), Singapore is the ultimate parent of ORPPL and has more than \$2.5 billion assets under management. The Group has various investments in renewable energy, real estate, aviation, oil and gas etc. across various geographies. The Orange Group is managed by a team of well-experienced promoters, technocrats and investment/finance professionals. The Group has a portfolio of ~707 MW (567-MW wind, 140-MW AC [191-MW DC] solar) with another 200 MW in various stages of development (till July 31, 2018).

Revenue visibility of the projects due to its long-term PPA with SECI – OSEPL has low offtake risks owing to the presence of a 25-year PPA at a remunerative tariff of Rs. 4.43 per unit for the entire duration of the project, i.e. till May 2042. Additionally, the project is eligible for VGF funding of Rs. 47.74 crore, which would further support cash flows.

Relatively lower counterparty risk – The project has relatively lower counterparty credit risk as SECI is the intermediary offtaker for the whole project capacity for the entire duration of 25 years, which in turn has signed PSAs with state-owned distribution utilities. Under the PSA with state utilities, SECI has a provision of Letter of Credit from all utilities, which covers the payment risk of all the offtakers for six months. The counterparty risk is further mitigated by the presence of PSF provided by MNRE, which is sufficient to cover three months of payment delay by distribution companies. In addition, SECI has been included in the list of central public sector undertakings (CPSUs), the receivables of which will be secured through the tripartite agreement (TPA) among the Government of India, state governments and the Reserve Bank of India. At present, OSEPL is not facing any delays in receipt of payments from SECI.

Satisfactory generation performance in the first 12 months – The project has a generation track record of more than 12 months and the actual generation performance has been marginally lower than generation estimate. Generation in the initial few months was lower on account of the stabilisation phase of the project and installation of full capacity in a phased manner. The generation performance over the last seven to eight months has been in line with the estimated level.

Moderate liquidity profile – The liquidity profile of OSEPL is moderate as reflected by the presence of surplus cash balances and availability of working capital limits which remain fully unutilised at present. Going forward, the company is expected to create DSRA reserve of two quarters from project cash flows.

Credit challenges

Brief generation track record of project – The project was synchronised with the grid on May 9, 2017 and commenced generation from Jun 16, 2017. The generation track record of the project is limited to only more than a year at present. Previously, there were issues in the project pertaining to non-receipt of commissioning certificate, which have been resolved subsequently.

Vulnerability of cash flows to variation in weather conditions – The key factors that may impact the operations of the solar plant are solar radiation levels, losses in PV systems due to temperature and climatic conditions, design parameters of the plant, inverter efficiency and module degradation due to aging. As tariffs are one part, in the event of non-generation of power due to variation in irradiation levels, the company may book lesser revenues. This in turn may affect its debt servicing ability.

Delay in receipt of VGF from SECI – The company was scheduled to receive the first tranche equivalent to 50% of the cumulative VGF amount in June 2017, and the next tranche of 10% of the cumulative VGF amount in June 2018. The remaining four tranches are scheduled to be received over the next four years. OSEPL is yet to receive funds in lieu of VGF from SECI.

Regulatory risks associated with implementation of scheduling and forecasting framework for solar sector – The company's operations remain exposed to regulatory risks pertaining to scheduling and forecasting requirements applicable for renewable energy projects, given the limited experience of developers in operating in Indian conditions.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Solar Power Producers](#)

About the company

OSEPL is a 100% subsidiary of Orange Renewable Power Pvt. Ltd. (ORPPL) which is subsidiary of Orange Renewable Holdings Pte Ltd. (ORHPL), Singapore. ORHPL is fully owned by AT Holding Pte Ltd (ATH), Singapore, which has diverse investments in oil and gas, EPC work, hospitality, real estate and renewable energy companies in various geographies. The Group has operational renewable power capacity of 707 MW (567-MW wind, 140-MW AC [191-MW DC] solar) of operational assets and 200 MW (wind asset in a 50-50 JV).

OSEPL has set up solar power capacity of 100-MW (AC Capacity) under JNNSM Phase II Batch III in Maharashtra with the counterparty being SECI. This project is part of the 450-MW solar capacity auctioned (open category) by SECI in the state of Maharashtra.

Key financial indicators (Audited)

	FY2018
Operating Income (Rs. crore)	66.3
PAT (Rs. crore)	-4.8
OPBDIT/OI (%)	76.6%
RoCE (%)	10%
Total Debt/TNW (times)	5.91
Total Debt/OPBDIT (times)	7.12
Interest Coverage (times)	1.46

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding March 31, 2018 (Rs. crore)	Date & Rating August 2018	Date & Rating in FY2018 August 2017	Date & Rating in FY2017	Date & Rating in FY2016
1 Term Loan	Long Term	450.0	414.0	[ICRA]A-(Stable)	[ICRA]BBB (Stable)	-	-
2 Cash Credit	Long Term	19.0	-	[ICRA]A-(Stable)	[ICRA]BBB (Stable)	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	August 31, 2016	-	October 2033	300.0	[ICRA]A- (Stable)
NA	Term Loan 2	November 11, 2016	-	June 2033	110.3	[ICRA]A- (Stable)
NA	Term Loan 3	March 30, 2017	-	October 2033	39.7	[ICRA]A- (Stable)
NA	Cash Credit 1	NA	-	-	18.0	[ICRA]A- (Stable)
NA	Cash Credit 2	NA	-	-	1.0	[ICRA]A- (Stable)

Source: Orange Group

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