August 20, 2019

IL&FS Solar Power Limited: Long-term ratings downgraded

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	45	45	[ICRA]B+ (SO) (Negative); downgraded from [ICRA]BB+ (SO) (Negative)
Non-Convertible Debenture Programme –I (NCD I)	150	150	[ICRA]B+ (SO) (Negative); downgraded from [ICRA]BB+ (SO) (Negative)
Non-Convertible Debenture Programme – II (NCD II)	210	210	[ICRA]B+ (SO) (Negative); downgraded from [ICRA]BB+ (SO) (Negative)
Total	**405**	**405**	

*Instrument details are provided in Annexure-1

Rationale

The revision in the rating takes into account the ongoing delays in acquiring the Section 109 approval for the project land, which prevented the execution of sale deed in the name of Embassy Energy Private Limited (EEPL) and part payment of monthly instalments by EEPL to IL&FS Solar Power Limited (ISPL/company). With sales deed signed for only 55% of the total land as on date, Embassy Group is paying only 50% of the total monthly instalments due to the company which has stretched the overall liquidity position. ICRA notes that ability of the company to execute the sale deeds for the remaining land parcel and receive entire monthly instalments from the Embassy Group remain highly critical for timely debt servicing. The revision in the rating also takes into account the high debt refinancing risk with almost Rs. 460 crore due for repayment during Q3 FY2021. Ability of the company to refinance the debt in a timely manner remains highly critical.
The rating continues to remain constrained by the limited track record of operations of the solar plant as well as high leveraging level of the company as the entire project cost is funded through a mix of external loans and IL&FS Group debt.

The rating, however, takes into account the strengths arising from presence of the deferred payment agreement (DPA) signed between ISPL and EEPL, which in turn has signed power purchase agreements (PPAs) at a tariff linked to the prevailing grid tariff with Embassy Group entities owning/operating specific commercial office parks. As per the terms of the DPA, EEPL is obligated to pay annual payment (in equal monthly instalments) to the company for a 15-year period from the commercial operations date (COD). The solar power generated from the project is being utilised by the tenants of the office parks and will constitute about 50-60% of the overall power consumption by tenants.

Outlook: Negative

The outlook may be revised to Stable in case of the company executing sale deed for the balance project land and subsequent commencement of entire monthly payments from the Embassy Group.

Key rating drivers:

Credit strengths

Firm DPA with EEPL: ISPL has signed a DPA with EEPL as per which the entity is obligated to pay annual payment (in equal monthly instalments) to the company for a 15-year period from the COD. EEPL in turn has signed PPAs at a tariff linked to the prevailing grid tariff with the office park entities of the Embassy Group. The solar power generated from the project will be utilised by tenants of the office park entities and will constitute about 50-60% of the overall power consumption by tenants.

Credit challenges

Absence of sale deed for almost 45% of the total land area: While the project has been commissioned in a timely manner, the company has faced delays in acquiring Section 109 approval for the project land. Out of the total land parcel of 466 acres, the company has received Section 109 approval for ~ 266 acres of land, out of which, the sale deed has been executed for 254 acres in the name of EEPL. Consequently, Embassy Group is paying only 50% of the total monthly instalments due to the company which has stretched the overall liquidity position of ISPL. ICRA notes that ability of the company to execute sale deeds for the remaining land parcel and receive entire monthly instalments from the Embassy Group remain highly critical for timely debt servicing.

Highly-leveraged capital structure: The project has been set up with a capital outlay of Rs. 685 crore, which is entirely funded through a mix of external loans and IL&FS Group debt. The capital structure of the company remains aggressive,

Sizeable refinancing requirements: ISPL remains exposed to high refinancing risk with ~Rs. 460 crore due for refinancing during Q3 FY 2021. However, the residual tenure of the DPA (12 years) at the time of refinancing provides some comfort from credit perspective.

Limited track record of operations: Given that the project was commissioned in March 2018, it has limited track record of operations. As a result, the ability of the company to supply power to EEPL at the guaranteed supply level remains to be seen. Also, as per the O&M agreement entered between ISPL and EEPL, ISPL will be required to compensate EEPL in case of any shortfall in the generation compared to the guaranteed supply. However, to mitigate the risk, ISPL has entered into a back-to-back O&M agreement with Sterling and Wilson. As per the agreement, Sterling and Wilson will compensate ISPL in case of any shortfall in generation due to performance-related issues. Also, ISPL has taken a weather insurance cover for solar irradiation, which is expected to mitigate the risk of any shortfall in generation due to lower irradiation to some extent.

Counterparty credit risk associated with the Embassy Group: ISPL remains exposed to the counterparty credit risk associated with the PPA offtakers.

Liquidity position

The liquidity position of the company remains modest with only 50% of the monthly instalments being paid by the Embassy Group. The company has cash fixed deposits of ~ Rs. 15 crore as on March 2019.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar power producers Approach for rating debt instruments supported by structural features (Non-securitized transactions)
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company:

IL&FS Solar Power Limited, a 100% subsidiary of IL&FS Energy Development Private Limited, has been set up to install a 100-MW (AC)/ 130-MW (DC) ground mounted solar PV power project at Ittigi (40 MW), Nellukudure (28 MW) and Mooregeri (32 MW) villages of the Bellary district of Karnataka. The project capital cost stood at about Rs. 685 crore. The project was developed under build, finance and transfer arrangement by ISPL. ISPL signed a DPA with EEPL as per which the latter, post commissioning, will be paying monthly payments to ISPL for the duration of 15 years. The solar power generated by the project will be supplied to the various office parks/commercial properties operated by the Embassy Group.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	570.0	138.0
PAT (Rs. crore)	3.62	-30.63
OPBDIT/OI (%)	6.58%	52.85%
RoCE (%)	12.26%	6.07%
Total Debt/TNW (times)	134.59	-26.32
Total Debt/OPBDIT (times)	16.62	9.38
Interest Coverage (times)	1.11	1.10

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating		Date & Rating in FY2018		Date & Rating in FY2017
					August 2019	September 2018	September 2018	April 2018	January 2018	-
1	Term Loan	Long Term	45.00	45.00	[ICRA]B+ (SO) (Negative)	[ICRA]BB+ (SO) (Negative)	[ICRA]BBB (SO) (Negative)	[ICRA]A- (SO) (Stable)	-	-
2	NCD-I	Long Term	150.00	150.00	[ICRA]B+ (SO) (Negative)	[ICRA]BB+ (SO) (Negative)	[ICRA]BBB (SO) (Negative)	[ICRA]A- (SO) (Stable)		
3	NCD-II	Long Term	210.00	210.00	[ICRA]B+ (SO) (Negative)	[ICRA]BB+ (SO) (Negative)	[ICRA]BBB (SO) (Negative)		[ICRA]A+ (SO) (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
-	Term loan	10-Oct-2017	10.50%	27-Oct-2020	45.00	[ICRA]B+ (SO) (Negative)
INE656Y07018	NCD-I	02-Nov-2017	10.50%	02-Nov-2020	150.00	[ICRA]B+ (SO) (Negative)
INE656Y08016	NCD-II	27-Dec-2017	Zero Coupon*	27-Dec-2020	210.00	[ICRA]B+ (SO) (Negative)

Source: IL&FS Solar Power Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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