

Press Release

Vector Green Sunshine Private Limited

November 08, 2021

Rating Assigned



Total Bank Facilities *	118.56 Cr.
Long Term Rating	Provisional ACUITE AA (CE)/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of **'Provisional ACUITE AA (CE)' (read as Provisional ACUITE double A (Credit Enhancement))** on the Rs. 118.56 Cr bank facilities of Vector Green Sunshine Private Limited (VGSPL). The outlook is **'Stable'**.

The rating on the Rs. 118.56 Cr term loan is provisional and the final rating is subject to receipt of pending documentation:

1. Receipt of the executed Trust Retention Account (TRA) agreements
2. Executed sanction letters and other loan documents

The rating assigned takes into account the stable performance of the operating asset and limited off-take risk. The rating also derives significant strength from the obligor/co-obligor structure, presence of Debt Service Reserve Account (DSRA), unutilized working capital limits and funding support from parent. The above mentioned rating strengths are partly offset by the elongation of its receivable cycle on account of delays in payments from State distribution utilities and susceptibility to risk of deterioration in performance/cash flow position of one or more SPVs simultaneously under the obligor/co obligor structure leading to reduction in surplus cash flow availability.

About the Company

Vector Green Sunshine Private Limited (VGSPL) is a Special Purpose Vehicle (SPV) of Vector Green Energy Private Limited (VGEPL) which operates a 20 MW solar power plant in Mansa, Punjab. It was incorporated in 2015 and operations for the plant began in 2016. It has signed a PPA with Punjab State Power Corporation Limited with a residual life of 21 years.

About the Group

VGEPL is a renewable energy platform wholly owned by India Infrastructure Fund – II (IIF-II) which is a SEBI registered category 1 AIF. IIF II is managed by Global Infrastructure Partners India (GIP India). GIP is a leading global, independent infrastructure investor. GIP-managed funds invest in infrastructure assets in energy, transport and water/waste sectors. GIP manages over USD72 billion globally for its investors.

VGEPL has an aggregate portfolio of 709 MW solar (DC Capacity), 24 MW wind and 216 solar rooftop sites across India aggregating to 9 MW (DC). VGEPL has structured six of its SPVs into an obligor/co-obligor structure including VGSPL and five others namely – Polepally Solar Parks Private Limited (PSPPL), Winsol Solar Fields (Polepally) Private Limited (WSFPL), Hindupur Solar Park Private Limited (HSPPL), Vector Green Surya Urja Private Limited (VGSUPL) and Mahabubnagar Private Limited (MSPPL). MSPPL operates a 10 MW plant in Mahabubnagar, WSPPL operates three plants at Tandur (50 MW), Karoor (15 MW) and Kondagal (10 MW), HSPPL operates two plants at Anantapur (40 MW) and Punganuru (40 MW) and VGSUPL and VGSPL operate plants of 20 MW each in Punjab.

Out of the six SPVs considered under VGEG (as defined below) PSPPL, MSPPL, WSPPL and HSPPL are currently under an obligor/co-obligor with a consortium of lenders and VGSUPL and VGSPL are standalone entities with a different consortium of lenders. The management has proposed a new structure under which all the six SPVs will be included in a single obligor/co-obligor structure. The total debt for the six SPVs stood at Rs. 1204 Cr as on March 31, 2021. Under the new structure the total debt outstanding will reduce to Rs. 1099 Cr with promoters infusing Rs. 114 Cr. Currently, there is an ongoing dispute between independent power producers (IPPs) including HSPPL and the AP distribution company

over the rates agreed under the PPA and the dispute remains sub judice. Under the new structure, a realignment of the total debt is proposed to be undertaken to pare HSPPL debt in line with the interim tariff rate of Rs. 2.44 per unit it is currently receiving. Addition of two Punjab SPVs will further improve the benefits of diversification in the new co-obligor structure over the previous one.

Standalone (Unsupported) Rating: ACUITE A

Analytical Approach

Acuite has consolidated financial and business risk profiles of six SPVs of VGEPL to arrive at this rating as they are all in an obligor/co-obligor structure. Full consolidation approach has been considered despite the absence of pooling of cash flow prior to debt repayment as all the SPVs are in the same line of business, they are managed at the holding company level by the same team, currently proposed to have a common lender and the TRAs will be monitored by the same Trustee. The details of the 6 SPVs included are mentioned in Annexure – I and hereon will be referred to as Vector Green Energy Group (VGEG). Extent of Consolidation: Full

Assessment of Adequacy of CE Structure

Acuite has undertaken a comprehensive assessment of the CE structure, the details of which have been highlighted elsewhere in the rationale. It has conducted moderate stress tests on the consolidated projections and has concluded that the debt servicing ability of VGEG is adequate under such stress scenarios.

Key Rating Drivers

Strengths

- **Stable operational performance, established operational track record and limited off take risk**

VGEG has six SPVs with total generation capacity of 230 MW. WSFPL has three projects and PSPPL and MSPPL have one each in Telangana, HSPPL has two projects in Andhra Pradesh and VGSUPL and VGSPL have one projects each in Punjab. All the nine project have started commercial operations in year 2016 and have an operational track record of more than five years of stable cash flow generation. The average plant load factor (PLF) has ranged between 17-23 percent (above P90 levels) for the past five years with robust plant availability factor in excess of 97 percent.

All the SPVs in VGEG have signed long term PPAs with State Power Distribution Companies for their installed capacity. PSPPL, MSPPL and WSFPL's projects have PPAs with Southern Power Distribution Company of Telangana Limited, VGSUPL and VGSPL have PPA with Punjab State Power Corporation Limited and HSPPL has PPA with AP Power Distribution Company Limited. The weighted average residual tenure on all PPAs is over 20 years thus reducing the off-take risk and providing revenue visibility over the long term.

Acuite expects VGEG's operational performance to remain stable over the medium on account of stable generation and signed long term PPAs.

- **Support from the robust obligor/co-obligor structure**

Under the proposed obligor/co-obligor structure all the six SPVs have been considered for consolidation. Individual TRA agreements are to be signed amongst the lenders, trustee and each of the SPVs with a well-defined payment waterfall mechanism. Acuite observes that the proposed structure enables multiple layers of cushion towards servicing of debt as it allows for surplus cash flows of a SPV (post deductions as stipulated under the trust and retention account agreement) be transferred to any of the SPVs for funding the cash flow shortfall.

Acuite also observes that the demands for such shortfall funding as determined by the Trustee/Lender's Agent are made at least 7 days prior to the 'Monthly Cash Transfer Date' (generally the 24th day of the month) and the relevant accounts/sub accounts are instructed to be funded on the said date from SPVs where surplus cashflow remains available.

It also observed from the proposed terms of the TRA that the 50 percent of excess cash amount (above DSCR of 1.25x) is available to the lender and can be utilized for prepayment of loans without any additional charges. All the SPVs are to maintain a Debt Service Reserve Account (DSRA) equal

to two quarters of interest and repayment obligations.

Further the financial covenant testing is also proposed to be done on a cumulative basis for all the SPVs. The presence of the structure is expected to ensure that the SPV's derive support from each other and the risk of cashflow mismatch is mitigated partially. Acuite believes that such a structure benefits the entities in it to achieve cashflow diversity to support their repayment which otherwise would have remained concentrated on the respective state power distribution utility. The lender are expected to have access to cash flows of multiple entities in case of lower than expected cash accruals in any of the other SPV.

Acuite believes that VGEG is likely to benefit from the presence of the obligor/co-obligor structure, DSRA and unutilized working capital limits. Any change in the conditions of the proposed TRA agreements will remain a key monitorable.

• **Healthy financial flexibility on account of support from holding company**

All the SPVs in VGEG are fully owned by VGEPL which is a renewable energy platform wholly owned by India Infrastructure Fund – II (IIF-II) which is a SEBI registered category 1 AIF. IIF II is managed by Global Infrastructure Partners India (GIP India). GIP is a leading global, independent infrastructure investor. GIP-managed funds invest in infrastructure assets in energy, transport and water/waste sectors. GIP manages over USD72 billion globally for its investors. It has been observed in the past parent company has infused funds to support the SPVs although there exists no contractual obligation stating the same. Acuite observes that VGEG's financial flexibility remains healthy on account of the presence of DSRA, unutilized working capital limits and the precedence of funding support from parent. The parent company had infused ~Rs. 28 Cr in form of short term unsecured loans in FY2021 in HSPPL and WSFPL to tide over cash flow mismatches. As per the terms of the new structure ~Rs. 114 Cr has been infused. Acuite believes that the financial flexibility of the parent and its established track record of timely support to SPVs remains a credit positive and a key monitorable.

Weakness

• **Risks of simultaneous deterioration of cash flow position of more than one entity may lead to stress on the financial risk profile**

VGEG has an elongated receivable cycle, as reflected by receivable days of 338 days in FY2021 and 299 days in FY2020. This elongation is primarily on account of delays in payment from state utilities over and above the 60-90 days credit period provided in the PPA and HSPPLs ongoing dispute with the AP state distribution utility. The receivable days for the HSPPL (AP) stood at 625 days in March 31, 2021 and 400 days in FY2020. The same stood at 239 days in FY2021 and 316 days in FY2020 for PSPPL, MSPPL and WSFPL (Telangana). Receivable days for VGSPL and VGSUPL (Punjab) stood at 101 days in FY2021 and 92 days in FY2020.

The cash flow projections under the proposed structure assumes that receivable days for VGSPL and VGSUPL to continue to remain around 60-90 days. It assumes receivable period of 180 days for PSPPL, MSPPL and WSFPL over the medium term and 60-90 days thereafter. It further assumes to the resolution of dispute with AP state distribution utility, regularization of payments and receipt of arrears over the medium term. Acuite notes that the cash flow position of entities remains sensitive to the receivable period and therefore for any continued stretch in receivable days is likely to lead to requirement of funding support through utilization of DSRA, unutilized working capital limits or the holding company. Acuite estimates that the average DSCR and average Cash DSCR (factoring for 25% working capital margin to be funded from the operations) under the current set of assumptions remain around 1.35 times and 1.32 times respectively. The minimum DSCR during the initial period however remains tight in case of sensitization of assumptions around the receivable days. Acuite does take note of the various internal credit enhancement mechanisms in the current structure to overcome the risk posed by continued delay in realization of receivables, and therefore believes that timely support from the sources mentioned above will remain a key monitorable.

• **Working capital intensive operations**

VGEG operations have remained working capital intensive with receivable days at 338 days in FY2021 and 299 days in FY2020. This has primarily been on account of delays in payment of dues from State Distribution Companies over and above the 60-90 days credit period provided in the PPA. The Group has PPAs with three State Distribution Companies – Andhra Pradesh, Telangana and Punjab. There is considerable delay in payment from the AP State Distribution Companies. This is further aggravated by the tariff dispute with AP State Distribution Company. The State Distribution Companies has been making payments at the interim tariff rate of Rs. 2.44 per unit as against the rate agreed in the PPA of

Rs. 5.91 and Rs. 5.98 for the two projects in Andhra, respectively. The dispute is currently sub judice. While it faces issues in AP State Distribution Company, payment record of Punjab and Telangana State Distribution Company have been much smoother.

VGEG's ability to improve its receivable position and working capital cycle will remain a key monitorable.

Liquidity Position: Strong

VGEG has been able to generate Net Cash Accruals (NCAs) of Rs. 99.83 Cr for FY2021 against repayment obligations of Rs. 57.80 Cr. Over the medium term it is expected to generate cash accruals (interest not deducted) of around Rs. 180 Cr against total repayment obligations of around Rs. 150 Cr. The Group operations are working capital intensive with Gross Current Assets (GCA) of over 400 days in FY2021. However, the adverse liquidity impact of this is limited as the Group has liquid investments of Rs. 162.32 Cr as on March 31, 2021 and has sufficient cushion in the form of unutilized working capital limits. Besides this the Group also enjoys support from its parent. Thus Acuite expect VGEG to maintain a strong liquidity profile on account of adequate cushion between NCAs and repayment obligations, liquidity buffers of DSRA, unutilized working capital limits and expected support of the parent constrained to some extent on account of working capital intensive operations.

Rating Sensitivities

- Any significant changes in the receivables position of one or more SPVs
- Timely and successful resolution of dispute with AP State Distribution Company and revision in tariff to PPA rate
- Any changes in the conditions of TRA agreements and the obligor/co-obligor structure

Material Covenants

1. DSCR of > 1.10, calculated on cumulative basis for 6 SPVs, if there is any deviation borrower will bring in additional funds to maintain the DSCR at the required level. If the deviation is >5 percent additional interest of 0.50 percent will be charged on the outstanding loan.

Outlook: Stable

Acuite expects VGEG to maintain a stable outlook on account of healthy financial flexibility and stable operating performance. Further the outlook may be revised to positive on account faster than expected improvement in the receivable position and the working capital cycle. The outlook may be revised to negative on account of further deterioration in the working capital cycle leading to adverse impact on the liquidity profile of the VGEG

About the Rated Group - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	271.82	257.29
Profit after Tax (PAT)	Rs. Cr.	39.00	(40.03)
PAT Margin	(%)	14.35	(15.56)
Total Debt/Tangible Net Worth	Times	7.82	10.18
PBDIT/Interest	Times	1.71	1.18

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

1. Absence of any structured payment mechanism.
2. In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in

the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUIE A/ Stable

C. Rating and Timeline implications for a debt instrument that is already issued

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the debt instrument. If the documentation is not completed within the specified timeline, Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating as specified under the aforementioned section "Rating that would have been assigned in absence of the pending steps/ documentation".

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities- <https://www.acuite.in/view-rating-criteria-51.htm>
- Criteria for Group and Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of Lender	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
IREDA	Term Loan	September 2021	Not Available	March 2037	118.56	Provisional ACUIE AA (CE)/ Stable (Assigned)

Annexure – 1

Name of the Entity
Polepally Solar Parks Private Limited (PSPPL)
Mahabubnagar Solar Parks Private Limited (MSPPL)
Winsol Solar Fields (Polepally) Private Limited (WSFPL)
Hindupur Solar Park Private Limited (HSPPL)
Vector Green Surya Urja Private Limited (VGSUPL)
Vector Green Sunshine Private Limited (VGSPL)

ESG factors relevant for rating

As a renewable energy producer, VGEPL plays an important environmental role as it contributes to the reduction of carbon emissions. Additionally, issues such as biodiversity impact, waste management and a green supply chain are critical for this industry from an environmental perspective. On the matter of governance, ethical business practices and the structure of the board of directors along with its functioning

are material factors. Labour management, workplace health & safety standards, and community development are social issues are relevant for an energy producer. Other material issues include product safety, quality and supply chain management.

VGEP Group has a robust environmental and social management system (ESMS). The company provides disclosures on ESG policies and it has reduced its carbon footprint by 1.2 million tonnes of equivalent carbon dioxide in FY21. The company's operations are aligned to UN sustainable development goals that emphasize on ensuring access to affordable and sustainable energy, promoting inclusive growth of the society, creating sustainable cities and communities and combating climate change and its impact. Further, under social initiatives, the company has provided employment to more than 475 local people with more than 1500 man days training provided to migrant workers for skill development.

Contacts

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About Acuité Ratings & Research:

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