Press Release

Vector Green Surya Urja Private Limited

September 08, 2022

Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	133.25	ACUITE A+ | Stable | Downgraded | Provisional To Final	-
Total Outstanding Quantum (Rs. Cr)	133.25	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has revised and converted its long-term rating to 'ACUITE A+' (read as ACUITE A plus) from 'Provisional ACUITE AA (CE)' (read as Provisional ACUITE Double A (Credit Enhancement)) on the Rs. 133.25 Cr. bank facilities of 'Vector Green Surya Urja Private Limited (VGUPL)'. The outlook is 'Stable'. The conversion from provisional rating to the final rating reflects the fulfilment of the conditions laid out in the press release dated November 08, 2021.

Rationale for the rating revision
The revision in rating is primarily driven by the change in analytical approach to ensure alignment with the latest RBI guidelines on credit enhancement for bank loan ratings. The guidance note has outlined potential risks inherent in an obligor/co-obligor structure which includes among others, legal risks. The absence of statutory recognition renders such structures weaker than earlier expected and may increase the uncertainty regarding the enforceability of such structures in the event of financial stress. Given the reduced comfort, Acuite has removed the additional support that had been earlier factored in the obligor/coobligor structure. Acuite, nevertheless, has continued to consider the consolidated business and financial risk profile to arrive at the rating. The analytical approach allows for factoring the management stated posture of supporting the individual entities in the group in the times of distress. While the assets are renewable power assets which are governed by individual Power Purchase Agreements (PPA) with different counter parties and there is no intermingling of cashflows at any stage except at the time when the trustee evaluates the servicing ability in individual debt servicing accounts, Acuite will no longer takes into account the benefit of surplus cashflow from one entity to another. However, the rating continues to derive support from stable operating performance of the assets and limited off-take risk. Further, rating also considers the support available from the parent company. The above-mentioned rating strengths are partly offset by elongation of its receivable cycle on account of delays in payments from state distribution utilities and risk of deterioration in performance or cash flow position of one or more SPVs simultaneously leading to reduction in surplus cash flow availability.

About Company

Vector Green Surya Urja Private Limited (VGSUPL) 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 2013 and operations for the plant began in 2015. It has signed a PPA with Punjab State Power Corporation Limited with a residual life of 20 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/ coobligor structure including PSPPL and five others namely – 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) and Vector Green Sunshine Private Limited (VGSPL). MSPPL operates a 10 MW plant in Mahabubnagar, WSFPL 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. Currently all the six SPVs considered under VGEG (as defined below) are currently under an obligor/coobligor structure with the lender. The total debt for the six SPVs stood at Rs. 1086 Cr as on March 31, 2022 (Prov.). 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. As per the terms of the sanction, a realignment of the total debt has taken place to pare HSPPL debt in line with the interim tariff rate of Rs. 2.44 per unit it is currently receiving.

Analytical Approach

Extent of Consolidation
• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support
Acuite has consolidated financial and business risk profiles of six SPVs of VGEPL to arrive at the rating. Acuite has removed the CE suffix and the additional support from the obligor/ coobligor structure to bring the approach in line with the RBI guideline on credit enhancement which had raised concerns regarding the enforceability and feasibility of such structures. However, a differential rating has been assigned to HSPPL on account of incremental counter party risk due to its ongoing dispute with the AP Discom which remains sub judice. Full consolidation approach has been considered 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).

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

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, additional working capital limits and the precedence of funding support from parent. The parent company had infused ~Rs. 711 Cr. in form of unsecured loans as on March 31, 2022 (Prov.) in all the six entites combined to manage cashflow mismatches and reduce the long term debt. 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.

Weaknesses

Elongation in working capital cycle

VGEG's working capital cycle has further elongated in FY2022 against FY2021 reflected in the receivable period of 551 days against 338 days previous year. 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. The receivable period in the HSPPL (AP SPV) stood at 884 days in FY2022 against 625 days in FY2021. 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 restrict further elongation its receivable position and working capital cycle will remain a key monitorable.

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. VGEPL 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.

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

Material Covenants

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

Liquidity Position: Adequate

VGEG has been able to generate Net Cash Accruals (NCAs) of Rs. 119.66 Cr for FY2022 (Prov.) against repayment obligations of Rs. 14 Cr. Over the medium term it is expected to generate cash accruals of around Rs. 90-100 Cr agai5nst total repayment obligations of around Rs. 58 Cr per year. The Group operations are working capital intensive with Gross Current Assets (GCA) of over 839 days in FY2022 (Prov.). However, the adverse liquidity impact of this is limited as the Group has liquid investments of Rs. 144.75 Cr as on March 31, 2022 (Prov.) and has sufficient cushion in the form of working capital limits. Besides this the Group also enjoys support from its parent. Thus Acuité expect VGEG to maintain a adequate liquidity profile on account of adequate cushion between NCAs and repayment obligations, liquidity buffers and expected support of the parent constrained to some extent on account of working capital intensive operations.

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 revised to negative on account of further deterioration in the working capital cycle leading to adverse impact on the liquidity profile of the VGEG.

Other Factors affecting Rating

Not Applicable

Key Financials (Consolidated)

Particulars	Unit	FY2022 (Prov.)	FY2021 (Actual)
Operating Income	Rs. Cr.	280.57	272.11
Profit after Tax (PAT)	Rs. Cr.	58.18	39.01
PAT Margin	%	20.74	14.34
Total Debt/ Tangible Net Worth	Times	7.42	8.02
PBDIT/ Interest	Times	1.83	1.71

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

Not Applicable

Any Other Information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Infrastructure Sector: https://www.acuite.in/view-rating-criteria-51.htm

Note on Complexity Levels of the Rated Instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Nov 2021	Term Loan	Long Term	133.25	ACUITE Provisional AA (CE) | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Renewable Energy Development Agency Ltd. (IREDA)	Not Applicable	Term Loan	30-09-2021	8.80	01-03-2036	133.25	ACUITE A+ | Stable | Downgraded | Provisional To Final

***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)**

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

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.