Solar Project in India Scores an "A" Credit Rating

By Varun Mittal 12 August 2013

The solar Industry in India is still evolving as far as the bankability of projects is concerned for a number of factors. Financial strength for any infrastructure project is based on project & debt cost, technical and operational performance and revenue model. It is clear that only only quality focussed project developers who are able to generate competitive returns on investment (ROI) for investors will be able to survive in long term.

Quality not quantity

A lot of developers have focused on the number of megawatts of solar that they can build. The Osiyan 5MW solar project completed by Astonfield Renewables is an example of a high-quality project that will earn a profitable ROI. The project recently achieved a CRISIL "A" credit rating, which is a direct result of Astonfield's focus on quality.

CRISIL is a Standard and Poors company and is India's leading ratings agency and provider of high-end research to banks and corporations.

The Osiyan plant was Astonfield's first solar power plant and it was commissioned on 15 October, 2011. It sits on over 40 acres of land in Osiyan (Rajasthan) and is one of the first projects sanctioned under 25-year power-purchase agreement (PPA) under the Jawaharlal Nehru National Solar Mission. Astonfield partnered with companies such as Spain's T-Solar. T Solar provided project equity capital as well as fixed tilt thin-film PV modules for the project, which perform well in the high-temperature climate of Rajasthan. France's Schneider Electric performed EPC services for the project. It took approximately 11 months to build the project, which now produces an estimated 8.5 million kWh per year. The project was financed on a 70:30 debt-to-equity basis with debt funding from the State Bank of India and Ex-Im Bank of India, which are considered very conservative in their lending practices, particularly for solar power.

Financial robustness

Ameet Shah is the Co-Chairman of Astonfield Renewables. Image courtesy of Astonfield

The project gained the CRISIL A credit rating based on its strong revenue visibility. CRISIL notes that project is driven by Astonfield's PPA with the National Thermal Power Corporation (NTPC) along with better realization per unit and sound operational performance. Astonfield also has a comfortable financial risk profile, marked by healthy debt protection metrics. The term loan Astonfield secured for the construction of the plant has a long tenure, and debt service coverage is expected to be "healthy", according to CRISIL, in the near term – around 1.7. Ameet Shah, Co-Chairman of Astonfield Renewables says "Rating of this quality is a key to cutting the cost of debt, which will allow Astonfield to generate greater returns for its investors in the long term while maintaining a lower risk profile and enable investors to be more flexible in options to finance assets". Shah further adds that Astonfield's aim is to lower the cost of debt from the current risk premium of 300-500 basis points over a leveraged lease ratio to a premium of about 100 basis points in the future.

The lesson learned from the Osiyan project is that quality is paramount. Solar plants are paid on performance. Fly-by-night projects serve little to no long-term sustainable objectives so to achieve healthy and sound returns with lower risks, investors need to make sure that project developers they choose focus on "quality".

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