

Ratings Methodology – Solar Power Projects

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Background – Mauritius

Mauritius' renewable energy sector has assumed increasing strategic importance as the country seeks to enhance energy security, reduce its dependence on imported fossil fuels, and meet its climate change and sustainability commitments. As a Small Island Developing State (SIDS), Mauritius remains vulnerable to external energy price shocks and supply disruptions, thereby necessitating a transition towards a more diversified and resilient energy mix. In line with its national energy policy and Renewable Energy Roadmap, the Government of Mauritius has established ambitious targets to increase the share of renewable energy in the electricity generation mix, with solar energy expected to play a central role in achieving these objectives. The country has been actively promoting utility-scale solar power projects, distributed generation schemes, floating solar initiatives, agrivoltaic projects, and battery energy storage systems (BESS) to facilitate greater integration of renewable energy into the grid. The Central Electricity Board (CEB), together with the Ministry of Energy and Public Utilities and other government agencies, continues to support renewable energy development through competitive procurement programs, policy initiatives, and investor-friendly frameworks.

Solar power has emerged as one of the most attractive renewable energy sources in Mauritius owing to the country's favorable solar irradiation levels, declining technology costs, and growing emphasis on decarbonisation. The sector has witnessed increasing participation from independent power producers (IPPs), corporate investors, and international development institutions. Furthermore, planned investments in grid modernization, energy storage infrastructure, and renewable energy projects are expected to support the reliable integration of intermittent solar generation into the national electricity system. While the sector offers significant growth opportunities, developers and operators continue to face challenges relating to grid absorption capacity, land availability, weather-related variability, project execution risks, evolving regulatory requirements, and counterparty exposure. Nevertheless, continued government support, strengthening institutional frameworks, and the country's long-term commitment to renewable energy transition are expected to drive sustained growth in the solar power sector.

This criteria document covers the risks faced by entities operating in the solar power industry in Mauritius and CARE Ratings (Africa) Private Ltd (CRAF)'s approach to evaluating their credit profiles.

Rating methodology

Infrastructure assets are typically developed through Special Purpose Vehicles (SPVs), wherein project cash flows are ring-fenced and debt obligations are largely serviced from the cash flows generated by the underlying project. Such financing structures are generally characterised by limited or non-recourse arrangements, with lenders having recourse primarily to project assets and cash flows. Given the long economic life of solar power assets (typically ranging from 20 to 25 years or more), CRAF incorporates a long-term perspective in its credit assessment.

While rating either an under-construction or an operational solar power SPV, CRAF evaluates the credit profile based on four broad parameters:

- Business Risk
- Industry Risk
- Financial Risk
- Management and Sponsor/Parent Strength

To get a detailed perspective on assessment of infrastructure sector, kindly refer to CRAF's criteria for infrastructure sector ratings at www.careratingsafrica.com.

Business Risk

Some of the major factors determining the business risk profile of a solar power entity are listed below. This list is not exhaustive, as there may be additional considerations that could impact the credit profile of a project. However, in CRAF's opinion, the following factors are among the key determinants of credit quality. The first few risks are primarily applicable during the development and construction phase of a project.

Permitting Risk

Permitting risk for a solar power project can broadly be classified into three segments: land-related approvals, grid interconnection and evacuation arrangements, and statutory clearances.

Securing suitable land is one of the initial requirements for the development of a utility-scale solar project. Ground-mounted solar projects generally require substantial land area, making timely acquisition or long-term leasing of land critical for project implementation. CRAF evaluates the ownership structure of the land, the adequacy of lease tenure where applicable, the status of land-related approvals, and any potential legal or environmental issues that could affect project implementation.

In addition, the project developer must ensure the availability of adequate transmission and evacuation infrastructure to transfer power from the project site to the grid. This includes obtaining the necessary interconnection approvals from the Central Electricity Board (CEB) and complying with applicable technical and grid code requirements. The timely receipt of statutory approvals, environmental clearances, construction permits, and licences from the relevant governmental authorities is also a key consideration.

Projects where critical approvals have already been secured and evacuation infrastructure has been adequately established are viewed more favourably than projects where such arrangements remain pending.

Location of the Project, Solar Resource Assessment and Generation Risk

The operational viability of a solar power project is significantly influenced by the quality of the solar resource available at the project site. Site-specific factors such as solar irradiation levels, climatic conditions, topography, shading effects, flooding risk, cyclonic activity, excessive rainfall, and other adverse weather conditions can materially affect project performance.

For estimating the expected energy generation from a project, CRAF reviews the technical studies and generation estimates available for the project. These may include solar resource assessments, energy yield studies, independent engineer reports, lender technical advisor reports, or other technical evaluations prepared by suitably qualified experts. The credibility of the study, underlying assumptions, methodology adopted, and the experience of the technical consultant are important considerations in CRAF's assessment.

Where multiple generation scenarios are available, CRAF may place reliance on conservative generation assumptions while undertaking its credit analysis. For operational projects, CRAF evaluates historical generation performance against projected estimates and examines the reasons for any material deviations. Appropriate adjustments are made to future generation assumptions wherever warranted.

Construction Risk

Construction risk refers to the challenges associated with achieving timely and cost-effective project completion. Delays in commissioning may result in cost overruns, reduced project returns, loss of revenue and, where applicable, contractual penalties under project agreements or power purchase agreements (PPAs).

While assessing construction risk, CRAF examines the stage of project implementation, adequacy of construction progress, project execution schedule, terms of engineering, procurement and construction (EPC) contracts, track record and financial strength of EPC contractors, equipment suppliers and operations and maintenance contractors. Particular attention is given to the source and quality of critical equipment such as solar modules, inverters and battery energy storage systems (where applicable).

The extent of performance guarantees, liquidated damages provisions, warranty coverage and contractual safeguards available to the project company are also assessed. CRAF generally views favourably projects developed by sponsors and contractors with a demonstrated track record of successfully executing similar renewable energy projects.

For under-construction projects, CRAF also evaluates the project completion timelines stipulated under the PPA, including any scheduled commercial operation date and related milestone obligations. Delays in achieving such timelines may attract consequences such as monetary penalties, invocation of performance bank guarantees, reduction in tariff, or termination/cancellation of the PPA, depending on the contractual terms. Accordingly, CRAF assesses the current project status against the envisaged completion schedule, the likelihood of delays, and the potential financial and contractual implications of such delays.

Evacuation infrastructure

Transmission line availability and access risk is high for renewable energy especially with wind and solar projects compared to traditional power projects because of site-specific and intermittent generation pattern of these resources. The availability and adequacy of grid evacuation infrastructure are important considerations for renewable energy projects. Any delay in the development or augmentation of evacuation facilities may affect project commissioning timelines and generation evacuation capability thus causing the plant to remain idle despite becoming mechanically complete. Accordingly, CRAF analyses the availability of evacuation infrastructure and in case of under-development transmission line, it verifies the timelines for completion of line vis-à-vis projects' SCOD.

Funding Risk

Solar power projects are capital-intensive and require substantial upfront investment. Consequently, timely financial closure and availability of adequate funding are critical to successful project implementation.

CRAF evaluates the project's funding structure, including the proportion of debt and equity, status of financing tie-ups, terms and conditions of debt facilities, availability of contingency funding, and the financial flexibility of project sponsors. The rating assessment also considers the extent to which sponsor support may be available in the event of construction delays, cost overruns or operational challenges.

In case of under-construction projects, CRAF also critically evaluates the status of promoter fund infusion, debt tie-up, compliance with pre-disbursement conditions, and key covenants of sanctioned or tied-up debt facilities. Such assessment includes review of interest rate, moratorium and repayment period, repayment structuring, cash flow waterfall mechanism, subordination of promoter contribution infused in forms other than equity, creation and maintenance of DSRA, inverter replacement reserve, and other project-specific reserve or security mechanisms.

Projects sponsored by financially strong and experienced sponsors are generally viewed favourably, as such sponsors are better positioned to provide additional support if required.

Nature and Terms of Power Purchase Agreement (PPA)

The PPA is one of the most critical project documents as it provides revenue visibility and significantly mitigates market and off-take risks. While analysing a solar power project, CRAF reviews the status of PPA arrangements and evaluates key contractual provisions including:

- Tenure of the PPA
- Tariff structure and tariff revision mechanisms
- Contracted capacity and energy obligations
- Take-or-pay provisions
- Government support arrangements, where applicable
- Billing and payment mechanisms
- Payment security arrangements
- Grid curtailment and deemed generation provisions
- Change-in-law provisions

- Force majeure clauses
- Events of default
- Termination compensation provisions
- Dispute resolution mechanisms

Long-term PPAs with creditworthy counterparties are viewed favourably as they provide greater predictability of cash flows and reduce exposure to merchant power price volatility.

In the Mauritian context, projects selling electricity to the Central Electricity Board (CEB) under long-term contractual arrangements generally benefit from relatively stable revenue visibility compared to projects exposed to market-based or short-term sales arrangements. The adequacy of payment security mechanisms, historical payment record of the off-taker, and contractual protections available to the project company are important considerations in CRAF's assessment. Projects with robust compensation mechanisms for grid curtailment, termination events and prolonged payment delays are viewed more favourably.

Tariff Competitiveness

CRAF assesses the competitiveness of the tariff under the Power Purchase Agreement (PPA) by comparing it with the prevailing cost of electricity procurement and supply within the Mauritian power sector. For projects with long-term PPAs with the Central Electricity Board (CEB), the assessment includes a review of the tariff vis-à-vis the cost of alternative sources of generation available to the off-taker, including conventional and renewable energy sources.

For projects supplying power directly to commercial and industrial consumers, where permitted, or for captive/self-consumption arrangements, CRAF evaluates the tariff competitiveness against applicable retail electricity tariffs and the potential savings available to the consumer. The sustainability of such savings over the life of the project is an important consideration.

Where projects are exposed to market-based pricing mechanisms or contractual arrangements outside the traditional utility procurement framework, CRAF evaluates the regulatory environment, contractual structure, revenue visibility, and the extent of protection available against demand and price volatility. The presence of favourable contractual provisions such as minimum off-take commitments, lock-in periods, early termination compensation, and adequate change-in-law protection is viewed positively.

Counterparty Credit Risk

In the Mauritian context, the primary counterparties for utility-scale solar projects are expected to comprise the Central Electricity Board (CEB), government-backed entities, and, where applicable, private commercial and industrial consumers.

While assessing counterparty credit risk, CRAF evaluates the financial strength, operational profile, payment track record, and strategic importance of the off-taker. Particular emphasis is placed on the historical timeliness of payments, contractual payment obligations, and the existence of any payment support mechanisms.

For projects with CEB as the off-taker, CRAF assesses the utility's role within the Mauritian electricity sector, its operational and financial profile, and the overall regulatory framework governing the electricity market. For projects involving private-sector off-takers, CRAF evaluates the creditworthiness of the customer, business sustainability, industry position, and the extent of contractual protections available to the project company.

Projects benefiting from strong payment security arrangements, such as escrow mechanisms, debt service reserve accounts, government support arrangements, or other credit-enhancement structures, are viewed more favourably.

Operating and Climatic Risks

For most solar power projects, revenue generation is directly linked to the amount of electricity generated and delivered. Consequently, variations in solar irradiation, adverse weather conditions, equipment performance, plant availability, and grid availability can materially impact project revenues, cash flows, and debt-servicing capability.

CRAF evaluates the expected generation profile of a project based on available technical studies, energy yield assessments, independent engineer reports, lender technical advisor reports, and other technical evaluations prepared by suitably qualified experts. The credibility of the consultant, assumptions adopted, and conservatism of generation estimates are important considerations in the assessment.

Mauritius is exposed to tropical weather systems, including cyclones, heavy rainfall, and other extreme weather events that may affect plant operations and energy generation. Accordingly, CRAF assesses the adequacy of project design standards, equipment specifications, insurance coverage, disaster recovery measures, and resilience of the asset to adverse climatic conditions.

Plant availability and grid availability are assessed against contractual and industry benchmarks. CRAF also reviews the experience and financial strength of the operations and maintenance (O&M) contractor, the scope of O&M agreements, performance guarantees, and the existence of penalty mechanisms in case plant availability falls below stipulated levels. The quality, reliability, and warranty coverage of critical equipment such as solar modules, inverters, mounting structures, and battery energy storage systems (where applicable) are also evaluated.

For sponsors operating multiple projects across different locations, CRAF may consider geographic diversification as a partial mitigant against resource variability and site-specific operational risks. However, the extent of such diversification benefits would depend on the correlation of weather patterns and generation characteristics across the project portfolio.

Industry and Regulatory Risk

The renewable energy sector in Mauritius is influenced by the regulatory framework governing electricity generation, transmission, procurement, and tariff determination. As a result, solar power projects are exposed to industry-wide and regulatory risks that may affect their operational performance, cash flow stability, and overall credit profile.

Key industry risks include changes in government policies, renewable energy procurement frameworks, licensing requirements, technical standards, grid interconnection requirements, and other regulations affecting the power sector. Given that a significant portion of utility-scale renewable energy projects in Mauritius operate under long-term contractual arrangements with the Central Electricity Board (CEB) or within government-supported procurement programmes, the stability and predictability of the regulatory framework are important considerations in CRAF's assessment.

CRAF also evaluates the potential impact of policy changes relating to renewable energy targets, competitive bidding mechanisms, renewable energy incentives, grid access arrangements, energy storage requirements, and environmental regulations. Any uncertainty regarding the implementation of such policies may affect project economics, future expansion plans, or investor confidence in the sector.

In addition, renewable energy projects may be exposed to regulatory risks arising from changes in taxation, customs duties, levies, environmental compliance requirements, land-use regulations, or other statutory obligations. Such changes may increase project costs or alter expected returns. While project agreements may contain provisions addressing "change in law" events, the process of obtaining compensation, tariff adjustments, or regulatory approvals can be time-consuming and may create temporary pressure on project cash flows.

CRAF continuously monitors developments in the Mauritian power sector, including changes in legislation, regulatory policies, procurement frameworks, and renewable energy initiatives. The potential impact of such developments on project viability, revenue visibility, and debt-servicing capability is factored into the credit assessment. Where projects benefit from well-defined contractual protections against adverse regulatory changes, CRAF views the associated risk profile more favourably.

Financial Risk

Stability and Adequacy of Cash Flows

The credit quality of a solar power project is primarily driven by its ability to generate sufficient and stable cash flows to meet its debt servicing obligations over the life of the asset. Accordingly, CRAF undertakes a detailed cash flow assessment covering the expected operating life of the project. Historical financial performance, where available, is also analysed to assess the revenue profile, cost structure, profitability trends, and balance sheet strength of the entity.

Cash flow projections are prepared based on key project-specific assumptions, including contracted tariff, expected energy generation, estimated plant availability, operating and maintenance expenses, financing costs, taxation, and other relevant cost parameters. CRAF also evaluates the impact of sensitisation scenarios on key variables such as energy generation, plant availability, tariff levels, operating costs, interest rates, payment delays by the off-taker, and other project-specific risks to assess the project's resilience under adverse conditions.

For newly commissioned projects, projections are generally based on conservative generation estimates supported by technical studies and project design parameters. For operational projects, actual operating performance and generation history are analysed and incorporated into the assessment where appropriate. In cases where actual generation has consistently deviated from projected levels over a sustained period, CRAF may revise its generation assumptions to better reflect the demonstrated operating performance of the asset.

Where the tenure of the power purchase agreement (PPA) is shorter than the residual life of the project debt or the useful life of the asset, CRAF assesses the project's ability to secure replacement off-take arrangements and evaluates the likely tariff assumptions based on prevailing market conditions and the regulatory environment in Mauritius.

Any benefits arising from refinancing, reduction in borrowing costs, amendments to repayment terms, or other financing concessions are generally recognised only after they have been formally approved and documented by the relevant lenders.

Leverage and Coverage Indicators

Solar power projects are typically financed using a combination of equity and long-term debt, resulting in relatively higher leverage levels during the initial years of operation. Consequently, the assessment of leverage and debt servicing capability forms an important component of CRAF's credit evaluation.

While evaluating a project company or Special Purpose Vehicle (SPV), CRAF benchmarks the capital structure and financing profile against comparable projects in the sector. Key parameters examined include:

- Debt-to-equity ratio
- Cost of debt
- Repayment structure and maturity profile
- Operating profitability
- Equity contribution and funding support from sponsors

Particular emphasis is placed on debt coverage indicators, including:

- Annual Debt Service Coverage Ratio (DSCR)
- Minimum DSCR
- Cumulative DSCR over the debt tenor

For projects where refinancing is expected or forms an integral part of the financing strategy, CRAF also evaluates the cash flow-based metrics to assess the project's refinancing capacity and long-term credit strength.

CRAF additionally assesses the financial flexibility of the project by analysing surplus cash flows available after servicing debt obligations, the length of the operational life remaining after debt maturity, and the capacity of the asset to withstand periods of stress. Projects with stronger coverage metrics, longer operating life relative to debt maturity, and higher cash flow buffers are generally viewed more favourably.

Foreign Exchange Risk

Solar power projects may be exposed to foreign exchange risk where project costs, equipment procurement, operations and maintenance contracts, or debt obligations are denominated in foreign currency, while project revenues are primarily earned in Mauritian Rupees. Any adverse movement in exchange rates may increase project costs, debt servicing obligations, or replacement capex requirements, thereby impacting cash flows and credit metrics. CRAF evaluates the extent of foreign currency exposure, availability of natural hedges, contractual pass-through arrangements, hedging mechanisms, and sponsor support to assess the potential impact of currency volatility on the project's credit profile. Projects with material unhedged foreign currency exposure are viewed less favourably.

Interest Rate Risk

Solar power projects are generally capital-intensive and rely significantly on long-term debt funding. Accordingly, movements in interest rates can affect financing costs, debt servicing obligations, and overall project returns, particularly where borrowings are contracted at floating interest rates. CRAF assesses the interest rate structure of the debt, proportion of fixed versus floating rate borrowings, refinancing assumptions, and cushion available in debt coverage indicators under adverse interest rate scenarios. Projects with fixed-rate funding or sufficient cash flow buffers to absorb an increase in borrowing costs are viewed more favourably.

Working Capital and Liquidity

Although solar power projects generally have relatively low working capital requirements compared to many other industries, liquidity management remains a critical factor in maintaining debt servicing capability.

The liquidity profile of a project is influenced by the timing of revenue collections from off-takers, debt repayment obligations, operating expenditure requirements, and unforeseen contingencies. Accordingly, CRAF evaluates the adequacy of liquidity buffers available to the project to absorb temporary cash flow disruptions.

Key factors considered include:

- Cash and bank balances
- Expected operating cash flows
- Debt Service Reserve Account (DSRA)
- Maintenance reserve accounts and other dedicated reserves
- Available but undrawn Overdraft credit facilities
- Sponsor support arrangements
- Committed equity contributions, where applicable

Where payment cycles from the off-taker are subject to delays or uncertainty, CRAF expects stronger liquidity buffers to mitigate potential collection risks. Projects with well-structured reserve mechanisms and adequate liquidity support arrangements are viewed more favourably.

Management and Sponsor/Parent strength

CRAF first assesses the standalone credit profile of an asset and the same is notched up based on its parentage. This depends on the promoter group's ability, willingness, and likelihood to provide need-based support to the underlying SPV. (CRAFs' 'Rating methodology – Factoring Linkages Parent Sub JV Group' at www.careratingsafrica.com).

Furthermore, emphasis is given to factors such as the track record of the group in setting RE projects, underlying capacity at the group level, quality of management, overall group-level financial policies, financial flexibility, and resourcefulness at the parent level. A group having stronger financial flexibility will generally be able to timely access the capital markets, attract investors, and enjoy the confidence of the lending community.

Environment, Social and Governance (ESG) Risks

Environmental Risk:

Solar power projects contribute positively to Mauritius' renewable energy transition by reducing dependence on imported fossil fuels and lowering greenhouse gas emissions. Consequently, solar projects generally demonstrate a favourable environmental profile. However, environmental risks may arise from land use, biodiversity impacts, waste management practices, and the disposal or recycling of solar modules and batteries (where applicable) at the end of their useful life.

Social Risk:

Utility-scale solar projects typically require substantial land and supporting evacuation infrastructure. Accordingly, social risks may arise from land acquisition or lease arrangements, community engagement, stakeholder concerns, and

compensation-related matters. CRAF evaluates the project's approach towards stakeholder management, regulatory compliance, and community relations.

Governance Risk:

Governance assessment encompasses factors such as corporate governance practices, financial reporting standards, board oversight, internal controls, regulatory compliance, transparency, related-party transactions, and risk management processes. CRAF forms an overall view of the governance framework of the entity based on available information and its potential impact on the project's credit profile.

Conclusion

The determination of a credit rating involves the application of experienced and holistic judgement, taking into consideration the various quantitative and qualitative factors that influence the credit quality of an issuer or project. CRAF analyses the key business, industry, regulatory, financial, and management-related factors, along with their interlinkages, to arrive at an overall assessment of creditworthiness. A credit rating is inherently forward-looking and reflects CRAF's opinion on the ability of the issuer or project to meet its financial obligations on a timely basis, based on current fundamentals and the potential for changes in those fundamentals over time.

For solar power projects in Mauritius, project development and execution risks assume greater significance during the construction and implementation phase. Once a project becomes operational, greater emphasis is placed on the adequacy, predictability, and sustainability of cash flows. Key factors influencing cash flow generation include tariff arrangements, energy generation levels, operational performance, financing costs, debt repayment obligations, collection efficiency, liquidity buffers, and the credit quality of counterparties. CRAF evaluates these factors collectively to assess the overall credit risk profile and long-term financial sustainability of the solar power project.

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About:

CARE Ratings (Africa) Private Limited (CareEdge Africa) is incorporated in Mauritius to provide credit ratings and related services in Mauritius and across other geographies in Africa. CareEdge Africa intends to expand its presence across other geographies in Africa, with Mauritius serving as its hub of operations.

CareEdge Africa is the first credit rating agency to be licensed by the Financial Services Commission (FSC) of Mauritius in May 2015. It has also been recognised by the Bank of Mauritius as an External Credit Assessment Institution (ECAI) since May 2016. In addition, CRAF is licensed by the Capital Markets Authority of Kenya to operate as a Credit Rating Agency in Kenya and by the Capital Market and Securities Authority of Tanzania to operate as a Credit Rating Agency in Tanzania. As part of its expansion strategy, CareEdge Africa has established a wholly owned subsidiary, CARE Ratings South Africa (Pty) Ltd, based in South Africa and licensed by the Financial Sector Conduct Authority (FSCA) of South Africa. CareEdge Africa's shareholders comprise CARE Ratings Limited (CareEdge Group), African Development Bank (AfDB), MCB Equity Fund (MEF), and SBM (NFC) Holdings Limited (SNHL). This strong institutional shareholder base enables CareEdge Africa to leverage established expertise, credibility, and brand recognition across the African continent.

CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.

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