FitchRatings

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Fitch Assigns Short-Term IDR of 'F3' to HASI; Rates Commercial Paper Program 'F3'

Fitch Ratings - New York - 03 Dec 2024: Fitch Ratings has assigned a Short-Term Issuer Default Rating (IDR) of 'F3' to HA Sustainable Infrastructure Capital, Inc. (HASI; BBB-/Stable) and concurrently assigned a Short-Term rating of 'F3' to HASI's recently announced commercial paper (CP) program.

Key Rating Drivers

The Short-Term IDR of 'F3' reflects the rating linkage between the Short-Term IDR and HASI' Long-Term IDR of 'BBB-' and Fitch's view of its funding and liquidity profile. According to Fitch's "Non-Bank Financial Institutions Rating Criteria," a Long-Term IDR of 'BBB-' maps to a Short-Term IDR of 'F3'.

The CP rating is equalized with HASI's Short-Term IDR. The CP program is expected to be used as an alternative short-term funding solution to the revolving credit facility for working capital needs. The company can issue up to $1 billion of short-term unsecured notes which rank pari pasu with the other senior unsecured and unsubordinated debt. The notes will have a maximum maturity of 397 days. The CP program will have a full dollar-for-dollar backstop via HASI's $1.35 billion, unsecured revolving credit facility (RCF), which has same-day capital access, and the amount of CP outstanding may never exceed the amount of RCF available.

HASI's ratings reflect its enhanced business profile and funding flexibility as well as its strong asset quality, solid operating performance and the maintenance of leverage within its target range. The firm has a proven record in the niche renewable energy financing sector, with a large and profitable securitization platform and experienced management.

Rating constraints include HASI's modest scale, niche focus, increased competition within the renewable financing market, and the need for continued capital market access to fund investment commitments and portfolio growth. However, this has been somewhat mitigated by the recently formed co-investment vehicle with KKR & Co. Inc. (A/Stable), CarbonCount Holdings 1 LLC.

The Stable Rating Outlook reflects Fitch's expectation that HASI will continue to expand profitably, while managing leverage to within its targeted range, although it is at the high end. Fitch also expects asset quality to remain strong and anticipates that HASI will maintain a diverse funding mix, with more than 60% consisting of unsecured debt with long-dated maturities.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/ Downgrade

An increase in non-accruals or impairments of equity investments and a sustained rise in leverage above the firm's target range could yield negative rating action. Beyond that, negative rating action could result from a significant shift in HASI's risk profile, deterioration in operating performance — including a decline in the securitization business — or reduced funding flexibility, including a drop in the proportion of unsecured funding to below 60%.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Fitch does not expect positive rating momentum over the near term given the recent upgrade. Over the longer term, an upgrade could stem from the maintenance of the firm's market position in a more competitive environment, enhanced scale, profitable growth, continued strong portfolio credit trends, adequate liquidity with extended funding duration, leverage remaining under 1.5x and a steady portfolio risk profile.

DEBT AND OTHER INSTRUMENT RATINGS: KEY RATING DRIVERS

The Short-Term IDR is primarily sensitive to the Long-Term IDR. An upgrade of HASI's Long-Term IDR to 'BBB' could lead to an upgrade of the Short-Term IDR if there is a material improvement in HASI's Funding, Liquidity, and Coverage (FLC) profile. Specifically, an upgrade of the FLC subfactor score to 'bbb+' could result in an upgrade of the Short-Term IDR to 'F2'. HASI's current FLC score is 'bbb-'.

DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES

The CP rating is equalized with the Short-Term IDR and would be expected to move in tandem.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

HASI has an ESG Relevance Score of '4'[+] for Exposure to Social Impacts, as the shift in consumer awareness and preferences toward renewable energy and ESG aspects benefits the company's business model and its earnings and profitability. This has a positive impact on the credit profile and is relevant to the ratings in conjunction with other factors.

HASI has an ESG Relevance Score of '4' for Exposure to Environmental Impacts, as the company is exposed to extreme weather events on some of its assets and operations and any hedges or other offsets are usually imperfect in nature. This has a negative impact on the credit profile and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
HA Sustainable Infrastructure Capital, Inc.	ST IDR	F3	New Rating		
• senior unsecured	ST	F3	New Rating		

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		

RATINGS KEY	OUTLOOK	WATCH
NEGATIVE	⊖	⬙
EVOLVING	⊙	◆
STABLE	⭘	

Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (pub.17 Jan 2024) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

HA Sustainable Infrastructure Capital, Inc.	EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch’s website.

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