

Rating Rationale

September 06, 2021 | Mumbai

Grahati Solar Energy Private Limited

'CRISIL BBB+/Stable' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.306.23 Crore
Long Term Rating	CRISIL BBB+/Stable (Assigned)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL BBB+/Stable**' rating to the long-term bank facility of Grahati Solar Energy Private Limited (GSEPL). The company is part of the Acme Solar Restricted Group (ASRG), which comprises three special purpose vehicles (SPVs), including Dayakara Solar Power Pvt Ltd (DSPPL), GSEPL and Mihit Solar Power Pvt Ltd (MSPPL). The aggregate amount of rupee term loan in the three SPVs is Rs 824.71 crore.

The rating reflects the company's revenue visibility, adequate debt servicing metrics and a defined waterfall mechanism. These strengths are partially offset by exposure to counterparty risks and risks inherent in the operations of renewable energy assets.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of the three SPVs of ASRG, in-line with its criteria for rating entities in homogeneous groups and has equated the rating of the individual SPVs to the group. The three entities consolidated are DSPPL, GSEPL and MSPPL. The entities are in a homogeneous group, undertakings and management philosophy, have same set of lenders and common management.

Each of the SPVs acts as a co-obligor to the other, with each having executed an undertaking stating that surplus in any of the individual SPVs can be utilised for debt obligation in the other two SPVs, if required. This undertaking is part of the financing documents. Default under the undertaking will result in an event of default under the financing agreement. Thus, following debt servicing in each SPV, excess cash flow is largely available for use across the group. Any deviation in this understanding shall be a key rating sensitivity factor.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Revenue visibility through power purchase agreement (PPA):**

Aggregate capacity of the three SPVs is 154 megawatt (MW). Out of this, MSPPL has executed a 25-year PPA with Punjab State Corporation Pvt Ltd (PSPCL) for a capacity of 74 MW (with a weighted average tariff of 7.09 per kilowatt hour [kWh] fixed for the entire tenor) and the balance capacity of 80 MW has been tied up through a 25-year PPA with the Southern Power Distribution Company of Telangana Ltd (TSSPDCL). Out of 80 MW, 30 MW is from DSSPL at fixed tariff of Rs 6.848 per kWh and 50 MW is from GSEPL at a fixed tariff of Rs 6.74 per kWh. This lowers the offtake risk and provides revenue visibility. The entire 154 MW capacity became operational in fiscal 2017.

- **Adequate debt servicing metrics:**

Fixed-tariff PPAs with PSPCL and TSSPDCL should ensure average debt service coverage ratio (DSCR) of 1.35 times throughout the tenure of the debt. Furthermore, the SPVs have a healthy PPA tail period of ~5 years.

Debt service reserve account (DSRA) covering 1 quarter of debt servicing (aggregate Rs 33 crore for ASRG as on July 30, 2021) is maintained in the form of cash or fixed deposit. The management has also confirmed that additional cash liquidity of 1 quarter, over and above the DSRA, will be maintained for all SPVs going forward. Any deviation in this understanding will be a rating sensitivity factor.

- **A defined waterfall mechanism:**

Lenders have control on the cash flow of the three SPVs through a separate Trust and Retention Account (TRA) for each SPV, with a defined waterfall mechanism for prioritisation of cash flow for repayment of debt. As per the TRA agreement, any outflow, including transfer of surplus, is subject to the defined TRA waterfall (detailed subsequently).

Weaknesses:

- **Exposure to counterparty risk:**

Out of the total aggregate capacity of the three SPVs, 48% is tied up in a PPA with PSPCL and the balance 52% with TSSPDCL. The company saw a blended average payment period from the counterparties at 5-6 months in fiscal 2021 (2-3 months from PSPCL and 9-11 months from TSSPDCL).

In fiscal 2021, the cash inflow from TSSPDCL was Rs 130 crore, against external debt servicing of around Rs 75 crore for DSPPL and GSEPL put together. The cash inflow from PSPCL was Rs 71 crore, against debt servicing of Rs 53 crore. The debt servicing requirement for the Telangana SPVs was around Rs 33 crore till date in fiscal 2022 (from April 2020 to August 2021). This was met partly through receipts from state distribution companies (discoms) of Rs 15 crore in the same period, while the balance requirement was met through available cash balance (non-DSRA cash balance at the end of fiscal 2021 was Rs 15 crore in DSPPL and Rs 19 crore in GSEPL). In case of MSPPL, receipts from PSPCL was Rs 34 crore till date in fiscal 2022, which is sufficient to meet the debt servicing requirement of Rs 24 crore.

In the past, due to delays in receipts from TSSPDCL, both DSSPL and GSEPL have also had to rely on surpluses from MSPPL to meet their cash flow requirement.

Thus the SPVs remain exposed to risks related to delay in payment on account of high dependence on each of the two counterparties. Considering that DSPPL and GSEPL have had to utilize surplus from MSPPL and existing cash balance in respective SPVs to meet their cash flow requirement, the rating is highly sensitive to stretch in the payment cycle from these counterparties and timely receipts from the discoms will be critical in this regard.

- **Susceptibility to risks inherent in renewable power projects:**

Cash flow of the entire capacity remains sensitive to plant load factor (PLF), which depends on solar irradiance and weather patterns that are inherently unpredictable. This uncertainty may impact the debt servicing capability of the company. The project has performed close to P90 PLF in the past 3 years.

Liquidity: Adequate

Cash accrual is expected at Rs 165-170 crore each in fiscals 2022 and 2023 (at P90 PLF) which should cover yearly term loan debt servicing of Rs 120-135 crore. ASRG has DSRA covering 3 months of debt servicing (Rs 33 crore as on July 30, 2021) in the form of cash and shall maintain additional cash liquidity equivalent to 3 months of debt servicing over and above the DSRA.

Outlook: Stable

DSSPL, GSEPL and MSPPL are expected to benefit from the long-term PPA and adequate operational performance (PLF).

Rating Sensitivity factors

Upward factors

- Combined stable receivable period of 2-3 months for at least 12 -18 months along with better-than-P90 PLF performance
- Faster-than-expected deleveraging leading to improvement in average DSCR

Downward factors

- Weaker operating performance than P90 PLF
- Material increase in receivables or higher-than-budgeted operations and maintenance (O&M) expenses

TRA waterfall mechanism:

The receivables deposited or credited into the designated account shall be appropriated for the following purposes in the following order of priority:

- Statutory dues, with prior written consent of the lender
- O&M expenses, with prior written consent of the lender
- Debt service payments, with prior written consent of the lender
- DSRA, with prior written consent of the lender
- Major Maintenance, with prior written consent of the lender
- Amount to replace the solar modules and Balance of Plant (BoP), if required, to bridge the shortfall from insurance receipt to ensure that capacity is in line with bid condition/PPA at all times
- To meet the obligation of the borrower under the co-obligor undertaking to meet any shortfall in the debt servicing of the lenders of the co-obligors. The aforesaid amount required to service the debt repayment of the lenders of the co-obligors shall have been initiated by the lenders of the co-obligor by giving a written notice of not less than 5 business days prior to any monthly distribution date (12th day of each month and if such day is not a business day, then the immediately preceding business day).

Surplus, if any, shall be allowed to overflow to the borrower.

About the Company

GSEPL was incorporated in January 2015 under the Companies Act, 2013. The company operates a solar power project of 50 MW in Telangana and has executed a PPA with a fixed tariff of Rs 6.74 per kWh with TSSPDCL for a period of 25 years. It is a part of the Acme Solar group.

Key Financial Indicators

Particulars	Unit	2021	2020
Revenue	Rs crore	66	64
Profit after tax (PAT)	Rs crore	7	29
PAT margin	%	10.7	44.9
Adjusted gearing	Times	2.67	3.17
Interest coverage	Times	2.06	1.73

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Rupee Term Loan	NA	NA	Jul-35	306.23	NA	CRISIL BBB+/Stable

Annexure – List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Dayakara Solar Power Pvt Ltd	Full	Common line of business, common management and sharing of cash flow
Grahati Solar Energy Pvt Ltd	Full	
Mihit Solar Power Pvt Ltd	Full	

Annexure - Rating History for last 3 Years

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	306.23	CRISIL BBB+/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Rupee Term Loan	306.23	Power Finance Corporation Limited	CRISIL BBB+/Stable

This Annexure has been updated on 06-Sep-2021 in line with the lender-wise facility details as on 06-Sep-2021 received from the rated entity.

Criteria Details

Links to related criteria
The Rating Process
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Criteria for rating entities belonging to homogenous groups

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