Aarohi Solar Private Limited

September 04,2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	325.07	CARE BBB; Positive	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities considers Aarohi Solar Private Limited (ASPL) to be a part of a restricted group, comprising ASPL, ACME Jaisalmer Solar Power Private Limited (AJSPPL), Dayanidhi Solar Power Private Limited (DSPPL), Niranjana Solar Energy private Limited (NSEPL) and Vishwatma Solar Energy Private Limited (VSEPL), here referred to ACME RG structure, owing to the presence of a co-obligor arrangement between these entities, where the shortfall in meeting debt obligations by one entity shall be met through surplus cash flows from other entity in structure. The agreement is valid for full tenure of rated debt facilities characterised by presence of cross default clause between entities.

The rating favourably factors in the tie-up of 100% of the combined capacity through long-term power purchase agreement at pre-determined tariff with Andhra Pradesh Southern Power Distribution Company Limited (APSPDCL) and long track record of projects. The rating favourably factors ample surplus cash flow fungibility among SPVs and maintenance of peak two quarter debt service reserve account (DSRA). The rating also factors in strong parentage and experienced management team under ACME Solar Holdings Limited (ASHL, the holding company) and ACME Cleantech Solutions Private Limited (sponsor), having strong commitment towards investment in renewable projects in India. The group has a satisfactory track record of developing and operating renewable energy projects and currently has 1.3GW of operational capacity as on June 24.

However, rating strengths are tempered by modest generation track record of SPVs and counterparty risk evidenced from delayed payments and tariff negotiations in the past. The rating also factors in exposure of project cash flows to adverse variations and interest rate fluctuation risk. Further, the rating is also constrained by leveraged capital structure as reflected by total debt/earnings before interest, taxation, depreciation, and amortisation (TD/EBITDA) of 5.98x as on FY24 end.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Higher-than-envisaged generation on a sustained basis and better-than-base case coverage and leverage metrics.
- Faster than expected deleveraging of the project.
- Timely payment from APSPDCL for generation corresponding to 17.52MWDC (capacity reduced considering order from APERC) leading to higher project viability.

Negative Factors

- Lower-than-envisaged generation and/or increasing borrowing cost significantly impacting coverage indicators.
- Stretching receivables beyond 90 days, adversely impacting the liquidity of SPVs.
- Significantly deteriorating credit profile of the promoter or dilution in its support philosophy towards its SPVs.

Analytical approach:

Five SPVs referred to ACME RG (ASPL, AJSPPL, DSPPL, NSEPL and VSEPL) are subsidiaries of ACME Solar Holdings limited (ASHL) and are engaged in similar business. These SPVs are also expected to have fungibility of surplus cash post servicing of their respective debt considering co-obligor structure. Hence, financial and business risk profiles of these entities have been combined. Furthermore, linkage of ACME RG with parent entity, ASHPL has also been considered.

In a 'Combined Approach', CARE Ratings evaluates the group of entities as if it were a single entity and combines financials and business risk profiles of these entities to take a view on the rating. Entities are subsidiaries of ASHPL and are engaged in similar business.

Outlook: Positive

The positive outlook on CARE BBB rating of ACME RG structure reflects CARE Ratings' opinion that assets would benefit from its long-term PPAs. Also, expectation of satisfactory generation and collection performance supports the outlook.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

Detailed description of key rating drivers:

Key strengths

Long-term PPA agreement providing revenue visibility, APSPDCL being off-taker for the entire capacity

Entire project capacity of 160 MW_{AC} is tied-up with APSPDCL through long-term PPA for 25 years at a weighted average tariff of ₹5.75/kWh; with an annual escalation of 3.00% till tenth year from SCOD and fixed tariff from 10^{th} year onwards for the remaining term of PPA. Presence of long-term PPA with APSPDCL at a pre-determined tariff's provides long-term revenue visibility.

Satisfactory operational track record of over eight years with generation level above P-90

160 MW (AC) solar power capacity were commissioned between March 2016 and May 2016, has a weighted average operational track record of ~8 years. Generation performance of combined entity has been above P-90 levels in the last fiscal year, as reflected by annual CUF of 20.34% in FY24 as against P-90 level of 19.63%. Going forward, CARE Ratings, expect the generation to be with existing trends, which would remain a key monitorable from credit perspective.

Co-obligor structure providing comfort w.r.t timely loan repayment

Five SPVs, ASPL, AJSPPL, DSPPL, NSEPL and VSEPL of ACME group entered in a co-obligor agreement, where surpluses available in one entity can be utilised for meeting shortfalls, if any in cash flows of the other entity. CARE Ratings also factors in the presence of a structured waterfall mechanism per TRA documents. Priority of cash flows would be to meet payments of taxes and statutory dues followed by operating costs. Thereafter, servicing of debt obligations shall be done and the remaining balance is to be used for maintenance of necessary reserves including DSRA, Liquidity Reserve and IRR. Surplus thus remaining shall be available for meeting the shortfall of other SPV. Co-obligor agreement is valid for full tenure of rated debt facilities, has a well-defined structured payment mechanism and is characterised by presence of cross default clause between entities. Per the financing document, parent (ASHPL) is also defined as one of the obligors, resulting in strong linkages between the credit profile of the parent and these five entities.

Moderate debt coverage indicators throughout the tenor of the loan

Door-to-door tenor of the term loan is elongated, and coverage indicators are expected to be comfortable. DSRA covering peak two quarters of debt servicing for five entities is in place in form of fixed deposit. Moreover, the loan has tail period of about 3.5 years.

Experienced promoter group with extension of corporate guarantee to lenders of the company

Five entities under the structure are wholly owned subsidiaries of ASHPL, the flagship company of ACME Group. The group has satisfactory track record in renewable sector as reflected by its operating capacity of ~1.3 GW as on June 2024 end. The portfolio is distributed in several states and the capacity is contracted through long term PPAs with central off-takers, state off-takers and corporates.

Key weaknesses

Elevated counterparty credit risk from APSPDCL having relatively weak financial risk profile, RG's 100% of capacity is exposed to such off-taker

Entire capacity is being off-taken by APSPDCL, which has a weak financial risk profile. Discom had unsuccessfully tried to re-negotiate PPA tariff in past. Average collection period of ACME AP RG stood very high in FY21 and FY22. Considering favourable order from APERC related to past dues and implementation of Electricity (Late Payment Surcharge and Related Matters) Rules of 2022, ACME AP RG witnessed substantial reduction in receivables in FY23 and FY24. Current dues are now getting settled in roughly 75 days. This substantially improved ACME AP RG's liquidity.

Leveraged capital structure given the debt funded assets of capex for setting up the project and exposure to interest rate fluctuation risk

Capital structure of the combined company is leveraged considering debt availed for setting up projects and top-up debt availed at time of refinancing. TD/EBITDA was 5.98x on FY24 end. Given the leveraged capital structure, profitability remains exposed to increase in interest rates, given the floating interest rates for the term loan availed by the entity.

Operations exposed to climactic conditions and technology risk

Power generation level of a solar power plant primarily depends upon factors like solar radiation levels, temperature and climatic conditions, installed inverters, losses in PV systems, module aging and degradation among others.

Liquidity: Adequate

As on April 30 ,2024, the combined entity had a free cash and bank balance aggregating to ~₹42.71 crore. The combined entity is maintaining DSRA worth ~₹105 crore, which is equivalent to cover more than two quarters of debt service obligations. Going forward, CARE Ratings expects generation performance of assets to be with estimated figures and collection to remain timely. Internal accruals from the structure are expected to be adequate to service its debt obligations. Per CARE Ratings' base case, gross cash accruals (GCA) including interest on CCD for FY25 and FY26 is expected to be rangebound between ₹73.86 crore to ₹83.90 crore as against annual repayments of ₹66 crore and ₹72 crore, respectively.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Infrastructure Sector Ratings
Consolidation
Solar Power Projects

About the company and industry

APSPDCL awarded a total capacity of 160-MW_{AC} Solar PV Projects, to ACME Cleantech Solutions Private Limited under the tender for procurement of 500-MW solar power from the Grid connected Solar PV project in Andhra Pradesh. The project was executed under five wholly owned SPVs, ASPL, AJSPPL, DSPPL, NSEPL and VSEPL. Power Purchase Agreement (PPA) has been signed with APSPDCL for project SPVs in December 2014 for 25 Years at a weighted average tariff of ₹5.75/kWh, with an annual escalation of 3.00% till tenth year from SCOD and fixed tariff from 10th year onwards for the remaining term of PPA. (ASPL) is 100% wholly owned by Acme Solar Holdings Limited. It was promoted to install a 50 MWAC solar power generation capacity in Kalipi, a village in the Anantpur District of Andhra Pradesh

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power generation

Brief Financials (₹ crore)-Standalone	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	60.79	59.18
PBILDT	57.31	56.33
PAT	-9.73	5.60
Overall gearing (times)	7.86	6.02
Interest coverage (times)	1.23	1.48

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	FY 2038	325.07	CARE BBB; Positive

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	325.07	CARE BBB; Positive				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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