

India Ratings Affirms ACME Solar Rooftop Systems's Term Loan at 'IND A'/Stable

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India Ratings and Research (Ind-Ra) has affirmed ACME Solar Rooftop Systems Private Limited's (ASRSPL) term loan at 'IND A' with a Stable Outlook. The detailed rating action is as follows:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Term loan	-	-	30 June 2032	INR1,113.50 (reduced from INR1,212.70)	IND A/Stable	Affirmed

Analytical Approach

Ind-Ra has assessed the project on a standalone basis, as the presence of a ring-fenced debt structure ensures the prioritisation of cash flows for ASRSPL's debt. ASRSPL had optionally convertible redeemable preference shares (OCRPSs) of INR300.08 million at FYE24 infused by its sponsor Acme Solar Holdings Limited (ASHL; formerly known as Acme Solar Holdings Private Limited). These instruments are equity-like in nature, as per the transaction documents and the terms and conditions shared by the management. These are subordinated to the senior debt and will be paid off only after all restricted payment conditions of the senior term loan are met and do not have the right to call an event of default. Ind-Ra has not factored in any payments to these junior instruments for arriving at senior debt coverages. The inclusion of these funds into the senior debt category will impact the ratings.

Detailed Rationale of the Rating Action

The affirmation reflects the stable operational performance of the project and ASRSPL's limited revenue risk, given the presence of a 25-year power purchase agreement (PPA) with Punjab State Power Corporation Limited (PSPCL). The rating is supported by the project's over eight years of operational history, the availability of adequate liquidity and comfortable debt service coverage ratios (DSCRs). The rating, however, is constrained by the moderate counterparty profile and the inherent generation risks of solar projects.

List of Key Rating Drivers

Strengths:

- Firm offtake arrangement mitigates revenue risk
- Low operating risk with adequate sponsor experience
- Comfortable debt structure
- Minimum technology risk

Weaknesses:

- Moderate Counterparty Profile

Detailed Description of Key Rating Drivers

Firm Offtake Arrangement with stable operating performance: ASRSPL's 30MW solar project is located in the Mansa district of Punjab. The project's stable income is strongly supported by its long-term PPA with PSPCL for its entire capacity at a fixed tariff of INR7.57 per unit, thereby mitigating the revenue risk. Furthermore, the rating is supported by the must-run status for renewable energy projects that exempts them from the merit order system in scheduling energy. The project achieved commercial operations on 31 March 2016.

The average PLF for the project in FY24 was stable at 16.25% (FY23: 16.38%; FY22: 16.11%). The plant availability and grid availability have been stable at >99% during FY24, FY23 and FY22. Any significant deviation in the generation levels will have a bearing on the rating.

Low Operating Risk with Adequate Sponsor Experience: The operations and maintenance (O&M) for the project is being handled in-house by the sponsor. The O&M contract was awarded on 31 May 2016 to the sponsor at a cost of INR0.45 million/MW, with a fixed annual escalation of 5% per annum. The sponsor has adequate experience in developing and operating solar projects of over 3.67GW in India. The sponsor has been engaged in the engineering, procurement and construction of solar projects for more than a decade. Ind-Ra attributes the project's low operating risk due to its low complexity and the ACME group's long track record.

Comfortable Debt Structure: The debt is repayable in over 61 structured quarterly instalments (33 structured quarterly instalments remained) ending June 2032, leaving a tail of over eight years with a bullet repayment of INR148.9 million in March 2032. The project has standard project finance features, including a cash flow waterfall, and a DSR equivalent to two quarters' principal and interest payments.

Minimum Technology Risk: The plant is configured with polycrystalline technology-based silicon modules supplied by Suzhou Talesun Solar Technologies Co., Ltd, Waaree Energies Ltd and BYD (Singapore) Pte. Ltd. While the standard warranties and guarantees are available for the panels, given the fall in generation observed since commissioning, Ind-Ra will continue to monitor any aberration in the generation. In case of higher generation risk attributable to panel technology, the rating will be reviewed for its impact.

Moderate Counterparty Profile: ASRSPL is exposed to a single counterparty credit risk, associated with the sale of electricity only to PSPCL. The receivable day gaps between the receipt dates and the invoice dates has been shorter than 90 days historically (FY24: 73 days; FY23: 78 days; FY22: 74 days; FY21: 64 days). The last payment was received for the month of May 2024 on 13 August 2024.

In FY23, the deficit between the average revenue realised and the average cost of supply for PSPCL increased materially to INR0.69/kWh from a surplus of INR0.17/kWh in FY22. The receivables days of the counterparty, PSPCL, increased to 88 in FY23 (FY22: 86, FY21: 84), while the payable days came in at 55 (45, 65). PSPCL had a high reliance on the state for subsidy at 39% in FY23 (FY22: 31% FY21: 32%). In case of any delays in the receipts of subsidy from the state government, Ind-Ra believes timely payments to the generation companies could be affected.

Liquidity

Adequate: As on 31 August 2024, the project had a debt service reserve (DSR) of INR167 million, equivalent to peak six months' debt servicing obligations in the form of fixed deposits. In addition, ASRSPL had INR100 million unencumbered cash and cash equivalents. The management has made a representation that, as per their discussions with lender, an additional reserve of around INR21 million will be created per annum over a five-year period from FY23. The requirement of the maintenance of additional cash balances, as per the management, is basis the lender's requirements. ASRSPL has not availed any working capital loan and expects the sponsor to support, in case of any shortfall. Ind-Ra considers the project's liquidity to be adequate on the back of the comfortable debt service coverage ratio (DSCR) and liquidity buffers of the project. Any deterioration in terms of liquidity, not limited to any delays in the receipt of payments from PSPCL, can lead to a rating downgrade.

Rating Sensitivities

Positive: A consistent operational and financial performance, in line with the Ind-Ra's base case estimates, on a standalone basis for a sustained period could lead to a positive rating action.

Negative: Future developments that could, individually or collectively, lead to a rating downgrade are:

- the DSCR reducing below 1.20x
- payment delays from the offtaker beyond 120 days
- any deterioration in the credit profile of the offtaker and/or the sponsor

About the Company

ASRSPL is operating a 30MW (15*2MW) solar project, located at Mansa district, Punjab. ASRSPL has won the project under PSPCL's bid for rooftop projects. The sponsor Acme Solar Holdings holds a 100% stake in the project. The project was fully commissioned on 31 March 2016.

Key Financial Indicators

Particulars (INR million)	FY24	FY23
Revenue from operations	322.82	325.64
Total revenue	356.39	336.99
EBITDA	330.67	317.76
EBITDA margin (%)	93	94
Finance cost	125.09	127.96
Interest coverage (EBITDA/Interest) (x)	2.64	2.48
Senior debt/EBITDA (x)	3.42	3.87
Cash and cash equivalents	83.77	39.20
Source: ASRSPL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook		
				7 September 2023	1 September 2022	31 August 2021
Term loan	Long-term	INR1,113.50	IND A/Stable	IND A/Stable	IND A/Stable	IND A/Stable

Bank wise Facilities Details

The details are as reported by the issuer as on (25 Sep 2024)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	Indian Renewable Energy Development Agency Limited	Term Loan	1113.5	IND A/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Term loan	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity- indicators>.

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Evaluating Corporate Governance

Rating Criteria for Infrastructure and Project Finance

The Rating Process

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