ACME Magadh Solar Power Private Limited

July 15, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	47.67 (Enhanced from 46.90)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**47.67** **(Rs. Forty-Seven Crore and Sixty-Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of ACME Magadh Solar Power Private Limited (AMSPPL) continues to factor in the satisfactory operational track record of around 5 years along with timely receipts of payments from the off-taker so far. The ratings continues to take into account adequate liquidity in the form of 2 quarter DSRA which continues to remain in place, experienced promoters viz. Acme Cleantech Solutions Private Limited (ACSPL), long-term off-take arrangement through Power Purchase Agreements (PPAs) with North Bihar Power Distribution Company Ltd (NBPDCL) & South Bihar Power Distribution Company Ltd (SBPDCL) at a fixed tariff for the entire capacity and comfortable debt coverage indicators. The ratings are, however, constrained by counterparty credit risk on account of relatively weak financial risk profile of both the off-takers, interest rate fluctuation risks and exposure to climatic conditions and technological risks.

Key Rating Sensitivities:

Positive Factors-Factors that could lead to positive rating action/ upgrade:

- Improvement in the credit profile of the off-takers viz. NBPDCL and SBPDCL

Negative Factors-Factors that could lead to negative rating action/ upgrade:

- Actual generation lower than base case, leading to deterioration in cash accruals thereby negatively impacting the coverage indicators
- Delays in receipt of payments from the off-taker leading to increase in debtor cycle to more than 3 months on sustainable basis.
- Deterioration in credit risk profile of the off-takers viz. NBPDCL and SBPDCL
- Inability of the SPVs to meet required covenants as per the sanctioned terms leading to breach in terms of financing agreements including maintenance of DSRA

Detailed description of the key rating drivers

Key Rating Strengths

Satisfactory operational performance with track record of around 5 years:

The project has operational track record of around 5 years with satisfactory generation levels. The company achieved CUF of 17.72% during FY21 which was higher than the P90 estimates of 17.20% (applicable for FY21). Historically, the plant has achieved CUF levels of 17.54% during FY20 and 18.30% during FY19. Generation during FY20 was impacted on account of lower solar irradiation levels during FY20 which as was seen in other solar projects across India for CARE rated portfolio. Nevertheless, overall generation levels continue to be better than P-90 estimates so far.

Comfortable debt coverage indicators:

In March 2021, the company refinanced the existing term loan with a new term loan. As per the new sanctioned terms, the tenor of the refinanced loan has been increased with a downward revision in the interest rate, thereby leading to a significant improvement in the debt coverage indicators of the company.
In line with the new sanctioned terms, the company is maintaining DSRA equivalent to 2 quarter of debt servicing obligations in the form of cash in the DSRA account of Rs.4.12 crore as on April 2021.

Long-term PPAs in place:
AMSPPL is supplying power to North Bihar Power Distribution Company Limited (NBPDCL) and South Bihar Power Distribution Company Limited (SBPDCL) as per the terms of long-term PPA signed in January 2015 for supply of power at a fixed tariff of Rs.8.73 per kWh for a period of 25 years under the State Solar Power Policy. With a long-term off-take arrangement at a fixed tariff, the company has long-term revenue visibility.

Experienced Promoters:
ACME Magadh Solar Power Private Limited (AMSPPL) is a wholly owned subsidiary of ACME Solar Energy Private Limited (ASEPL) and a step-down subsidiary of ACME Solar Holdings Limited (ASHL) which is the holding company for all the solar assets of ACME group. The management of ACME group is experienced, with a track record of setting up and operating renewable power projects. Acme group has an operational capacity of 1.69 GW and under implementation capacity of 1.75 GW as on March 31, 2021, spread across multiple states in India. Nevertheless, overall financial risk profile of the ACME group is moderate given relatively high corporate debt and higher percentage of operational projects having relatively weak to moderate risk profile.

Industry Outlook:
With the great thrust from the government, there had been significant solar power capacity additions in the last 5 years. However, capacity additions remained muted during last three years ended FY21 on the back of imposition of safeguard duty on import of solar cells & modules w.e.f. July 2018 for two years, which was later extended till July 2021, roll out of GST, attempts to renegotiate tariffs for concluded PPAs, cancellation of multiple concluded auctions on the back of declining tariffs and Covid-19 pandemic induced lockdown. However, capacity additions picked up from June 2020 onwards and with large amount of already bidded out capacity, large capacity additions are expected in FY22 & FY23.
Solar projects have relatively lower execution risks, long-term revenue visibility with long term off take arrangements at a fixed tariff, minimal O&M requirements, stable power generation, distribution of solar capacity across many states, lower tariffs compared to conventional power generation, must run status of these projects, greater investor interest due to ESG compliance features with attractive returns. However, there are concerns like increased difficulties in land acquisition, inadequate grid connectivity on account of poor evacuation infrastructure, evolving technology advancements with limited satisfactory operational track record in India, very high dependence on imported solar cells and modules, regulatory haze in terms of renegotiation of tariff in concluded PPAs, weak financial risk profile of Discoms with significant delays in payment by few state Discoms, increased difficulties in debt tie-up etc. Overall, positive and negative developments in the sector counterbalance each other, thereby resulting in a stable outlook.
Going forward the key monitorables would be prices of solar modules, performance of the modules in Indian conditions, technology advancements, effectiveness of BCD regime & PLI scheme to boost domestic solar cell and module manufacturing, project implementation risks associated with innovative concepts like wind-solar hybrid projects, battery storage solar projects and pumped storage solar projects, developments in claim of off-takers for renegotiation of PPAs, financial health of Discoms, capacity additions of rooftop solar and effect of second wave of Covid pandemic over solar capacity additions.

Key Rating Weaknesses
Relatively weak financial risk profiles of the off-takers though payments are made in timely manner: The financial risk profiles of NBPDCL and SBPDCL are relatively weak, marked by losses annually and high AT&C losses but the payment track record to solar projects has been satisfactory and payments are being made within the due date for majority of the period which provide some comfort.
However, in last 6 months, there has been slight elongation in debtor cycle of one of the off-taker viz. NBPDCL from 10-15 days to around 40 days. Since, timely receipt of payments from the off-taker is extremely crucial from cash flow perspective, this would remain a key monitorable and a critical rating sensitivity.

Interest Rate Fluctuation Risk:
The term loans availed for the projects are floating rate loans and the lenders have stipulated annual reset clauses for the interest rates. However, as per the PPA, the tariff for off-take arrangement of the power is fixed, thereby, exposing the company to risk of any change in the cost factors. The interest cost being the primary cost component on cash basis, any adverse movement in interest rate would impact the overall debt-servicing ability of the SPV.

Exposure to technology and climatic risks:
The Company has used poly-crystalline PV technology, which has a proven history worldwide, suffers relatively lower degradation as compared to thin film modules and requires lesser land leading to reduction in the Balance of Systems (BoS) cost. However, achievement of desired CUF going forward would be subject to changes in climatic conditions, amount of degradation of modules as well as other technological risks

Liquidity Analysis: Adequate
The company had cash and cash equivalents of Rs.4.13 crore as on April 30, 2021. Apart from cash & bank balance, the company has also created DSRA of Rs.4.12 crore, equivalent to 2 quarters of debt servicing in the form of cash in the DSRA account. The company does not have any sanctioned working capital lines as on date. GCA for FY22 and FY23 is projected to be around Rs. 6.96 crore and Rs.7.08 crore as per base case assumptions as against total debt repayment of Rs. 2.98 crore and Rs. 2.98 crore during the same period.

Impact of COVID-19: There has been no significant impact on the operations of the project. Also, there has not been any instance of power curtailment by off-taker during the lockdown period. The project not availed any moratorium for debt servicing in lieu of covid-19 pandemic.

Analytical approach: Standalone

Applicable Criteria
CARE's methodology for Infrastructure sector ratings
Criteria on assigning Outlook and Credit Watch to Credit Ratings
Criteria for default recognition
Rating Methodology: Solar Power Projects
CARE's methodology for private power producers
Financial Ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
ACME Magadh Solar Power Private Ltd, is a wholly owned subsidiary of ACME Solar Energy Pvt Ltd. (ASEPL) and a step down subsidiary of ACME Solar Holdings Ltd. (ASHL), has set up a 10 MW grid connected solar photovoltaic (PV) power project in Banka, Bihar using Multi-Crystalline Silicon technology, which was commissioned on June 28, 2016 and was set up at a cost of Rs.75.43 crore (Rs.7.54 crore/MW) funded at debt-equity ratio of 3.00x. AMSPPL is supplying power to NBPDCL & SBPDCL as per the terms of long-term PPA signed in January 2015 for supply of power at a fixed tariff of Rs.8.73 per kWh for a period of 25 years under the State Solar Power Policy.

Brief Financials – AMSPPL Standalone (Rs. crore)	FY20 (A)	FY21 (Prov.)
Total operating income	13.89	13.98
PBILDT	13.14	13.25
PAT	1.66	1.39
Overall gearing (times)	2.38	4.61*
Interest coverage (times)	2.21	2.02

A: Audited; Prov.: Provisional
**The refinanced debt from the new lenders were disbursed in the company's account in March 2021, however the old debt was prepaid during the first week of April 2021. Therefore, as on March 30, 2021, both old and new debt were included in the rupee term loan hence showing increase in overall gearing ratio.*
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2037	47.67	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	47.67	CARE A-; Stable	1)CARE A-; Stable (18-Jun-21)	1)CARE A-; Stable (29-Jan-21)	1)CARE A-; Stable (11-Feb-20)	1)CARE A-; Stable (12-Feb-19)
2.	Non-fund-based-Short Term	ST	-	-	-	-	1)Withdrawn (11-Feb-20)	1)CARE A2+ (12-Feb-19)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Long term loan	Detailed explanation
A. Financial covenants	
i. Term Loan	• The DSCR shall not be lower than 1.42x • Total Debt to Equity Ratio shall not exceed 72.9:27.1.
B. Non- financial covenants	
i. Capital Expenditure and Investments	The borrower shall not make any capital expenditure other than the capital expenditure provided for in the Financing Plan, for replacement of the assets of the borrower; or incurred in the normal course of business.
ii. Subordination to the Rupee term loan	Except as otherwise provided in the financing documents, the subordinate loan or other monies brought in by any person as loans (including, but not limited to, the bonds, debenture etc.) towards meeting the project cost shall: ii. Be subordinated to the rupee term loan iii. Not be repaid/ redeemed till the final settlement date iv. Not carry any interest until the final settlement date; and v. Be without recourse to lender and the assets pertaining to the project

Annexure 4: Complexity level of various instruments rated for this Company

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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