# ACME Solar Energy (Madhya Pradesh) Private Limited

February 11, 2020

**Ratings**

| Sr. No, | Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|---|
| 1. | Long-term Bank Facilities | 163.21 (reduced from Rs.171.35 crore) | CARE A (CE); Stable [Single A (Credit Enhancement); Outlook: Stable]# | Reaffirmed |
| 2. | Short-term Bank Facilities | 14.29 | CARE A2+ (A Two Plus) | Reaffirmed |
| | **Total** | **177.50 (Rs. One hundred seventy seven crore and fifty lakh only)** | | |

# backed by unconditional & irrevocable co-obligor undertaking provided by both the entities (viz. ACME Solar Energy (Madhya Pradesh) Private Limited and ACME Solar Technologies (Gujarat) Private Limited) to each other

*Details of instruments/facilities in Annexure-1*

| | |
|---|---|
| **Long-term Unsupported Rating [2]** | **CARE BBB+ (Triple B Plus)** |

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities (Sr. No. 1) of Acme Solar Energy (Madhya Pradesh) Private Limited (ASEMPPL) and Acme Solar Technologies (Gujarat) Private Limited (ASTGPL) (both referred as co-obligors) continue to be based on credit enhancement in the form of irrevocable and unconditional co-obligor undertaking provided by both the entities to each other, as per which co-obligors have agreed that in the event of insufficiency of funds/shortfall in debt servicing of the Rupee Facility the lenders/lender's agent shall utilize the amounts available in their surplus account to meet such shortfall to ensure debt servicing by the due date. Given the co-obligor undertaking and the terms of the financing agreement, CARE has combined the operational and financial risk profile of ASEMPPL and ASTGPL for analysis.

The ratings (Sr. No. 1 and 2) continue to factor in operational track record of 6-7.75 years of the projects with satisfactory generation levels though there has been some moderation in generation in MP project, long-term off-take arrangement in the form of Power Purchase Agreements (PPAs) signed with two state utilities at a fixed tariff, geographical diversity of the assets, satisfactory payment track record for both the state utilities, moderately comfortable debt service coverage indicators, Debt Service Reserve Account (DSRA) for two quarters in ASEMPPPL and one quarter in ASTGPL of debt servicing in place and tie-up of working capital limits providing additional liquidity support. The ratings also continue to factors in experienced promoters, viz, ACME Cleantech Solutions Private Limited (ACSPL) having established track record in setting up and operating solar power projects.

The ratings are, however, constrained by counter-party credit risks given relatively weak financial risk profiles of one of the discom viz. MP Power Management Company Limited (MPPMCL) under co-obligor structure, though payments continue to be received in a timely manner, interest rate fluctuation risks and susceptibility of power generation to variation in climatic conditions as well as technological risks.

The unsupported standalone ratings assigned to long-term bank facility of ASEMPPL factors in operational track record of around 6 years with satisfactory generation levels, though there has been some moderation in last 1.75 years, long-term PPA with MPPMCL, satisfactory payment track record since commissioning, moderately comfortable debt coverage indicators at standalone level, DSRA equivalent to 6 months of debt servicing in place and tie-up of WC limits providing additional liquidity

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).*

support. The rating is however constrained by counterparty credit risk as the project is exposed to relatively weak counterparty i.e. MPPMCL, interest rate fluctuations risk and dependence on climatic conditions for power generation.

**Rating Sensitivities**

**Positive Rating Sensitivities**

- Generation levels at better than envisaged P-90 levels of 21.38% in MP project (applicable for FY20 along with annual degradation) and 18.43% in Gujarat project (applicable for FY20 along with annual degradation).on a sustainable basis

**Negative Rating Sensitivities**

- Lower than envisaged P-90 levels of 21.38% in MP project (applicable for FY20 along with annual degradation) and 18.43% in Gujarat project (applicable for FY20 along with annual degradation).impacting debt coverage indicators leading to combined DSCR falling below 1.15x
- Delay in receipt of payments from the off-taker viz. MPPMCL and GUVNL leading to elongation in receivable cycle beyond 3 months
- Inability of the SPVs to meet required covenants as per the sanctioned terms leading to breach in terms of financing agreements including co-obligor undertaking and maintenance of DSRAs
- Deterioration in credit risk profile of either of the offtaker viz. GUVNL and MPPMCL
- Non-receipt/delay in promoter support in case of meeting any cash flow mismatch requirements
- Deterioration in financial risk profile of the promoter viz. ACSPL and ASHL

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Co-obligor undertaking and diversification of assets:** As per the terms of the co-obligor undertakings executed between ASEMPPL and ASTGPL (co-obligors) and lenders, each of the co-obligors will provide support in the event of insufficiency of funds in debt servicing. As a result, the cash flows get comfort with respect to diversification of assets in terms of location, modules suppliers as well as off-takers. On a combined basis, coverage indicators are moderately comfortable for the tenure of term loan.

**Long-term PPAs in place for both the co-obligors:** Both the co-obligors have long-term PPAs in place and are supplying power to respective state discom. Presence of long-term PPAs at a fixed tariff provides long-term revenue visibility. ASEMPPL is supplying entire power under long-term PPA to Madhya Pradesh Power Management Company Limited (MPPMCL) for a period of 25 years at a fixed tariff of Rs.8.05/kWh. ASTGPL is supplying power to Gujarat Urja Vikas Nigam Limited (GUVNL; CARE AA-; Stable/ CARE A1+) at a fixed tariff of Rs.15.00/ Kwh for first 12 years and Rs.5.00/ Kwh for next 13 years under 25-year PPA signed with the utility. Presence of long-term PPAs at a fixed tariff provides long-term revenue visibility for the companies. Furthermore, the payment pattern have remained stable for both the co-obligors with ASEMPPL receiving payments in about 30-45 days and ASTGPL receiving payments in about 5-7 days from raising the invoices.

**Satisfactory operational track record:** The MP project has an operational track record of around 6 years and Gujarat project has an operational track record of over 7.75 years. ASEMPPL achieved CUF of 20.95% and 19.10% during FY19 (refers to the period April 1 to March 31) and 9MFY20 (refers to the period April 1 to December 31), respectively, as against envisaged P-90 CUF of 21.48% in 5$^{th}$ year of operation. Though, in past, MP project has achieved generation levels in-line with P-90 estimates, there has been some moderation in generation levels in last 1.75 years majorly on account of lower solar irradiation levels. Going forward, achieving generation levels in-line with P-90 estimates would be a key rating monitorable. ASTGPL has achieved a satisfactory CUF of 18.88% and 17.47% during FY19 and 9MFY19, respectively, as against P-90 of 18.52% (7$^{th}$ year of operation).

**Moderately comfortable debt coverage indicators on combined basis:** On account of relatively elongated repayment tenor for both the projects and relatively high tariffs, the debt coverage indicators are expected to be moderately comfortable on combined basis.

**Experienced Management:** The management of AOSPPL & ARSPPL is experienced with track record of setting up and operating solar power projects. ACSPL, the holding company of ARPPL has commissioned 2.15 GW of solar capacity as on November 2019, making the Acme group one of the largest solar power players in India. Nevertheless, overall financial risk profile of the ACME group is moderate.

**Industry Outlook**

There is great thrust from the government for improving the share of solar power in India's overall power mix which is reflected from various policy initiatives. There had been muted solar power generation capacity additions during FY19 & H1FY20 on the back of imposition of safeguard duty on import of solar modules, lack of clarity with respect to GST rate on solar modules and cancellation of large amount of solar auctions. However, looking at the already allotted capacity and government's push for achieving targeted solar capacity of 100 GW by end FY22, capacity additions are likely to improve in next two to three years.

Solar projects have relatively lower execution risks, stable long-term revenue visibility with long-term off take arrangements at a fixed tariff, minimal O&M requirements, tariffs comparable to conventional power generation, must run status of solar power projects and upward revision in solar RPO achievement targets. However, there are concerns like increased difficulties in land acquisition, inadequate grid connectivity on account of poor evacuation infrastructure, relatively lesser track record of technology in Indian conditions, lack of stricter RPO enforcement by the state regulators, very high dependence on imported solar cells and modules, regulatory haze in terms of renegotiation of tariff in concluded PPAs and cancellation of concluded auctions, weak financial risk profile of Discoms with significant delays in payment by few state Discoms, increased difficulties in debt tie-up. Overall, positive and negative developments in the sector counterbalance each other, thereby resulting in a stable outlook.

Going forward, key monitorables would be prices of solar modules, performance of the modules in Indian conditions, developments in claim of off-takers for renegotiation of PPAs, modalities to compensate under change in law for safeguard duty, payment pattern of off-takers, imposition of any anti-dumping duty by India to safeguard domestic solar module manufacturers, capacity additions of rooftop solar and regulatory stance.

**Key Rating Weaknesses**

**Relatively weak credit profile of one of the off-taker:** MPPMCL, the off-taker for major part (62.50%) of the combined capacity under co-obligor structure, has a relatively weak credit profile. However, the payments continue to be received in about 30 to 45 days as against stipulated timeline of 30 days as per PPA since commissioning (payment track record of around 6 years) which provide some comfort. Nevertheless, continuous receipt of payments in a timely manner would be crucial.

**Climatic & Technological Risks:** Achievement of desired CUF is subject to changes in climatic conditions, amount of degradation of modules as well as other technological risks.

***Interest rate fluctuation risks***

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's 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 SPVs.

**Liquidity analysis: Adequate**

As on November 30, 2019, ASEMPPL has DSRA of Rs.15.39 crore (equivalent to 2 quarters of debt servicing) created partially in the form of BG (Rs.5.89 crore) and FD (Rs.9.50 crore). Also, as on November 2019, ASEMPPL had a cash and bank balance of Rs.2.97 crore over and above DSRA balance. Apart from cash and DSRA balances, the company had sanctioned WC line of Rs.14.29 crore which is completely unutilized as on December 2019 providing additional liquidity cushion.

GCA for FY20 and FY21 is projected to be around Rs.15.77 crore and Rs.17.79 crore as per base case assumptions as against total debt repayments of Rs.10.95 crore and Rs.11.65 crore during the same period for ASEMPPL.

**Analytical Approach:** ACME Solar Energy (Madhya Pradesh) Private Limited (ASEMPPL) along with ASTGPL have executed co-obligor undertakings. Thus, a combined analytical approach has been taken.

**Applicable Criteria**
[Criteria for Short Term Instruments]
[Rating Methodology: Factoring Linkages in Ratings]
[Criteria of Rating Credit Enhanced Debt]
[Criteria on assigning Outlook to Credit Ratings]
[CARE's policy on Default Recognition]
[Rating methodology - Infrastructure Sector Ratings]
[Financial Ratios – Non-Financial Sector]
[Rating Methodology - Private Power Producers]
[Rating Methodology: Solar Power Projects]

**About the Company (ASEMPPL)**
Acme Solar Energy (Madhya Pradesh) Private Limited (ASEMPPL), a 100% subsidiary of Acme Solar Energy Pvt Ltd (ASEPL, a 100% subsidiary of ACSPL), has set up a 25 MW solar power project based on Photo Voltaic (PV) technology using Polycrystalline & Thin Film PV modules in the state of Madhya Pradesh under the Madhya Pradesh state policy. The company is supplying power from the entire capacity at Rs.8.05/kWh to MPPMCL under a 25-year PPA. The project cost of Rs.208.78 crore (Rs.8.35 crore/MW) was funded through equity of Rs.64.71 crore, term loans of Rs.129.91 crore and balance funding through unsecured loan from the promoters. During FY17, the company refinanced the initial project debt through a new term debt along with additional top-up. The Engineering, Procurement and Construction (EPC) for the project was done by ACSPL on a fixed time-fixed price basis and the project was commissioned in January 2014.

| Brief Financials – ASEMPPL Standalone (Rs. crore) | FY18 (A - INDAS) | FY19 (A - INDAS) |
|---|---|---|
| Total operating income | 38.76 | 36.59 |
| PBILDT | 35.65 | 33.60 |
| PAT | 3.95 | 10.07 |
| Overall gearing (times) | 2.97 | 2.40 |
| Interest coverage (times) | 1.91 | 1.90 |

**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*

**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, 2032 | 163.21 | CARE A (CE); Stable |
| Fund-based - ST-Working Capital Demand loan | - | - | - | 14.29 | CARE A2+ |
| Un Supported Rating-Un Supported Rating (Long Term) | - | - | March, 2032 | 0.00 | CARE BBB+ |

**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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT-Term Loan | LT | - | - | - | - | - | 1)Withdrawn (03-Feb-17)<br>2)CARE A- (19-Apr-16) |
| 2. | Fund-based - LT-Term Loan | LT | 163.21 | CARE A (CE); Stable | 1)CARE A (SO); Stable (05-Apr-19) | 1)CARE A (SO); Stable (04-Apr-18) | - | 1)CARE A (SO); Stable (22-Feb-17) |
| 3. | Fund-based - ST-Working Capital Demand loan | ST | 14.29 | CARE A2+ | 1)CARE A2+ (05-Apr-19) | 1)CARE A2+ (04-Apr-18) | - | 1)CARE A2+ (22-Feb-17) |
| 4. | Un Supported Rating-Un Supported Rating (Long Term) | LT | 0.00 | CARE BBB+ | - | - | - | - |

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

| Name of the Instrument | Detailed explanation |
|---|---|
| **A. Financial covenants** | |
| **DSCR** | The Borrower shall at all times until the Final Settlement Date adhere to the following Financial Covenant:<br>• DSCR shall not be lower than 1.10x |
| **B. Non-financial covenants** | |
| **Reorganization, Diversification ,Investments, Disposals** | • Issue any debentures, raise any loans, take deposits from the public, issue equity or preference capital, prepay any debt, redeem any preference shares, prepay promoters loan, provide any loan, change its capital structure including shareholding pattern or give any guarantees or create any charge on its assets, or raise money in any other form other than, the permitted Indebtedness<br>• Make any repayment of loan or deposit or discharge other liabilities other than as required and permitted as per the Financing Documents<br>• Raise any equity or preference capital or any convertible instrument , prepay any debt, redeem any preference shares, prepay promoter loans, provide any loan, change its capital structure, or give any guarantees except as allowed under transaction documents<br>• Undertake any obligation, monetary or legal on behalf of any of its group Companies other than the existing O&M Arrangement or EPC contact |
| **Permitted Indebtedness** | • The Borrower shall not, without the prior written approval of the Lenders, directly or indirectly enter into, contract, create, incur, assume or suffer or otherwise become or be liable for any debt and./or enter into borrowing .arrangements whether secured or unsecured (including by way of issuance of any kind of debentures or acceptance of deposits from public) with any Person or bank or financial institution or |

| Name of the Instrument | Detailed explanation |
|---|---|
| | otherwise for raising additional funds, except for permitted Indebtedness. |

***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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