CARE Ratings
Professional Risk Opinion

ACME Solar Energy (Madhya Pradesh) Private Limited

February 12, 2021

Ratings

Sr .No	Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
1.	Long Term Bank Facilities	151.86 (Reduced from 163.21)	CARE A (CE); Stable [Single A (Credit Enhancement); Outlook: Stable]#	Reaffirmed
2.	Short Term Bank Facilities	0.00		Reaffirmed and Withdrawn
	Total Bank Facilities	**151.86 (Rs. One Hundred Fifty One crore and Eighty Six lakhs 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) [Reaffirmed]**

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) continue to factor in operational track record of 7-8.75 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, relatively strong credit risk profile of one of the off-taker viz. Gujarat Urja Vikas Nigam Limited (GUVNL, rated CARE AA-;Stable /CARE A1+), moderately comfortable debt service coverage indicators along with adequate liquidity built-up through various reserves including Debt Service Reserve Account (DSRA) for two quarters in ASEMPPL and one quarter in ASTGPL , contingency reserves and O&M reserves. 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 profile of one of the state discom viz. MP Power Management Company Limited (MPPMCL, Unsupported rating: CARE BB/CARE A4) 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.

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE A2+' [A Two Plus] assigned to the short term bank facilities of ACME Solar Energy (Madhya Pradesh) Private Limited with immediate effect (Sr no 2). The above action has been taken at the request of ACME Solar Energy (Madhya Pradesh) Private Limited and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE.

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[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).*

The unsupported standalone rating assigned to long-term bank facility of ASEMPPL factors in operational track record of around 7 years with satisfactory generation levels, though there has been some moderation in last 2-3 years, long-term PPA with MPPMCL, satisfactory payment track record since commissioning, moderately comfortable debt coverage indicators at standalone level along with adequate liquidity in the form of various reserves including DSRA equivalent to 6 months of debt servicing, contingency reserve and O&M reserve. 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.

Key Rating Sensitivities

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

- Improvement in credit risk profile of MPPMCL which is the off-taker for 62.50% capacity (in MW terms) in the co-obligor structure

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

- Lower than envisaged generation levels (18.26% for Gujarat Project and 21.23% for MP Project) leading to lower cash accruals which could negatively impact the debt coverage indicators
- Delay in receipt of payments from the off-takers viz. MPPMCL and GUVNL leading to elongation in receivable cycle beyond 3 months on combined basis
- Inability of the SPVs to meet required covenants as per the sanctioned terms leading to breach in terms of financing agreements including maintenance of co-obligor undertaking and various reserves stipulated including DSRA, Contingency and O&M
- Deterioration in credit risk profile of off-takers viz. GUVNL or MPPMCL

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 (project spread across 2 states with 37.5% capacity in Gujarat and 62.5% in Madhya Pradesh), modules suppliers modules procured from First Solar and Trina Solar) as well as off-takers (50.69% revenue from Gujarat Urja Vikas Nigam Limited and 49.31% from M. P. Power Management Company Limited). On a combined basis and standalone basis, debt coverage indicators are expected to be moderately comfortable for the tenure of term loan given generation continues to be in-line with envisaged levels and payments are being received in a timely manner.

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 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 5-10 days from raising the invoices.

Satisfactory and long operational track record: The MP project has an operational track record of around 7 years and Gujarat project has an operational track record of over 8.75 years. ASEMPPL achieved CUF of 20.10% during FY20 as against FY19 CUF of 20.95% and envisaged P90 CUF of 21.32% (applicable for FY20) .Though, in past, MP project has achieved generation levels in-line with P-90 estimates (21.66% in FY18, 21.76% in FY17), there has been some moderation in generation levels in last 2-3 years majorly on account of lower solar irradiation levels. Nevertheless, for 9MFY21, the generation levels have improved with CUF of 19.74% as against CUF of 19.10% for 9MFY20. Going forward, achieving generation levels in-line/better than P-90 estimates would be a key rating sensitivity.

ASTGPL has achieved a satisfactory CUF of 18.24% during FY20 as against 18.88% during FY19 and P-90 estimates of 18.39% (applicable for FY20). Also, for 9MFY21, the generation levels have improved with CUF of 18.31% as against CUF of 17.47% for 9MFY20. The generation has been broadly in-line with P90 estimates for ASTGPL so far.

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: ACSPL provides O&M and EPC services for solar power plants which are being setup through various SPVs under itself. As on September 2020, the group has an operational capacity of around 1669 MW spread across multiple states in India. Recently, the group successfully monetized 500 MW (AC) of operational assets under 2 separate transactions. However, overall financial risk profile of ACME group continues to be moderate given sizeable corporate debt continues to be there along with significant exposure of the operational capacity towards state discoms having relatively weak financial risk profile.

Industry Outlook

There is great thrust from Govt. 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 & FY20 on the back of imposition of safeguard duty on import of solar modules, lack of clarity w.r.to GST rate on solar modules and cancellation of large amount of solar auctions. However, looking at the already allotted capacity and govt.'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 7 years) which provide some comfort. Nevertheless, continuous receipt of payments in a timely manner would remain a key rating monitorable and any negative deviation in the debtor cycle would have a bearing on the standalone and co-obligor structure rating .

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. The company has used modules from First Solar (Thin film technology) and Trina Solar (Poly crystalline technology) providing some diversification on technology.

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 January 15, 2021, in line with sanction terms, ASEMPPL has DSRA of Rs.16.17 crore (equivalent to 2 quarters of debt servicing) created in the form of FDs. Also, ASEMPPL has a cash and bank balance of Rs.1.81 crores over and above DSRA balance. Also, both the companies have already created contingency reserve of Rs.5.3 lakh/MW (Rs.1.34 crore in ASEMPPL and Rs.0.75 crore in AGTPL) and O&M reserve of 3 months of O&M expenses as per the sanctioned terms.

On combined levels, the co-obligor structure had DSRA balance at Rs.23.7 crore as on January, 15 2021 (as against Rs.22.42 crore as on December 2019) and surplus cash balance at Rs 16.88 crores.

As per the sanctioned terms, the co-obligors will have combined debt repayment obligations of Rs.20.67 crore and Rs.28.88 crore as against projected GCA of Rs.38.86 crore and Rs.39.51 Crore in FY21 and FY22, respectively.

Impact of COVID-19:

There has been no significant impact on the operations of the project. However, both the projects had availed moratorium from its lender on debt service obligations for period March-May'2020 (both interest and principal) which has thereby resulted in a shift in repayment schedule by one quarter. However, given the regular receipt of monthly cash flow from the discoms the company has repaid interest which was accrued for the months of March, April and May 2020.

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

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)	FY19 (A - INDAS)	FY20 (A - INDAS)
Total operating income	36.59	35.86
PBILDT	33.60	34.47
PAT	10.07	8.02
Overall gearing (times)	2.40	2.01
Interest coverage (times)	1.90	2.07

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	-	-	June, 2032	151.86	CARE A (CE); Stable
Fund-based - ST-Working Capital Demand loan	-	-	-	0.00	Reaffirmed and withdrawn
Un Supported Rating-Un Supported Rating (Long Term)	-	-	June, 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	151.86	CARE A (CE); Stable	-	1)CARE A (CE); Stable (11-Feb-20) 2)CARE A (SO); Stable (05-Apr-19)	1)CARE A (SO); Stable (04-Apr-18)	-
2.	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	1)CARE A2+ (11-Feb-20) 2)CARE A2+ (05-Apr-19)	1)CARE A2+ (04-Apr-18)	-
3.	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BBB+	-	1)CARE BBB+ (11-Feb-20)	-	-

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: • 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 • Make any repayment of loan or deposit or discharge other liabilities other than as required and permitted as per the Financing Documents • 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 • 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 otherwise for raising additional funds, except for permitted Indebtedness.

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
2.	Fund-based - ST-Working Capital Demand loan	Simple
3.	Un Supported Rating-Un Supported Rating (Long Term)	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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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