ACME Solar Technologies (Gujarat) Private Limited

February 11, 2020

Ratings

Sr. No,	Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
1.	Long-term Bank Facilities	106.31 (reduced from Rs.117.25 crore)	CARE A (CE); Stable [Single A (Credit Enhancement); Outlook: Stable]#	Reaffirmed
2.	Short-term Bank Facilities	13.31	CARE A2+ (A Two Plus)	Reaffirmed
	Total	**119.62 (Rs. One hundred nineteen crore and sixty two 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 A (Single A)**

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 ASTGPL factors in operational track record of 7.75 years with satisfactory generation levels, long-term PPA with GUVNL having relatively strong financial risk profile, satisfactory payment track record since commissioning, moderately comfortable debt coverage indicators at standalone level, DSRA equivalent to 3 months of debt servicing in place and tie-up of WC limits providing additional liquidity support. The rating is

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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).*

however constrained by 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 5th 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% (7th 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, ASTGPL has DSRA of Rs.7.03 crore (equivalent to 1 quarters of debt servicing) created in the form of FD. Also, as on November 2019, ASTGPL had a cash and bank balance of Rs.4.09 crore over and above DSRA balance. Apart from cash and DSRA balances, the company had sanctioned WC line of Rs.13.31 crore which is completely unutilized as on December 2019 providing additional liquidity cushion.
GCA for FY20 and FY21 is projected to be around Rs.21.59 crore and Rs.23.66 crore as per cash flow approach as against total debt repayments of Rs.14.77 crore and Rs.15.91 crore during the same period for ASTGPL.

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 (ASTGPL)

ACME Solar Technologies (Gujarat) Private Limited (ASTGPL), incorporated in 2009, is a Special Purpose Vehicle (SPV) promoted by Acme Solar Energy Pvt Ltd (ASEPL), which has set up a 15 MW grid connected solar PV power plant in Village Wadgam, Taluka Khambhat, and District Anand in Gujarat using thin film technology. The project cost of Rs.228 crore (Rs.15.2 crore/MW) was funded through term debt of Rs.149 crore and balance through promoter contribution (debt equity ratio of 1.89:1). The company commissioned the project on March 13, 2012. 3 CARE Ratings Limited Press Release The company is supplying entire power to Gujarat Urja Vikas Nigam Limited (GUVNL, rated CARE AA-; Stable/CARE A1+) under a 25 year Power Purchase Agreement (PPA), which was signed on May 31, 2010 (supplementary PPAs signed on October 11, 2010 and March 24, 2011). GUVNL is purchasing power at a tariff of Rs.15/kWh for the first 12 years and at Rs.5/kWh for the next 13 years as per the Gujarat State Solar Policy Framework 2009. ACSPL undertook the EPC work for the project and is also undertaking O&M work for the project under a 12-year contract.

Brief Financials – ASEMPPL Standalone (Rs. crore)	FY18 (A - INDAS)	FY19 (A - INDAS)
Total operating income	22.91	23.57
PBILDT	20.70	21.13
PAT	2.36	4.22
Overall gearing (times)	3.23	2.60
Interest coverage (times)	1.48	1.67

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, 2031	106.31	CARE A (CE); Stable
Fund-based - ST-Working Capital Demand loan	-	-	-	13.31	CARE A2+
Un Supported Rating-Un Supported Rating (Long Term)	-	-	March, 2031	0.00	CARE A

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)
2.	Fund-based - LT-Term Loan	LT	106.31	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	13.31	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 A	-	-	-	-

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

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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