Nirosha Power Private Limited

March 16, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	153.06 (reduced from Rs.167.32 crore)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	-	-	Withdrawn*
Total facilities	**153.06 (One Hundred Fifty Three crore and six lakhs only)**		

Details of instruments/facilities in Anneuxre-1

**CARE has withdrawn the rating assigned to the short-term bank facilities (Letter of Comfort) of NPPL with immediate effect, as the company has returned the aforementioned facility in full and there is no amount outstanding as on date.*

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Nirosha Power Private Limited (NPPL) continues to factors in the experienced promoters, operational track record of around 3.5 years with satisfactory generation levels though there has been some moderation in 9MFY20 generation levels, medium-term off-take arrangement through Power Purchase Agreement (PPA) with Uttar Pradesh Power Corporation Ltd. (UPPCL) at a fixed tariff for the entire capacity, timely receipt of payments from off-takers viz. UPPCL and Uttar Pradesh New & Renewable Energy Development Agency (UPNEDA), moderately comfortable debt coverage indicators and Debt Service Reserve Account (DSRA) covering two quarters of debt servicing obligations already in place.

The rating is, however constrained by counterparty credit risk on account of relatively weak financial risk profile of the off-taker, PPA renewal risk, interest rate fluctuation risk and exposure to climatic conditions and technological risks.

Rating Sensitivities:

Positive Factors:

- Continued generation better than P-90 levels of 22.95%
- Timely receipt of payments from the off-taker in-line with PPA terms on a continuous basis

Negative Factors:

- Significantly lower than envisaged CUF levels (P-90 of 22.95%) negatively impacting the coverage indicators of the project
- Delay in receipt of payments from the off-taker leading to elongation in receivable days beyond 3 months
- Non-receipt or delay in receipt of timely need based support from the promoters viz. ACSPL/ASHL
- Non-compliance of various covenants as per sanctioned terms including continued maintenance of DSRA equivalent to 2 quarters of debt servicing
- Deterioration in financial risk profile of off-taker

Detailed description of the key rating drivers

Key Rating Strengths

Operational track record of about 3.5 years:

The 30 MW grid connected solar photovoltaic (PV) power plant was commissioned on September 20, 2016 and has an operational track record of about 3.5 years. Net CUF for FY19 stood at 20.41% as against net CUF of 20.81% in FY18. Also, net CUF for 9MFY20 stood at 19.01% (as against 9MFY19 CUF of 20.05%). The moderation is on account of lower solar irradiation levels in the state of U.P. Nevertheless, generation levels in trailing 12 months have been satisfactory though lower than P-90 estimates envisaged. Going forward, achievement of P-90 levels will be crucial from cash flow perspective.

Medium-term PPA, though PPA renewal risk remains: NPPL is supplying power to UPPCL as per the terms of medium-term PPA signed in April 2015 for supply of power at a fixed tariff of Rs.8.93 per kWh for a period of 12 years under the Uttar Pradesh Solar Power Policy, 2013. The tariff will be jointly paid by Uttar Pradesh New & Renewable Energy Development Agency (UPNEDA) and UPPCL. Since the loan repayment is till Mar-32 i.e. it would be fully repaid 3.5

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

years after the expiry of the PPA term of 12 years. Therefore, ASEPL has provided an irrevocable and unconditional corporate guarantee starting from 12 years of COD. As per the agreed terms of the PPA, the agreement may be extended for a further period on mutually agreed terms and condition at least 180 days prior to the expiry date (Expiry Date: 12 years from the date of commercial operations of the solar power plant). In case of extension of PPA, the company will have to supply power from 13th to 25th year at the tariff as will be decided by the commission at the appropriate time taking into account the RoE, O&M expenses and the interest on working capital loan.

Moderately comfortable debt coverage indicators: The door to door tenor of the term loan is elongated and the coverage indicators are expected to be moderately comfortable. Furthermore, DSRA comprising two quarter's interest and principal repayments has already been created.

Experienced Promoters: Nirosha Power Private Limited (NPPL) is a wholly owned subsidiary of ACME Solar Energy Pvt Ltd. (ASEPL) and a step down subsidiary of ACME Solar Holdings Ltd. (ASHL) which is holding 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. ACSPL (EPC and O&M entity for ACME group), the ultimate holding company has commissioned 2.15 GW of solar capacity as on November, 2019 making Acme group one of the largest solar power player in India. Nevertheless, overall financial risk profile of the ACME group has moderated in last 1 year or so given increase in overall gearing levels at consolidated levels and erratic payment pattern of Telangana and AP discoms (Acme group has sizeable chunk of operational capacity aggregating 600 MW (AC) in AP and Telangana).

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 & H1FY20 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 financial risk profiles of the off-takers: The company is exposed to credit risk related power off-takers. UPPCL has been duly authorised to enter in to PPA on behalf of state discoms (Paschimanchal Vidyut Vitlran Nigam Ltd (PVVNL), Poorvanchal Vidyut Vitran Nigam Ltd (PuVVNL), Madhyanchal Vidyut Vitran Nigam Ltd (MVVNL) and Dakshinanchal Vidyut Vitran Nigam Ltd (DVVNL)) and directly purchase power generated from selected solar projects for 12 years. UP state discoms (buyer of the power from UPPCL) have a weak financial risk profile with significantly stretched receivable and payable days, negative net worth resulting in adverse capital structure, high cost of power purchase, and weak cost coverage ratio
The company receives payment from two parties i.e. Uttar Pradesh New & Renewable Energy Development Agency (UPNEDA) and Uttar Pradesh Power Corporation Ltd (UPPCL). Though the company receives part payment from UPNEDA on time i.e. within 5 - 10 days of raising invoices but there have been some delays in the past in receipt of payment from UPPCL. Nevertheless, the project is now receiving payments from both UPPCL and UPNEDA in a timely manner, which provides some comfort. Going further, timely receipt of payment would remain crucial.

Exposure to technology and climatic risks: The company has used multi-crystalline technology, which has a proven history worldwide, suffers relatively lower degradation 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.

Interest Rate Fluctuation Risk: The term loans availed are floating rate loans and the lenders can reset the interest rates annually. However, the tariff for off-take arrangement of the power is fixed, thereby, exposing the company to risk of any adverse movement in interest rates.

Liquidity Analysis: Adequate
The company had cash and cash equivalents of Rs.3.34 crore as on December 31, 2019. Apart from cash & bank balance, the company has also created DSRA of Rs.14.70 crore, equivalent to 2 quarters of debt servicing in the form of fixed deposits (FDs). The company does not have any sanctioned working capital lines as on date.
Gross cash accrual for FY20 and FY21 is projected to be around Rs.20.03 crore and Rs.20.68 crore as per base case assumptions as against total debt repayment of Rs.11.39 crore and Rs.13.53 crore during the same period.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – Infrastructure Sector Ratings
Financial ratios – Non-Financial Sector
Private Power Producers
Rating Methodology: Solar Power Projects
Policy on Withdrawal of Ratings

About the Company
Nirosha Power Private Limited, a 100% subsidiary of ACME Solar Energy Pvt Ltd and a step down subsidiary of ACME Solar Holdings Ltd., has set up a 30 MW grid connected solar photovoltaic (PV) power project in District Mahoba, Uttar Pradesh using Poly-Crystalline Silicon technology.
The project achieved COD on September 20, 2016 and was set up at a cost of Rs.238.00 crore (Rs.7.93 crore/MW) funded at debt-equity ratio of 3:1. The company is supplying entire power to Uttar Pradesh Power Corporation Ltd. (UPPCL) under a 12-year Power Purchase Agreement (PPA), which was signed on April 6, 2015 at a fixed tariff of Rs.8.93/kWh.

Brief Financials – NPPL Standalone (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	49.38	48.80
PBILDT	46.59	45.82
PAT	0.50	8.60
Overall gearing (times)	2.67	2.28
Interest coverage (times)	1.97	2.14

*A: Audited

Covenants of rated instrument/facility: Detailed explanation of the rated instruments/ facilities is given in Annexure3

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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	153.06	CARE BBB; Stable
Non-fund-based-Short Term	-	-	-	0.00	Withdrawn

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	153.06	CARE BBB; Stable	1)CARE BBB; Stable (05-Apr-19)	-	1)CARE BBB; Stable (22-Jan-18)	-
2.	Non-fund-based-Short Term	ST	-	-	1)CARE A3+ (05-Apr-19)	-	1)CARE A3+ (22-Jan-18)	-

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

Long term loan	Detailed explanation
A. Financial covenants	
i. Term Loan	• The ratio of TOL to TNW shall not exceed 3 • DSCR shall not be lower than 1.12x • Total Debt to Equity Ratio shall not exceed 75:25
B. Non- financial covenants	
i. Creation of DSRA	The borrower shall maintain DSRA equivalent to ensuing two quarter interest payment and Repayment Installment, in a form and manner acceptable to the lender, or provide a BG or FD, for an amount equivalent to ensuing two quarter interest payment and Repayment Installment.
ii. Dividend	The borrower shall not declare any dividend during the moratorium period and/or until the Final Settlement Date, without prior written consent of the lenders in the event that DSCR is below 1.10x
iii. O&M agreement	The borrower shall, after expiry of O&M Arrangement, induct/hire competent technical personnel for ensuring proper operation of the Project

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:
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