India Ratings Assigns ACME PV Powertech's Bank Facilities 'IND BBB-'/Stable

Mar 31, 2021 | Others

India Ratings and Research (Ind-Ra) has rated ACME PV Powertech Private Limited's (APPPL) bank facilities as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	-	-	30 September 2035	INR 2787.7	IND BBB-/Stable	Assigned

Ind-Ra has assessed the project on a standalone basis as the presence of a ring-fenced debt structure ensures the prioritisation of the cash flows for the special purpose vehicle's debt, Also, the restricted payment conditions govern the distribution of surplus.

The rating reflects APPPL's limited revenue risk, given the presence of a 25-year power purchase agreement (PPA) with Telangana State Southern Power Distribution Company Limited (TSSPDCL; discom) at a fixed tariff of INR5.5949/kWh for the entire capacity of 50 megawatts (MW) of AC Capacity. The ratings are also supported by the availability of adequate liquidly and the presence of an experienced sponsor.

The ratings are constrained by the weak counterparty, with continued high receivable days of 213 days as on 25 March 2021 (as on March 2020: 330 days). Ind-Ra believes there is high uncertainty regarding the timelines of future tariff payments, given the weak financial position and absence of retail tariff hikes for TSSPDCL during FY20-FY21.

The realisation of payments from the counterparty, the presence of adequate liquidity, and continued stable plant load factor (PLF) performance will remain key rating monitorables.

Key Rating Drivers

Moderate Revenue Risk with Stable Operations: The rating benefits from the company's firm, long-term PPA with TSSPDCL at a fixed tariff, which eliminates the revenue risk to a great extent. Any generation above 25% PLF levels may be purchased by the discom at 50% of the existing tariff. The asset has an operating track record of more than 40 months since its commissioning in August 2017. The average PLF for 11MFY21 was 22.67% (11MFY20: 21.71%,). The grid availability levels improved to 99.82% in 11MFY21 (11MFY20: 97.93%) and was at 100% during August 2020- February 2021. Machine availability has been at a constant average of 99.51% since the beginning. Given the high sensitivity of a solar power project's cash flows to the PLF, these risks can impair the debt-servicing cushions available for solar projects.

High Counterparty Risk: As on 25 March 2021, the invoices raised for August 2020 and beyond had not been paid, implying receivable days of 213. However, since April 2020, APPPL has received payments with respect to bills raised for 15 months, significantly backed by disbursement from Atmanirbhar liquidity scheme available for distribution companies. Ind-Ra expects an uneven receivable period over the medium term , with some periods of non-receipts of revenue to continue intermittently. Ind-Ra has observed a similar receivable trend amongst the peer companies with the same offtaker.

The difference between average revenue realised and average cost of supply on subsidy booked for TSSPDCL increased to INR1.13/kWh in FY19 (FY18: INR1.03/kWh) and payable days rose to 251 days (220 days), as per the Report on Performance of State Power Utilities 2018-19.

Low Operating Risk; In-house Operation and Maintenance (O&M) with Adequate Sponsor Experience: The O&M for the project is being handled by ACME Cleantech Solutions Pvt Ltd (ACSPL), which owns 100% stake in APPPL. According to the loan documents, the O&M cost needed to be mandatorily within INR0.45 million per megawatt (MWac) for 2018, with an escalation of 5% each year thereafter. The O&M cost for FY20 was INR0.41 million/MW (FY19: INR0.64 million/MW), lower than the stipulated O&M cost. The sponsor has adequate experience in developing and operating solar projects in India of over 2.35GW. ACSPL has been engaged in the engineering, procurement and construction of solar projects for more than a decade. Ind-Ra attributes the project's low operating risk due to its low complexity and the ACME group's long track record.

Moderate Debt Structure with Moderate Debt Coverage Metrics: The rated debt is repayable over 60 equal quarterly instalments, starting from 31 December 2018 and ending in September 2036. The project has a moderate forward-looking average debt service coverage ratio (DSCR) of about 1.20x, according to Ind-Ra's cash flow projections. Under the loan terms, the lenders have an option to do cash sweep for any excess cash surplus of 30% of the excess cash, up to INR 300 million, after ensuring a DSCR of 1.10x towards the prepayment of the facility.

The project had compulsory convertible debentures of INR468.7 million as on 31 March 2020. These instruments are equity-like in nature, according to the financial documents and the FY20 signed financial statement, and are subordinated to the senior debt. The waterfall arrangement also delineates the subservient nature of the sponsor debt obligations. Ind-Ra has not factored in any payments to these junior instruments for arriving at senior debt coverages. Ind-Ra takes comfort from the waterfall mechanism, restricted payment conditions and other terms prioritising senior debt. Ind-Ra will review the rating if any adverse changes affect the cash flows available for senior debt servicing and if the rights of CCDs and unsecured loans could impede senior debt servicing.

Liquidity Indicator - Adequate: After having received a large payment of INR 184.39 million on 25 March 2021, APPPL has internal liquidity of about 15 months. This liquidity is sufficient to mitigate any significant and sustained delays in payments from TSSPDCL. The project has standard project finance features, including cash flow waterfall, a debt service reserve (DSR) to cover two quarters interest and principal repayments, and a stipulation to create an O&M maintenance reserve, inverter replacement reserve and contingency reserve. As on 22 March 2021, APPPL had created the required DSR of INR254 million, equivalent to two quarters of debt servicing, and a contingency reserve of INR25 million. The project had a cash balance of INR 0.87 million as on 22 March 2021. The company has working capital limits of INR 210 million; the average utilisation of the same was 36% over the 12 months ended February 2021. APPPL had availed the Reserve Bank of India-prescribed moratorium, but it repaid the deferred dues during the moratorium period itself. Intermittent receipts from the offtaker and available sufficient internal liquidity were used for the repayments in FY21.

Moderate Technology Risk: The project employs polycrystalline solar photovoltaic modules with a fixed tilt, manufactured by established suppliers, for the entire project capacity. Ind-Ra's base case factors in a module degradation of 0.8% per annum each year. Ind-Ra considers technology-related risks as moderate, as all the equipment suppliers have a proven track record and experience, and have provided warranty for defects as well as minimum output.

Rating Sensitivities

Positive: The financial and/or operating performance being in line with Ind-Ra's base case scenario with a forward looking minimum DSCR of 1.15x, an improvement in TSSPDCL's financial profile, and the debtor period being less than six months for over a period of 12 months consecutively may lead to a rating upgrade.

Negative: Future developments that may, individually or collectively, lead to a rating downgrade are:

- financial and/or operating performance weaker than Ind-Ra's base case scenario for a sustained period of time, leading to the actual DSCR being lower than 1.10x
- receivable days exceeding 270
- depletion in internal liquidity, including any event of dipping into the DSRA
- significant deterioration in the profiles of the sponsor and the counterparty.

Company Profile

APPPL owns and operates a 50MW(AC) solar power project in Sadasivpet, Telangana. There were no contingent liabilities in the project as on 31 March 2020, according to the audited annual report.

FINANCIAL SUMMARY

Particulars (INR million)	9MFY21	FY20	FY 19
Operating Income	406.02	534.70	577.75
Total Income	422.72	549.77	590.78
Total operating expenses	16.74	18.37	28.66
EBITDA	405.98	531.40	562.12
Debt/ EBITDA (x)	5.41 *	5.84	5.73
Cash and Cash equivalents	57.03	39.40	6.52
Source: APPPL, Ind-Ra *Annualised			

Rating History

Key Financial Covenants and Terms

Minimum DSCR	1.10x
Maintenance of DSRA	Ensuing two quarters of interest payment and principal repayment
Inverter replacement reserve	The inverter replacement reserve required to be created by the borrower as per the terms of the TRA agreement if the inverter warranties expire and within 30 days the borrower fails to obtain annual maintenance contract for the inverters
O&M reserve	For ensuing three months of equivalent O&M cost
Contingency reserve	INR5,00,000/- MW
Cash sweep	At any point in time from FY19 until the final settlement date, if the DSCR is less than 1.15, the lenders will have the option to apply 30% of the excess case amount, after maintaining of DSCR of 1.0x towards the prepayment of the facility in accordance with the TRA agreement and in the inverse order of maturity to the extent of INR30 million. For this purpose, the DSCR will be tested on a semi-annual basis.
Cash trap	In any particular financial year, if the O&M cost exceeds 10% of the base case plan, the lenders will hold back an amount equivalent to such excess costs, and the resultant cash trapped amount will not be available for restricted payments for that particular financial year.
Source: Facility Agreement	

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Term loan	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators

APPLICABLE CRITERIA

Rating Criteria for Infrastructure and Project Finance

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