Correction: India Ratings Downgrades ACME Jaisalmer Solar's Rupee Term Loans to 'IND BBB-(CE)'; Maintains RWN

Jan 03, 2020 | Power Generation

This announcement rectifies the version published on 30 December 2019 to correctly state the debt amount in the financial summary table. The amended version is as follows:
India Ratings and Research (Ind-Ra) has undertaken the following rating actions on ACME Jaisalmer Solar Power Private Limited's (AJSPPL) debt facilities:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Rating Watch	Rating Action
Rupee term loan (RTL)	-	-	31 March 2036	INR1,110.0	IND BBB-(CE)/RWN	Downgraded; maintained on Rating Watch Negative (RWN)
External commercial borrowing (ECB)	-	-	31 March 2033	INR267.1	IND BBB-(CE)/RWN	Downgraded; maintained on RWN
Working capital facility	-	-	-	INR80.0	IND BBB-(CE)/RWN	Downgraded; maintained on RWN
LER hedging facility	-	-	-	INR75.0	IND BBB-(CE)/RWN	Downgraded; maintained on RWN
Unsupported rating	-	-	-	-	IND BBB-/RWN	Assigned; placed on RWN

Analytical Approach: To arrive at the ratings, Ind-Ra has taken into consideration the cash flow support available to AJSPPL from four other projects - Niranjana Solar Energy Private Limited, Dayanidhi Solar Power Private Limited, Aarohi Solar Private Limited and Vishwatma Solar Energy Private Limited - under the obligor co-obligor structure. All the five projects are fully owned by ACME Solar Holdings Limited and are at the same rating level as ASPL.

The downgrade reflects the deteriorating liquidity profile of the projects due to continuous delays in payments from the offtaker and likely payments at reduced interim tariff of INR2.44 per unit (following Andhra Pradesh (AP) High Court's order). The combined working capital limit for all the five projects under the obligor co-obligor structure was used to the extent of 76.2%, as of 30 November 2019. The downgrade has also been triggered by the breach of Ind-Ra's negative sensitivity – non-creation of the full two-quarters debt service reserve account (DSRA) before 28 December 2019 as per the lender's covenants. The agency will continue to monitor the receipt of payments from AP distribution companies (discoms), the liquidity and sponsor support for further rating actions. The sponsor has supported the project with INR356.5 million (combined for all five projects aggregating 160MW in the structure) over February-November 2019.

The maintenance of RWN reflects the continued uncertainty on the clearance of older payments and on the receipts of payments at the tariff delineated in the power purchase agreement.

Key Rating Drivers

Interim Tariff Inadequate to Meet Debt Service: While AP discoms made their first payment on 19 December 2019 for the invoice raised in August 2018 at an interim tariff of INR2.44 per unit, this is inadequate to meet the debt service. The management expects a receipt of around INR900 million (combined for all the five projects under obligor co-obligors structure) by end January 2020. That said, given the monthly interest payments, the timely receipt of funds from the counterparty is crucial for the sustenance of the rating. Considering the weak financials of AP discoms, the payments for the renewable companies are subject to the strong inflow of funds either from borrowings or government support.

Liquidity Profile - Poor: The project has relied on sponsor support (INR356.5 million between February 2019 and November 2019), the usage of funds from debt service reserve (INR325.3 million) and working capital limits (INR680 million) combined for all the five projects under the structure. The DSRA balance diminished to INR134.7 million and unutilised working capital to INR161.9 million as of 24 December 2019, equivalent to around 1.5 months of debt service, combined for all the five projects under the structure. With a principal and interest payment of INR143.8 million (combined for five projects) scheduled in December 2019, the same is likely to be paid out of sponsor infused funds of INR100 million during the month and the available cash balance with the five project entities under the structure as per the management representation received by Ind-Ra, obviating any need for a further dip into DSRA or additional working capital utilisation during the month. Also, the interim tariff cover for debt service is weak, thereby placing the project at an elevated risk from January 2020 unless bulk payments from AP discoms are realised.

Obligor Co-obligor Structure: The loan agreements delineate an obligor and co-obligor structure, wherein the surplus cash flows of the individual project will be used to meet the shortfall in the debt service of other co-obligor companies. Ind-Ra has evaluated projects based on standalone project cash flows and not consolidated cash flows, since fund movement across projects is possible only from the surplus account. However, there is no surplus cash flow availability from the other four projects to AJSPPL considering low provisional tariff and delays in payment from the offtaker till the time the tariff issue is resolved and timely payments are restored, obviating any notch-up in ratings due to the available support at the whole structure level.

Relatively Stable Operational Performance: The plant's plant load factor of 22.28% (on alternating current (AC) capacity basis) between December 2018 and November 2019 stood higher than P75 estimates of 22.12%, establishing stable project operational profile. This, along with the satisfactory grid availability (except the months of October and November 2019), underscores reasonable stability in generation. The project's relatively stable operational performance is a source of comfort. However, any major grid curtailment or any other event affecting plant generation levels can impact the project negatively.

Minimum Technology Risk: The plant uses Talesun Solar/BYD modules with fixed tilt technology. Polycrystalline-based solar module technology has an operational record of over 30 years, and hence, technology risks are minimal. Besides, the presence of reputed solar panel suppliers and industry standard warranties largely mitigate the technology related risks.

Moderate Debt Structure; Dipping DSRA a Concern: The rupee term loan is repayable in 70 structured quarterly instalments, which started on 31 December 2018 and would end on 31 March 2036. The ECB is repayable in 65 structured quarterly instalments, which started on 31 March 2017 and would end on 31 March 2033. Both interest rate and forex risks under ECB are fully hedged through swap agreements under the loan equivalent risk hedging facility. Financial documents stipulate a DSRA equivalent to two quarters of debt servicing for both RTL and ECB. However, the project's DSRA dipped over September 2019 to November 2019 as the company was servicing debt, given the diminished liquidity profile of the project. Total DSRA availability to the project is just INR134.7 million compared to the full DSRA amount of around INR660.0 million, according to the stipulation for all the five projects under the structure combined, which is a cause of concern. The stipulation to create other reserves such as one quarter operations and maintenance reserve before making any restricted payments, an inverter replacement reserve (only in case the annual maintenance contract (AMC) for inverters is not issued) before seven years of the first disbursement and a hedging reserve provide additional comfort to the ratings; however, the same is subject to the availability of surplus funds. According to the management, inverters are currently under warranty and hence entering into AMC is not justified till the warranty period is over (five years from the commissioning date)

In-house Operations and Maintenance: The project has signed a 25-year operation and maintenance agreement with the ultimate holding company, ACME Cleantech Solutions Private Limited, for an agreed price with a fixed annual escalation. The ACME group develops and operates solar capacity across India and has an installed capacity of over 2.1GW. Ind-Ra attributes moderate operating risk to the project, given the operator's track record and experience and the low complexity of the project.

Full Project Capacity Tied-Up, But Tariff Negotiation Risk Looms: AJSPPL has signed a 25-year power purchase agreement for the full 20MW (AC) capacity with Southern Power Distribution Company of Andhra Pradesh Limited with a first year tariff of INR5.637/kWh. The tariff will be escalated at 3.0% per annum until the 10th year of the commencement of power supply; thereafter, it will be flat. The levellised tariff, under the power purchase agreement, for the full 25 years is INR6.97/kWh. However, efforts by the state government to reduce project tariff are key monitorable.

Rating Sensitivities

The RWN indicates that the rating may be either affirmed or downgraded. Ind-Ra will resolve the RWN once it has clarity on receipt of older bills and payments of tariff at the power purchase agreement tariff. The non-receipt of INR900 million (for all the five projects combined) before mid-January 2020 and continued receipt of payments at unsustainable provisional tariff of INR 2.44 per unit will trigger a rating downgrade.

Company Profile

AJSPPL is a wholly owned subsidiary of ACME Solar Energy Private Limited, which is ultimately held by ACME Cleantech Solutions. The holding is in the form of common equity shares and compulsorily convertible debentures. Ind-Ra has given 100% equity treatment to the debentures according to the terms and conditions shared. AJSPPL operate a 20MW (AC) solar power plant in Pattikonda, Andhra Pradesh. A total 25.3MW of DC capacity is installed against the said AC capacity in a DC:AC ratio of 1.27:1. AJSPPL commenced full commercial operations on 12 May 2016.

FINANCIAL SUMMARY

Particulars	FY19	FY18
Total revenue (INR million)	245.66	235.24
Total operating expenses (INR million)	17.87	15.60
EBITDA (INR million)	227.79	219.64
Short-term debt (INR million)	55.83	565.85
Long-term debt (INR million)	1,216.06	526.63
Total debt (INR million)*	1,295.34	1,100.75
EBITDA margin (%)	92.73%	93.37%
Total Debt/EBITDA (x)	5.69	5.01
Source: AJSPPL annual report		

*excluding compulsorily convertible debentures and related party loans but including ancillary borrowing costs

Rating History

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	16 September 2019	10 July 2019	28 February 2019
RTL	Long-term	INR1,110.0	IND BBB-(CE)/RWN	IND BBB+ (CE)/RWN	IND BBB+ (SO)/RWN	IND A-(SO)/Stable
ECB	Long-term	INR267.1	IND BBB-(CE)/RWN	IND BBB+ (CE)/RWN	IND BBB+ (SO)/RWN	IND A-(SO)/Stable
Working capital facility	Long-term	INR80.0	IND BBB-(CE)/RWN	IND BBB+ (CE)/RWN	IND BBB+ (SO)/RWN	IND A-(SO)/Stable
LER hedging facility	Long-term	INR75.0	IND BBB-(CE)/RWN	IND BBB+ (CE)/RWN	IND BBB+ (SO)/RWN	IND A-(SO)/Stable
Unsupported rating	Long-term	INR0.0	IND BBB-/RWN	-	-	-

Complexity Level of the Instruments

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

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Rating Criteria for Infrastructure and Project Finance

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