India Ratings Affirms ACME Jaisalmer Solar Power’s Bank Facilities at ‘IND BBB-(CE)’/Negative; Off RWN

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India Ratings and Research (Ind-Ra) taken the following rating actions on ACME Jaisalmer Solar Power Private Limited’s (AJSPPL) instruments:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Rupee term loan (RTL)	-	-	30 September 2036	INR1,110.0	IND BBB-(CE)/Negative	Affirmed; off Rating Watch Negative (RWN)
External commercial borrowing (ECB)	-	-	31 March 2033	INR267.1	IND BBB-(CE)/Negative	Affirmed; off RWN
Working capital facility	-	-	-	INR80.0	IND BBB-(CE)/Negative	Affirmed; off RWN
Loan equivalent risk (LER) hedging facility	-	-	-	INR75.0	IND BBB-(CE)/Negative	Affirmed; off RWN
Unsupported rating*	-	-	-	-	IND BBB-/Negative	Affirmed; ff RWN

* Ind-Ra has also affirmed an unsupported rating of ‘IND BBB-’/Negative for the same amount and maturity, in compliance with the Securities Exchange Board of India’s circular dated 13 June 2019, which requires credit rating agencies to disclose unsupported ratings without factoring in the explicit credit enhancement (CE) and supported rating after factoring in the explicit CE.

Analytical Approach: To arrive at the ratings, Ind-Ra continues to take into consideration the cash flow support available to AJSPPL from four other projects, namely- 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.

The above-mentioned projects also have compulsorily convertible debentures (CCDs) and interest free unsecured loans (USLs) of INR1,734.1 million at a combined level. These instruments are equity-like in nature, as per Ind-Ra’s assessment, based on their terms and conditions shared by the management. These are subordinated to the senior debt and will be paid off only after all restricted payment conditions of the senior term loan are met and have no right to call an event of default. The waterfall arrangement also delineates the subservient nature of sponsor debt obligations. Ind-Ra has not factored in any payments to these junior instruments for arriving at senior debt coverages. The inclusion of these funds into the senior debt category will impact the rating.

The Negative Outlook reflects the continued uncertainty in the resolution of the ongoing tariff dispute between the government of Andhra Pradesh and wind and solar power producers to review, negotiate and reduce the cost of wind and solar power purchase agreements (PPAs) tied-up by the state distribution utilities. The matter is pending with the Supreme Court. The project continues to receive payments from the offtaker at a reduced interim tariff of INR2.44 per unit as compared to the contractual levelized tariff of INR6.97 per unit. The rating is also constrained by a dip in the generation levels in FY20 and

7MFY21 due to grid curtailment, and the non-creation of full two quarters of the debt service reserve (DSR). The project's liquidity is weak due to the build-up of receivables owing to delays in the receipt of payments from the off taker and subdued coverages.

The rating affirmation and RWN resolution reflect the continued sponsor support to manage the cashflow mismatches stemming from the delays in the payments from the off-taker - Andhra Pradesh Southern Power Distribution Company Limited (APSPDCL). The agency will monitor the project's liquidity, including reserves, available working capital lines and unencumbered cash balance. Any reduction in liquidity below six months of debt servicing will negatively impact the ratings. The management has indicated that all the five projects had a combined liquidity of about seven months of debt servicing at end-November 2020.

Key Rating Drivers

Continued Payment at Lower Provisional Tariff a Key Monitorable: In July 2020, APSPDCL cleared the company's six months' pending dues during October 2019-March 2020 at an interim tariff of INR2.44/kWh (opposed to the contractual tariff) for the period between August 2018 and March 2020. The management expects to receive a portion of outstanding dues from APSPDCL in January 2021. This is likely to be paid out of the disbursements under the liquidity scheme from Power Finance Corporation Limited and REC Limited ('IND AAA'/Stable) to distribution utilities to clear their overdues for power purchase.

High Counterparty Risk: The gap between the average revenue realised and the average cost of supply for APSPDCL increased to INR1.85/kWh in FY19 (FY18: INR0.002/kWh). The payable days for APSPDCL stood at 199 in FY19 (FY18: 86). Ind-Ra believes that uncertainties in payments will persist in cases where a discom reports a significant gap between the average revenue realised and the average cost of supply and high payable days, as in the case of APSPDCL. Additionally, discoms are highly dependent on the subsidies received from state governments, according to the report on the performance of state power utilities 2018-19.

Operational Performance below P90 level a Concern: AJSPPL has an operational track record of more than four years. During FY20 and the 12 months ending October 2020, the plant's PLF declined (preceding 12 months: 21.0%, FY20: 21.1%, FY19: 23.1%) due to grid curtailment in Andhra Pradesh in 2019 as well as low irradiation during October-December 2019. Ind-Ra has considered the PLF close to P90 level for its analytical purpose as the grid curtailment issue has been resolved from July 2020. Any significant dip in generation levels from the existing levels will have a bearing on the rating.

Liquidity Indicator- Poor: The project's liquidity is weak, as the debt service coverage ratio (DSCR) of the project at an interim tariff is below 1x and only one quarter of debt service reserve (DSR) is available against the stipulated reserve of two quarters. Also, the project at the original tariff has a moderate average DSCR of 1.25x throughout the loan tenor, with the DSCR being lower than the stipulated financial covenant of 1.1x in some of the years. As on 31 October 2020, all the five projects in the obligor-co-obligor structure had liquidity of INR727.3 million (equivalent to about seven months of annual debt service requirement) in the form of one-quarter equivalent DSR and unutilised working capital limit of INR380 million. All the projects have a combined working capital facility of INR680 million, of which about 45% was utilised as on 30 November 2020. The structure also has a cash sweep and cash trap mechanism, in case the DSCR in a year is below 1x or operations and the maintenance expenses exceed more than 10% of the base case in a year respectively. Any dividend distribution or cash outgo, leading to reduced liquidity in relation to the revenue uncertainties assessed by Ind-Ra, will be a rating sensitivity.

Sponsor Support: The sponsor provided support of INR408.6 million and INR200 million in the form of subordinated interest free unsecured loans in FY20 and in the ongoing financial year, respectively, to all the five projects combined in the obligor- co-obligor structure. However, Ind-Ra believes that the projects will continue to need sponsor support if the projects receives payment at reduced tariff and there is a dip in generation levels.

Fully Tied-up Project Capacity: The project has a 25-year power purchase agreement with APSPDCL for the entire plant capacity of 20MW at a levelized tariff of INR6.97/kWh, thereby mitigating revenue risk to a large extent. Furthermore, the rating is supported by the must-run status for renewable energy projects that exempts them from the merit order system. However, the sale contract does not carry any deemed generation compensation in the event of an occurrence of grid curtailment. Also, developments regarding the efforts by the state government to reduce the project's tariff are a key monitorable.

Minimum Technology Risk: The plant is configured with thin film technology-based silicon modules manufactured by BYD and Talesun. The presence of a tier-1 solar panel supplier and industry standard warranties mitigate the technology risk to a large extent.

Obligor Co-Obligor Structure Mechanism: Excess cash with any of the other four co-obligor entities can be used for debt servicing or for the creation of a debt service reserve account for any of the other four entities in the event of a shortfall, as per the defined waterfall mechanism. Ind-Ra has evaluated projects based on a standalone project cash flows and not consolidated the cash flows, since fund movement across projects is possible only from the surplus account. As there is no surplus cash flow available from the other four projects to AJSPPL due to low provisional tariff and delays in payment from the off taker, any notch-up in ratings due to the available support at the whole structure level is redundant till the time the tariff issue is resolved and timely payments are restored.

Moderate Debt Structure: Structurally, the project has a moderate-tenor amortization profile; the RTL is repayable over 70 structured quarterly instalments ending FY36 while the ECB is repayable in 65 structured quarterly instalments between 31 March 2017 and 31 March 2033. Both interest rate and forex risks under the ECB facility are fully hedged through swap agreements under the LER hedging facility till September 2022. The interest rate is floating and is payable on a monthly basis under both the facilities. The SPV had availed the Reserve Bank of India-prescribed moratorium for its rupee term loan for March-August 2020. As a result, as per the lead lender, the principal repayment has been deferred by two quarters. Furthermore, the accrued interest payable during the moratorium period has been carved out as a sperate term loan and is to be paid in 65 equal instalments. This has led to RTL's amortisation schedule being stretched to 72 quarters from the previous 70 quarters. This has been considered for the base case analysis; any change affecting the coverage ratios will be a rating sensitivity.

The financial documents stipulate a DSR equivalent to two quarters of debt servicing for both RTL and ECB. The documents also stipulate the creation of 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; however, the same have not been created due to unavailability of funds.

Moderate Operating Risk: The project has a 25-year operation and maintenance agreement with ACME Cleantech Solutions Private Limited for an agreed price with a fixed annual escalation. The project sponsor has an experience of more than a decade in operating solar capacity of over 2.35GW. Ind-Ra considers the project's operating risk to be low due to the low complexity involved in operating and maintaining solar projects coupled with the ACME group's long track record in doing the same. The O&M cost for FY20 was INR0.91 million/MW (FY19: INR0.89 million/MW), which is in line with other Ind-Ra rated peers. Considering the operating cost is a key factor for the debt service coverage, any sustained increase in operating expenses may lead to a rating downgrade.

Moderate Financial Performance: The company's total revenue declined to INR228.1 million in FY20 (FY19: INR245.7 million) as a result of lower generation due to grid curtailment and low irradiation. The operating profit also declined to INR209.8million in FY20 (FY19: INR227.8 million) on account of decrease in revenue as a result of fall in generation level. As per audited annual report, there were no contingent liabilities in the project as on 31 March 2020.

Rating Sensitivities

Positive: The project's financial and operational performance being better than base case estimates for a sustained period of time with a forward-looking average DSCR of over 1.25x could lead to a rating upgrade.

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

- The project's financial and operational performance being below base case estimates for a sustained period of time with the DSCR in any financial year being below 1.10x
- revenue realisation at reduced provisional tariff beyond June 2021 with continuing uncertainties on recoverable tariff under the PPA
- Dipping into DSR or further deterioration in the internal liquidity of the project to less than six months equivalent of debt servicing
- lack of timely support from the sponsor for debt servicing
- deterioration in the credit profile of the sponsor

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	FY20 (Audited)	FY19 (Audited)
Total revenue (INR million)	228.1	245.7
Total operating expenses (INR million)	18.2	17.9
EBITDA (INR million)	209.8	227.8
Net profit (INR million)	69.2	-69.7
Non-current borrowings (INR million) *	1,406.4	1,409.3
Current borrowings (INR million)	26.9	25.8
Short-term borrowings (INR million)	49.1	30.5
Total borrowings (INR million)	1,482.4	1,465.6
Debt/ EBITDA (x)	7.07	6.43
Adjusted Debt/ EBITDA (x)^	6.06	5.58

*includes sponsor's CCDs and USLs
^excluding sponsor's CCDs and USLs
Source: AJSPPL Financials, Ind-Ra

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Rating Watch/Outlook			
	Rating Type	Rated Limits (million)	Rating	30 December 2019	16 September 2019	10 July 2019	28 February 2019
RTL	Long-term	INR1,110.0	IND BBB-(CE)/Negative	IND BBB-(CE)/RWN	IND BBB+ (CE)/RWN	IND BBB+ (SO)/RWN	IND A- (SO)/ Stable
ECB	Long-term	INR267.1	IND BBB-(CE)/Negative	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)/Negative	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)/Negative	IND BBB-(CE)/RWN	IND BBB+ (CE)/RWN	IND BBB+ (SO)/RWN	IND A- (SO)/ Stable
Unsupported rating	Long-term	-	IND BBB-/Negative	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

Annexure

Key Financial Covenants and Terms:

Minimum Debt Service Coverage Ratio	1.10x
Maintenance of DSRA	Two quarters of ensuing interest payment and principal repayment

Cash sweep	Anytime from FY20 until final settlement date, if the DSCR is less than 1.0x, the lenders will cash sweep amount equivalent to the difference of the cash corresponding to the actual DSCR and cash corresponding to DSCR of 1.0x. This money will be utilised for the prepayment of outstanding principal amount of the facility in the inverse order of maturity till the final settlement date.
Cash Trap	In any particular financial year, if the O&M cost exceeds 10% of the base case plan, lenders will hold back an amount equivalent to such excess costs and such cash trapped amount will not be available for restricted payments for that particular financial year.
Source: Facility Agreement	

APPLICABLE CRITERIA

Rating Criteria for Infrastructure and Project Finance

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