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India Ratings Assigns Acme Raipur Solar's Term Loans 'IND A-(CE)'/ Stable

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India Ratings and Research (Ind-Ra) has rated Acme Raipur Solar Power Private Limited's (ARSPPL) bank facilities as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Senior project term loans	-	-	31 March 2035	INR1,372.8	IND A-(CE)/Stable	Assigned
Working capital	-	-	-	INR110.0	IND A2+(CE)	Assigned
Unsupported rating#	-	-	-	-	IND BBB+/ Stable	Assigned

#Ind-Ra has assigned an unsupported rating 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.

The debt facility has an obligor-co-obligor structure across two solar projects - ARSPPL and Acme Odisha Solar Power Private Limited (AOSPPL; debt rated at 'IND A-(CE)'/Stable. INR2,858.2 million has been borrowed on an obligor-co-obligor structure across the two special purpose vehicles (SPVs) –ARSPPL (INR1,372.8 million) and AOSPPL (INR1,485.4 million). In the event of the insufficiency of funds/shortfall in debt servicing by any co-obligor, the lenders will utilise the surplus cash in the trust and retention account (TRA) to set-off such a shortfall, prior to making any distribution to the sponsor. The fund flow from the cash-surplus SPV to the cash-deficit SPV will follow the TRA waterfall mechanism. The rating of the pool on the basis of the obligor-co-obligor structure is 'IND A-(CE)' with a Stable Outlook, following the consolidation approach, as funds can be moved across the two projects if required, as confirmed by the project sponsor and lender. The unsupported rating, without factoring in the explicit CE (i.e. obligor-co-obligor support) for ARSPPL, is 'IND BBB+'/Stable.

The ratings reflect the presence of the obligor-co-obligor structure and the fungibility of funds between the SPVs and the availability of a debt service reserve to meet any liquidity stress at the co-obligor level. Since the achievement of the commercial operations date (COD), the need for fund transfer between the SPVs did not arise; however, Ind-Ra will continue to monitor the projects' liquidity and the functioning of the structure. However, the ratings are constrained by the financially weak counterparty profile and the inherent risks associated with a solar project, including the resource variations.

Key Rating Drivers

Obligor Co-Obligor Structure Offers Strength: The excess cash with any of the two borrowers can be used for the debt servicing of any of the other entity in case of a shortfall. According to the financing agreements, all terms are applicable to each borrower individually, and where the context requires, severally. The structure tests individual financial covenants for each co-obligor before restricted payments are made to the sponsors. The structure's other strong features include the movement of funds across co-obligors when there is a deficiency in any obligors, prior to the debt servicing date.

Ind-Ra has taken a consolidated view on the cash flows across these two projects to arrive at the ratings, wherein the fund movement from one SPV to another will take place in accordance with the TRA waterfall mechanism. Since the lender for both these projects is the same, funds are likely to be fungible at any time as per the lender. The agency will continue to monitor the support from co-obligors in case of any liquidity stress.

Long-term Offtake Agreement Secures Cash Flows: The ratings benefit from the 25-year-old firm power sale contract of AOSPPL and ARSPPL with GRIDCO Limited ((GRIDCO, ‘IND BBB’/Negative) on fund-based facilities) and Chattisgarh State Power Distribution Company Limited (CSPDCL) at fixed prices of INR7.28/kWh and INR6.46/kWh, respectively. The power purchase agreement (PPA) of ARSPPL stipulates a guaranteed offtake of 49.932 million units per annum corresponding to a plant load factor (PLF) of 19.0% every year. Any generation, above this level, may be purchased by third parties. The project is obligated, as per the PPA, to generate at least 39.42 million units per annum for ARSPPL, corresponding to a PLF of 15.0% every year. The failure to meet this generation level will make the company liable to pay compensation to the distribution company (discom), subject to a minimum of 10% of the applicable tariff.

The PPA specifies a late payment penalty in case of payments being delayed beyond the due date.

Ind-Ra will continue to monitor the receipt of payments and any significant delays consistently basis will impact the ratings. The PPA also specifies a letter of credit equivalent to one month’s billing amount to be created by the discom as a payment security mechanism, while the same is yet to be created.

Stable Operating Performance: The projects have demonstrated a stable operational track record of over 60 months and generated power at a net average direct current PLF closer to P75 estimates (AOSPPL: 18.63%; ARSPPL: 17.62%). The average monthly grid availability stood at 99.5% while the monthly plant availability was 99.8% during FY20 and 1HFY21.

According to Ind-Ra’s estimates, both the projects under the pool have displayed fairly stabilised operations since achieving the CODs in June 2015 (AOSPPL) and March 2016 (ARSPPL). The average PLFs of AOSPPL and ARSPPL in FY20 were 19.9% (FY19: 21.1%; FY18: 21.04%) and 17.5% (17.55%; 17.69%), respectively.

Stable Financial Performance: On a consolidated basis, the gross revenue marginally declined to INR627.5 million in FY20 (FY19: INR677.6 million), driven by lower generation. However, the EBITDA margin increased to 96.0% in FY20 (FY19: 91.0%) due to the revision in the operating fee under the O&M agreement and the receivable days improved slightly to 15 (29).

Moderate Sponsor Experience: Acme Solar Holdings Limited (ASHL) has moderate experience in developing and operating solar projects in India. Its holding company Acme Cleantech Solutions Private Limited (ACSPL) carries out the engineering, procurement and construction for ASHL’s projects. ACSPL is also the operations and maintenance (O&M) contractor for ASHL’s projects. Acme Solar Energy Private Limited (ASEPL) has undertaken to support ARSPPL and AOSPPL in case the O&M expenses are 10% above the base case plan. ASHL has informed Ind-Ra that some liquidity is maintained at the group level to manage the delays in the revenue from counterparties, apart from working capital lines.

Low Operating Risk, In-house O&M: ACSPL has signed a 25-year O&M contract at a fixed price and escalation (5%). Also, limited technological complexities involved in the O&M of solar projects provide comfort to the ratings. The agency has considered operating costs as per Ind-Ra-rated peers and historical values in its base case with a fixed annual escalation

Moderate Counterparty Risk: GRIDCO and CSPDCL are paying after 10 days and 65 days from raise of invoices since COD, on average. The renewable purchase obligations require the discoms to buy solar power and both the PPAs were signed through reverse bidding. Termination is not possible under the PPAs unless an event of default is triggered by the other party. Any termination or non-payment under PPAs is considered as event risk.

CSPDCL’s debtors’ collection period was long at about 137 days over FY18-FY19. Its total payable period lengthened to 147 days in FY19 as compared to 89 days in FY18. CSPDCL’s average cost of supply remained largely stable, which has led to improvement in operating margins in FY19.

Liquidity Indicator – Adequate: The projects have an average debt service coverage ratio (DSCR) of above 1.35x with the ability to withstand moderate levels of stress on generation, expenses and interest rates. Additionally, each term loan agreement has a provision of a minimum debt service reserve (DSR) of six months of debt servicing obligations and an inverter replacement reserve. Apart from cash and debt service reserve account (DSRA) balances, the AOSPPL and ARSPPL had sanctioned working capital lines of INR120.0 million and INR110.0 million, which were completely unutilised as on 31 October 2020.

While the project has been receiving timely payments from the counterparty, an elongation in the receivable period can be mitigated by the support derived from the obligor-co-obligor structure, according to Ind-Ra’s base case estimates. Based on the comfortable DSCR and six months’ DSR available with the project, Ind-Ra considers the liquidity of both the projects to be adequate. Also, the projects did not opt for the Reserve Bank of India-prescribed moratorium.

Moderate Debt Structure: The outstanding debt in ARSPPL and AOSPPL as of 31 October 2020 was INR1,372.8 million and INR1,485.4 million , respectively. The term loans of ARSPPL and AOSPPL feature quarterly repayments ending in FY35. The interest rate is floating and interest is payable monthly. The terms of debt require the maintenance of the ensuing two quarters' principal and interest due as DSR, which is already created. The contingency reserve (INR0.5 million/MW), annual maintenance contract for inverters and one quarter reserve of O&M expenses are part of the debt terms. Since the lender for ARSPPL and AOSPPL is the same, the funds are fungible at any time as per the discretion of lender. The distribution of surplus is allowed twice a year and two subsequent distributions should be six months apart.

In Ind-Ra's opinion, the debt structure is resilient to the moderate amount of stresses applied on the generation levels, operating costs and increase in receivable days from the off-taker. The pool structure has also made provision for restricted payments to its holding after complying with the restricted payment covenants and in concurrence with the lender.

Rating Sensitivities

CE ratings

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

- the weakening of obligor-co-obligor structure and/or any transgression from the stipulated structure
- any kind of hindrance in the structure to restrict the fund movement amongst SPVs prior to due date of debt servicing

Positive: Future developments that may, individually or collectively, lead to a rating upgrade are:

- the financial and/or operating performance exceeding above Ind-Ra's base case resulting in much higher DSCR as compared to Ind-Ra's base case for a sustained period of time in future may lead to a rating upgrade
- a significant improvement in the credit profile of the discoms

Unsupported ratings

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

- lower-than-expected PLF% generation falling below P90 estimates for a sustained period of time
- the elongation in the receivables cycle from the off-takers beyond 90 days for a sustained period of time
- forward-looking average DSCR falling and staying below 1.20x
- depletion in the liquidity profile or deterioration in the credit profile of the respective discoms

Positive: Future developments that may, individually or collectively, lead to a rating upgrade are:

- projects' financial and operational performance in line with the base case estimates with a minimum DSCR staying above 1.25x
- the continued maintenance of stipulated reserves in line with the transaction documents
- an improvement in the credit profile of the respective discoms

Company Profile

ARSPPL operates a solar power project with capacity of $30MW_{AC}$ in Village-Bhikhapali, District-Mahasamund, Chattisgarh. A total 32.25MW of direct current capacity is installed against the said alternating current capacity in a DC:AC ratio of 1.07:1.

FINANCIAL SUMMARY

Particulars (INR million)	FY20	FY19
Total income	309.1	328.8
EBITDA	292.3	303.4
Cash & cash equivalents	89.7	83.9
Source: ARSPPL		

Complexity Level of the Instruments

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

Annexure

Financial Covenants

The covenants delineated in the project documents are as follows:

S.No.	Nature of Financial Covenant	Base Value
1	Debt service coverage ratio	Not less than 1.10x
2	O&M reserves	Equivalent to one quarter's O&M expenses
3	Contingency reserves	INR0.50 million per MW
4	Debt service reserve	Equivalent to two quarters' principal and interest obligations
Source: ARSPPL, Ind-Ra		

APPLICABLE CRITERIA

Rating Criteria for Infrastructure and Project Finance

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