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India Ratings Affirms ACME Solar Rooftop System's Term Loan at 'IND A'/Stable

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India Ratings and Research (Ind-Ra) has affirmed ACME Solar Rooftop Systems Private Limited's (ASRSPL) term loan 'IND A' with a Stable Outlook. The detailed rating action is as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	-	-	30 June 2032	INR1,297.10* (reduced from INR1,376.50)	IND A/Stable	Affirmed

*Outstanding as on 31 July 2022

Ind-Ra has assessed the project on a standalone basis, as the presence of a ring-fenced debt structure ensures the prioritisation of cash flows for ASRSPL's debt.

The rating reflects ASRSPL's limited revenue risk, given the presence of a 25-year power purchase agreement (PPA) with Punjab State Power Corporation Limited (PSPCL). The rating is also supported by the project's over six years of operational history, the availability of adequate liquidly and comfortable debt service coverage ratios (DSCRs). The rating, however, is constrained by the company's moderate counterparty profile and the inherent generation risks of solar projects.

Key Rating Drivers

Firm Offtake Arrangement Mitigates Revenue Risk: ASRSPL's 30MW solar project is located in the Mansa district of Punjab. The project's stable income is strongly supported by its long-term PPA with PSPCL for its entire capacity at a fixed tariff of INR7.57 per unit, thereby mitigating revenue risk. Furthermore, the rating is supported by the must-run status for renewable energy projects that exempts them from the merit order system in scheduling energy. However, the sale contract carries no deemed generation compensation in the event of the occurrence of grid curtailment. The project achieved commercial operations on 31 March 2016.

Liquidity Indicator- Adequate: The project has an average DSCR of above 1.20x with the ability to withstand moderate levels of stress on generation, expenses, and receivable days. Additionally, the project has a debt service reserve (DSR) of INR115 million, equivalent to peak six months' debt servicing obligations in the form of fixed deposits. As on 31 July 2022, ASRSPL had INR82.93 million unencumbered cash and cash equivalents. The management has made a representation that the free cash available in the escrow accounts, up to a limit of INR100 million, will be retained to cover the higher debt repayment in the penultimate year of amortisation schedule. The requirement of the maintenance of additional cash balances, as per the management, is basis the lender's requirements. ASRSPL has not availed any working capital loan and expects the sponsor to support, in case of any shortfall. Ind-Ra considers the project's liquidity to be adequate on the back of the comfortable DSCR and liquidity buffers of the project. Any deterioration in terms of liquidity, not limited to any delays in the receipt of payments from PSPCL, can lead to a rating downgrade.

Stable Generation: The average PLF for the project in FY22 was stable at 16.11% (FY21: 16.07%; FY20: 16.38%), though the same is marginally lower than the P90 estimates. The P90 PLF estimate for the first year of operation (FY18) was 16.69%. According to the management, the lower generation is attributable to low global horizontal irradiance levels (represent the extent of solar energy falling on the panels). Considering the historical trend of irradiance and performance ratio, Ind-Ra has considered an increased degradation of 2% for its projections. The plant availability improved to 99.81% in FY22 (FY21: 97.99%) with a grid availability of above 99% during FY22 and FY21. Any significant deviation in the generation levels will have a bearing on the rating.

Low Operating Risk with Adequate Sponsor Experience: The operations and maintenance (O&M) for the project is being handled in-house by the sponsor. The O&M contract was awarded on 31 May 2016 to the sponsor at a cost of INR0.45 million/MW, with a fixed annual escalation of 5% per annum. The sponsor has adequate experience in developing and operating solar projects in India of over 3.2GW. The sponsor 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.

Comfortable Debt Structure: The debt is repayable in over 61 structured quarterly instalments ending June 2032, leaving a tail of 8.8 years with a bullet repayment of INR148.9 million in March 2032. The project has standard project finance features, including a cash flow waterfall, and a DSR equivalent to two quarters' principal and interest payments. As per Ind-Ra's base case, the project has an adequate average DSCR of above 1.20x. The FY22 financial statement reflects compulsory convertible debentures of INR300.1 million, which are considered subordinate to the rated term loan, based on the confirmation from the sponsor.

Minimum Technology Risk: The plant is configured with polycrystalline technology-based silicon modules supplied by Suzhou Talesun Solar Technologies Co., Ltd, Waaree Energies Ltd and BYD (Singapore) Pte. Ltd. While the standard warranties and guarantees are available for the panels, given the fall in generation observed since commissioning, Ind-Ra will continue to monitor any aberration in the generation. In case of higher generation risk attributable to panel technology, the rating will be reviewed for its impact.

Single Counterparty Risk with a Moderate Profile: ASRSPL is exposed to a single counterparty credit risk, associated with the sale of electricity only to PSPCL. The receivable day gaps between the receipt dates and the invoice dates is at an average of two months since FY18 (FY22: 74 days; FY21: 64 days). The last payment was received for the month of April 2022 on 21 July 2022.

In FY21, the surplus between the average revenue realised and the average cost of supply for PSPCL significantly improved to INR0.21/kWh from a gap of INR0.29/kWh in FY20 (FY19: gap of INR0.01/kWh). The receivables days of counterparty, PSPCL, had increased to 101 in FY21 (FY20: 84 FY19: 73), while the payable days had increased to 62 (FY21:57; FY20: 49). PSPCL has high reliance on the state for subsidy (FY21: 32% FY20: 29%; FY19: 28%). In case of any delays in the receipts of subsidy from the state government, timely payments to the generation companies could be affected.

Rating Sensitivities

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

- the DSCR reducing below 1.20x
- payment delays from the offtaker beyond 120 days
- any deterioration in the credit profile of the offtaker and/or sponsor

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

- a sustained PLF above P90 levels for two consecutive years
- the DSCR exceeding 1.35x

Company Profile

ASRSPL operates two solar plants (15X2 MW- 30MW) in Mansa district, Punjab. ASRSPL has won the project under PSPCL's bid for rooftop projects. The sponsor ACSPL holds a 100% stake in the project through intermediate holding companies namely Acme Solar Energy Private Limited, Acme Solar Holding Private Limited and Vittanath Power Private Limited.

FINANCIAL SUMMARY

(INR million)	FY22	FY21
Revenue from operations	320.74	318.00
Total revenue	346.93	320.68
EBITDA	326.45	303.80
EBITDA margin (%)	94	95
Finance Cost	148.47	166.14
Interest coverage (EBITDA/interest) (x)	2.20	1.83
Senior debt/EBITDA (x)	4.01	4.56
Cash and cash equivalents Source: ASRSPL	27.52	34.44

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/ Outlook
	Rating Type	Rated Limits (million)	Rating	31 Aug 2021
Term loan	Long-Term	INR1,297.10	IND A/Stable	IND A/Stable

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

Contact

Primary Analyst
Bharath Kumar Reddy A
Senior Analyst
India Ratings and Research Pvt Ltd
Harmony Square 3rd Floor, Door No. 48 & 50 Prakasam Street T Nagar Chennai - 600017

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Swatantra Bir Samant
Associate Director

Chairperson
Vishal Kotecha
Director
+91 22 40356136

Media Relation
Ankur Dahiya
Senior Manager – Corporate Communication

+91 22 40356121

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