India Ratings Assigns ACME Solar Technologies' Bank Facilities 'IND A(CE)'; Outlook Stable

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India Ratings and Research (Ind-Ra) has rated ACME Solar Technologies (Gujarat) Private Limited's (ASGPL) rupee term loans (RTLs) and working capital facility as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
RTLs	-	-	30 June 2031	INR909.0	IND A(CE)/Stable	Assigned
Working capital	-	-	-	INR133.1	IND A1	Assigned
Unsupported rating*	-	-	-	-	IND A/Stable	Assigned

*Ind-Ra has also assigned the unsupported rating of 'IND A'/Stable 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 has taken into consideration the cash flow support available to ASGPL from one other project - ACME Solar Energy (Madhya Pradesh) Private Limited (ASMPL) - under the obligor co-obligor structure. Both the projects are fully owned by ACME Solar Energy Private Limited (ASEPL). 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) of the other obligor to set-off such a shortfall, prior to making any distribution to the sponsor. The fund flow from the cash-surplus special purpose vehicle (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 residual cash flow approach, as funds can be moved across the two projects from their surplus accounts if required, as confirmed by the project sponsor and lenders. The unsupported rating, without factoring in the explicit CE (i.e. obligor-co-obligor support) for ASGPL, is 'IND A'/Stable.

The rating is anchored by the presence of a long-term fixed-tariff power purchase agreements (PPA) with Gujarat Urja Vikas Nigam Limited (GUVNL) and M.P. Power Management Co. Ltd. (MPPMCL), locational and counterparty diversification, established track record of operations, timely debt servicing, adequate liquidity and creation of stipulated reserves as per the financing documents. The agency will monitor the generation levels, the project's liquidity, and the functioning of the pooled structure.

The ratings are constrained by the dip in generation in FY20 and the inherent risks associated with a solar project, including the resource variations.

Key Rating Drivers

Stable Operational Performance; Slight Dip in FY20: According to Ind-Ra's estimates, both the projects under the pool have displayed fairly stabilised operations since achieving full commissioning in March 2012 (ASGPL) and January 2014 (ASMPL). ASGPL and ASMPL own and operate two solar power plants with an operational track record for about nine and seven years, respectively. In FY20, the plants' PLF declined (ASGPL- 12 months ended December 2020: 18.69%, FY20: 18.06%, FY19: 18.70%; ASMPL- 12 months ended December 2020: 20.43%, FY20: 19.95%, FY19: 20.85%) due to low irradiation reported during October- December 2019. Ind-Ra has considered the average PLF reported by the projects since commissioning for its analytical purpose.

Moderate Counterparty Risk and Diversification: Ind-Ra considers counterparty risks associated with both the projects combined to be moderate, given the counterparty credit profiles. The projects have been receiving payment at a consistent pace from both the off-takers in the past. GUVNL pays within about 10 days from the billing date, while MPPMCL pays within 30-40 days from the billing date.

The distribution utilities under Gujarat Urja Vikas Nigam were profitable in FY19 and have the best financial profiles among the state-owned distribution companies in India. However, the ratings are constrained by the weak financial profiles of Madhya Pradesh discoms. The gap between the average revenue realised (ARR) and the average cost of supply (ACS) for Madhya Pradesh Poorva Kshetra Vidyut Vitaran Company Limited (MPPoKVVCL) and for Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited (MPMKVVCL) increased in FY19 compared to FY18. Also, the payable days for MPPoKVVCL and MPMKVVCL were high at 169 and 310, respectively, in FY19. While the projects have been receiving payments at regular intervals from the counterparties, Ind-Ra believes that uncertainties in payments would persist in cases wherein a discom reports a significant gap between the ARR and the ACS and high payable days, as in the case of MPPMCL discoms. The improvement in the gap between average revenue realised and the average cost of supply and the timely receipt of subsidy from the government is critical for the sustained timely payments to generation companies.

Liquidity Indicator- Adequate: The projects have a moderate average debt service coverage ratio (DSCR) of 1.41x throughout the loan tenor, with the ability to withstand moderate levels of stress on generation, expenses, interest rates and receivable days from the off-taker along with the creation of the required reserves. As on 15 January 2021, both the projects in the obligor-co-obligor structure had combined liquidity of INR574 million (equivalent to about 15 months of annual debt service requirement) in the form of two-quarter equivalent debt service reserve (DSR), one month of operations and maintenance (O&M) and contingency reserves and cash for nine months of debt servicing. Additionally, the projects also had unutilised working capital of INR276 million or seven months of debt servicing. The management has informed that they will continue to maintain all the stipulated reserves as per the financing documents along with one to two months of cash for debt servicing at all times. The structure also has an adequate cash sweep and cash trap mechanism, in case the DSCR in a year is below a particular level.

Moderate Capital Structure: Structurally, the projects have a moderate-tenor amortisation profile; The term loan was repayable over 58 structured quarterly instalments ending FY31 for ASGPL and repayable over 62 structured quarterly instalments ending FY32 for ASMPL. The interest rate is floating and interest is payable on a monthly basis on both the loans. The SPVs had availed the Reserve Bank of India-prescribed debt moratorium for the domestic term loans for March-May 2020. As per the lender and management, the principal repayment has been deferred by one quarter, and thus, the repayment schedule has been shifted by one quarter. However, the accrued interest payable during moratorium period has already been paid in both the projects.
The financial documents stipulate a DSR equivalent to two quarters of debt servicing for ASMPL and one quarter of debt servicing for ASGPL. The stipulation to create other reserves, such as operations and maintenance reserve equivalent to one quarter of budgeted O&M cost, contingency reserve of INR0.5 million per MW and an inverter replacement reserve (only in case the annual maintenance contract for inverters is not issued), before making any restricted payments provides additional comfort to the ratings.

Minimal Offtake Risk: The projects have a 25-year power purchase agreement (PPA) with the off-takers. ASGPL has a fixed tariff PPA with GUVNL for the entire plant capacity of 15MW at a tariff of INR 15/kWh for the first 12 years and INR 5/kWh for the next 13 years while ASMPL has a fixed tariff PPA with MPPMCL for the entire plant capacity of 25MW at a tariff of INR 8.05/kWh. This mitigates revenue and price 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. Each 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. PPAs also specify a letter of credit equivalent to one month's billing amount to be created by the discom as a payment security mechanism. The same has been established for less than a month's billing by MPPMCL, while it is yet to be created for GUVNL.

Obligor Co-Obligor Structure Mechanism: Excess cash with any of the co-obligor entities can be used in the event of insufficiency of funds/shortfall in debt servicing in any other entity, as per the defined waterfall mechanism. Ind-Ra has evaluated projects based on the standalone project cash flows and not consolidated cash flows, since fund movement across projects is possible only from the surplus account and there is no clearly defined timeframe for fund movement in case of debt service shortfall between the two projects. 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 unconditional and irrevocable co-obligor undertaking provided by the project SPVs to each other, for utilising their cash surplus for meeting any event of insufficiency of funds/shortfall in debt servicing in the pooled structure. However, as confirmed by the management, there has been no transfer of surplus cash flow transfer amongst the SPVs till date as both the projects have been performing at a satisfactory level. Furthermore, it has been confirmed by the lenders as well as the management that the pooled structure is well placed to service the debt at any point of time throughout the loan tenor.

Adequate Sponsor Experience: ASEPL has adequate 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 ASEPL's projects. ACSPL is also the O&M contractor for several projects of the group. ACSPL has undertaken to support ASGPL and ASMPL in case the O&M expenses are 10% above the base case plan. The management has informed Ind-Ra that, as on 31 December 2020, the group's total cash position was about INR9,000 million out of which the DSR was about INR4,500 million, which is enough to manage the delays in the revenue from counterparties, apart from working capital lines.

Moderate Operating Risk: ASGPL has a 12-year operation and maintenance (O&M) agreement with ACME Cleantech Solutions Private Limited for an agreed price with a fixed annual escalation. The project sponsor has a more than a decade's experience in operating solar capacity of over 2.35GW. Ind-Ra considers the project's operating risk to be moderate due to its low complexity and the ACME group's long track record. For ASGPL, the O&M cost declined to INR0.59 million/MW in FY20 (FY19: INR1.62 million/MW) on account of an amendment in the O&M contract, effective April 2019, wherein the O&M cost per MW was revised to INR0.45 million per MW per annum from the earlier cost of INR0.875 million per MW per annum. As operating cost is a key factor for the debt service coverage, any sustained increase in operating expenses may lead to a rating downgrade.

Minimum Technology Risk: The plants are configured with thin film technology-based silicon modules manufactured by First Solar and polycrystalline technology-based solar modules by Trina Solar. The presence of a tier-1 solar panel suppliers, industry standard warranties and satisfactory operational track record mitigate the technology risk to a large extent.

Satisfactory Financial Performance: The company's total revenue slightly declined to INR226.6 million in FY20 (FY19: INR233.8 million) as a result of lower generation due to low irradiation. However, the operating profit increased to INR225.0 million in FY20 (FY19: INR211.3 million) on account of a decrease in operating expenses. As per the audited annual report, there were no contingent liabilities in the project as on 31 March 2020.

Rating Sensitivities

Positive: Future developments that may, individually or collectively, lead to a rating upgrade are:
- projects' financial and operational performance being in line with the base case estimates, with the minimum DSCR being above 1.20x for a sustained period of time
- substantial improvement in the credit profile of the respective discoms

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 being below 1.20x for a sustained period of time
- depletion in the liquidity profile of the projects
- deterioration in the credit profile of the respective discoms and the sponsor
- 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

Company Profile

ASGPL is a wholly owned subsidiary of ASEPL, which is ultimately held by ACSPL. The holding is in the form of common equity shares. ASGPL operates a 15MW solar power plant in Wadgam Village, Khambat Taluka of Gujarat. ASGPL had executed PPA with GUVNL for its entire capacity at a fixed tariff rate of INR15.00 per kWh for first 12 years and INR 5.00 per kWh for the next 13 years.

FINANCIAL SUMMARY

Particulars	FY20 (Audited)	FY19 (Audited)
Total revenue (INR million)	226.6	233.8
Total operating expenses (INR million)	8.9	24.4
EBITDA (INR million)	225.0	211.3
Net profit (INR million)	43.0	42.1
Non-current borrowings (INR million)	860.2	979.4
Current borrowings (INR million)	157.2	147.7
Short-term borrowings (INR million)	0.0	-
Total borrowings (INR million)	1,017.5	1,127.1
Debt/ EBITDA (x)	4.52	5.33
Source: ASGPL Financials, Ind-Ra		

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	Ensuing one quarter 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 and from the internal cash accruals of the borrower, if the borrower fails to obtain the annual maintenance contract for the inverters for the project, post the expiry of the inverter warranties for the entire tenure of the facility, to the satisfaction of the lenders.
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 INR50 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 such cash trrapped 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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