India Ratings Assigns ACME Sidlaghatta Solar Energy’s Rupee Term Loan ‘IND BBB-’/Stable

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India Ratings and Research (Ind-Ra) has rated ACME Sidlaghatta Solar Energy Private Limited’s (ASiSEPL) rupee term loan (RTL) as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
RTL	-	-	31 December 2038	INR665.40	IND BBB-/Stable	Assigned

Analytical Approach: To arrive at the ratings, Ind-Ra has taken into consideration the standalone profile of ASiSEPL, along with the cash flow support arrangement with five other projects (all with debt rated at ‘IND BBB-’/Stable), namely - Acme Kudligi Solar Energy Pvt Ltd (AKuSEPL), Acme Kittur Solar Energy Pvt Ltd (AKiSEPL), Acme Guledagudda Solar Energy Pvt Ltd (AGSEPL), Acme Hukkeri Solar Energy Pvt Ltd (AHSEPL), Acme Sandur Solar Energy Pvt Ltd (ASaSEPL) – as per the terms of the financing documents. All the six projects are fully owned by ACME Solar Holdings Private Limited (ASHPL) and have separate trust and retention accounts with a common bank. There is no-cross default or cross guarantee among the six companies and the covenant testing will be at individual asset level. However, Ind-Ra factors in the precedents of cashflow support extended among the entities on or prior to the due date of the debt obligations and the management representation on the implementation of the structure.

The agency has not considered any subordinated debt instruments from the sponsor as additional debt. This is in accordance with the financing documents and as per the management’s representation that such instruments will be fully subordinated to the senior-ranking term loan. Any deviation from this arrangement will be a credit negative.

The ratings reflect ASiSEPL’s moderate operational history, an improvement in its receivables profile in FY23 and a long-term power offtake arrangement with a moderate counterparty. The ratings are constrained by the moderate debt service coverages and the absence of a debt service reserve (DSRA). Ind-Ra will monitor each project’s generation performance and liquidity, and the functioning of the obligor-co-obligor (ObCo) structure.

Key Rating Drivers

Improvement in Power Generation: Except for AGSEPL, all the other projects have performed at lower than P90 estimates from their commercial operations date (COD) till FY22. According to the management, this was due to faulty cables, the underperformance of certain modules and inverter tripping issues. The management has represented that, in accordance with the action plan agreed with the project lender, ACME Group, had undertaken a root cause analysis and conducted thermography tests of the under-performing projects. Post the analysis, the management confirmed to Ind-Ra that it has identified and rectified cable faults, replaced certain modules and resolved the inverter tripping issues. Ind-Ra has noticed an improvement in the power generation of the underperforming projects in FY23. ASiSEPL generated power at a plant load factor of 21.58% in FY23 (FY22: 19.83%). Ind-Ra will monitor the power generation across the projects, and any underperformance due to legacy or unresolved issues will be key rating driver.

Firm Off-take Agreement: AGSEPL, AKiSEPL, AKuSEPL and ASaSPL have signed power purchase agreements (PPA) with Bangalore Electricity Supply Company Limited, whereas AHSEPL and ASiSEPL have signed PPAs with Hubli Electricity Supply Company Limited. The PPAs for all the projects are valid for 25-year period from the effective date (date on which the tariff was approved). The agreements stipulate power generation at maximum capacity utilisation factor (CUF) of 26% and a minimum CUF of 14%. The presence of the long-term agreement assures cash flows to the project and mitigates revenue risk to a large extent.

Moderate Sponsor Profile: ACME Group is a leading developer of renewable energy projects in India. The group has about 3.0GW of solar power capacity, of which about 1.5GW is under various stages of construction and the balance is operational. ACME Cleantech Solutions Private Limited (ACSPL) has implemented turnkey engineering, procurement and construction (EPC) contracts for the group projects. It was initially engaged in the business of providing energy management solutions, original equipment manufacturer (OEM) and asset management services, primarily for telecom operators. Subsequently, the company diversified into EPC work for solar power plants, which are being set up through various special purpose vehicles under itself and ASHPL. All the six projects are 100% owned by ASHPL, which is a wholly owned subsidiary of ACSPL. ACSPL and ASHPL together handle the EPC and O&M business of the group companies in-house. As per the facility documents, ACSPL has extended a corporate guarantee for the projects to meet their debt obligations till certain events are met, including the achievement of the COD, the creation and perfection of security, and the achievement of about 18.3% CUF (dc) for the preceding 12 months.

KERC-approved Levelised Tariff for Compensation towards Safeguard Duty: KERC has approved a levelised tariff for five projects (except for Kudligi), which will be paid for a 25-year period in the form of annuity on the minimum units of generation as stipulated in the PPA. With respect to Kudligi, a KERC order dated 11 June 2021 has dismissed the petition filed by the project related to compensation on safeguard duty. As per the management, the company has filed a review petition and the next hearing is due to be conducted.

Moderate Debt Structure: The final project cost of all the six projects together is INR5,803.96 million, funded in a debt:equity ratio of about 68:32. The initial sanctioned funding debt:equity ratio was 75:25. The sponsor, as per the terms of the financing documents, has infused additional funds, more than committed equity to cover the cost overruns related to the safeguard duty. The debt is repayable in 72 structured quarterly instalments, ending on 31 December 2038. The financing documents have standard provisions including cash sweep and maintenance of debt service reserve for two quarters of debt servicing.

Liquidity Indicator - Adequate: The projects together had about INR228.0 million largely in the form of free cash and a DSRA of about INR9.5 million as on 31 May 2023. The liquidity, is estimated to cover about 5.5 months of annual debt service obligations of all the entities in the ObCo structure. Though there has been an improvement in the receivables profile of the projects and thereby in the liquidity in FY23, the DSRA replenishment is yet to be carried out. Any extension in the receivables, coupled with a depleted liquidity, would require financial support from the sponsor.

Moderate Technology Risk: All the projects have implemented a polycrystalline-based solar technology. The polycrystalline-based solar module technology has an operational record of over 30 years, thereby mitigating technology risks to certain extent. The module suppliers are not Tier 1 suppliers; however, as per the management, the technology is standard and procurement was done based on the technical assessments, warranties and commercial aspects. Ind-Ra considers the technology risk to be moderate because of the limited period of satisfactory plant performance.

Rating Sensitivities

Positive: Events that could, individually or collectively, lead to a positive action are:

- stable operational performance, leading to project’s forward-looking average DSCR above 1.15x for a sustained period
- replenishment of DSRA up to six months
- the realisation of income at full PPA tariff for AKuSPL

Negative: Events that could, individually or collectively, lead to a negative action are:

- underperformance of co-obligors in the group and/or absence of cashflow support from the co-obligors
- deterioration in the operational performance, leading to project’s forward-looking average DSCR being above 1.10x for a sustained period
- significant depletion in internal liquidity
- an increase in the receivables beyond 120 days for a sustained period
- deterioration of the credit profile of the sponsor

Company Profile

ASiSEPL is a 100% subsidiary of ASHPL, which is a 100% subsidiary of ACSPL. ASiSEPL had entered into a 25-year PPA with Bangalore Electricity Supply Company on 22 March 2018 for setting-up of a 20MW solar power plant in Sidlaghatta, Chikkaballapur (dist), Karnataka. The project was commissioned on 25 October 2019.

FINANCIAL SUMMARY

Particulars (INR million)	FY22	FY21
Total income (including other income)	126.9	106.92
Operating expenses	12.4	12.41
Profit before tax	-0.26	-13.13
Cash & cash equivalents	0.3	18.88
Source: Audited financial statements of ASiSEPL		

Non-Cooperation with previous rating agency

Not applicable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Rupee term loan	Low

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

Annexure

Key Financial Covenants

Covenant	Testing
Minimum DSCR	As per financing base case
Maximum debt to equity ratio	75:25 throughout the tenor of the RTL

APPLICABLE CRITERIA

Rating Criteria for Infrastructure and Project Finance

Policy for Credit Enhanced (CE) Ratings

The Rating Process

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