India Ratings Upgrades ACME Sidlaghatta Solar Energy's Rupee Term Loan to 'IND BBB'/Stable

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India Ratings and Research (Ind-Ra) has upgraded ACME Sidlaghatta Solar Energy Private Limited's (ASiSEPL) rupee term loan (RTL) rating to 'IND BBB' from 'IND BBB-'. The Outlook is Stable. The detailed rating action is 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	Upgraded

Analytical Approach: ASiSEPL was initially a part of an obligor co-obligor structure with five other entities - Acme Kudligi Solar Energy Pvt Ltd (AKuSEPL; debt rated at 'IND BBB'/Stable), Acme Kittur Solar Energy Pvt Ltd (AKiSEPL; debt rated at 'IND BBB'/Stable), Acme Guledagudda Solar Energy Pvt Ltd (AGSEPL; debt rated at 'IND BBB'/Stable), Acme Hukkeri Solar Energy Pvt Ltd (AHSEPL; debt rated at 'IND BBB'/Stable) and Acme Sandur Solar Energy Pvt Ltd (ASaSEPL; debt rated at 'IND BBB'/Stable) – as per the financing documents. BluPine Energy Private Limited (BEPL) acquired five of the six entities, excluding AsiSEPL, from ACME Solar Holdings Private Limited (ASHPL) in January 2024. Considering AsiSEPL is no longer a part of the pool, the agency has adopted a standalone rating approach while arriving at the rating.

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 upgrade reflects an improvement in ASiSEPL's operational performance from FY23. The rating also reflects the project's comfortable receivables position and the presence of a long-term power offtake arrangement with a moderate counterparty. However, the rating remains constrained by the absence of a debt service reserve account (DSRA).

Key Rating Drivers

Improvement in Operational Performance: ASiSEPL's power generation of improved from FY23 post the rectification of cable faults, replacement of certain modules and resolution of the inverter tripping issues with AKuSEPL achieving a plant load factor of 25.59% during the trailing 12 months ended December 2023 (FY23: 24.32%; FY22: 20.78%). The agency expects the generation levels to be stable and any material underperformance due to legacy or unresolved issues will be a key rating monitorable.

Firm Offtake Agreement: ASiSEPL signed a 25-year power purchase agreement (PPA) with Bangalore Electricity Supply Company Limited, valid from the effective date (date on which the tariff was approved). The PPA stipulates power generation at a 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 about2.5GW 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, and original equipment manufacturer (OEM) and asset management services, primarily to 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. The project is 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.

Liquidity Indicator - Adequate: The project has about INR45.78 million, largely in the form of free cash as of 31 January 2024. The liquidity is estimated to cover about six months of the project's annual debt service obligations. The management has mentioned to Ind-Ra that it plan to replenish the DSRA out of the existing cash balances in the escrow account. The absence of a DSRA is a rating constraint. Although the project has been receiving payments within 90 days from its counterparty, any extension in the receivable would require financial support from the sponsor.

Moderate Debt Structure: The final project cost of all the five projects together is INR1,107 million, funded in a debt:equity ratio of about 68:32. The initial sanctioned funding debt:equity ratio was 75:25. The earlier sponsor, as per the terms of the financing documents, had 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 a DSRA equivalent to two quarters of debt servicing.

Moderate Technology Risk: The project has 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 supplier is 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.

Rating Sensitivities

Positive: Replenishment of the DSRA up to six months could lead to a positive action.

Negative: Events that could, individually or collectively, lead to a negative action are:
- deterioration in the operational performance, leading to project's forward-looking average debt service coverage ratio above 1.10x for a sustained period,
- a significant depletion in internal liquidity,
- an increase in receivables cycle beyond 120 days for a sustained period.

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 Limited on 22 March 2018 for setting-up of a 20MW solar power plant in Sidlaghatta, Chikkaballapur (district), Karnataka. The project was commissioned on 25 October 2019.

FINANCIAL SUMMARY

Particulars (INR million)	**FY23**	**FY22**
Total income (including other income)	130.34	126.9
Operating expenses	14.59	12.4
Loss before tax	-12.02	-0.26
Cash & cash equivalents	6.74	0.3
Source: Audited Financial Statements of ASiSEPL		

Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook
	Rating Type	Rated Limits (million)	Rating	14 July 2023
RTL	Long-term	INR665.40	IND BBB/Stable	IND BBB-/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
RTL	Low

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

Annexure

KEY FINANCIAL COVENANTS

Covenants	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

Evaluating Corporate Governance

Policy for Credit Enhanced (CE) Ratings

The Rating Process

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
Ameer Banu
Senior Analyst
+91 44 43401739

Media Relation
Ameya Bodkhe
Marketing Manager

+91 22 40356121

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