India Ratings Revises Outlook on Vishwatma Solar Energy's Bank Facilities to Stable; Reassigns and Affirms 'IND BBB-'

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India Ratings and Research (Ind-Ra) has taken the following rating actions on Vishwatma Solar Energy Private Limited's (VSEPL) instruments:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Rupee term loan (RTL)	-	-	30 September 2036	INR1,382.60 (reduced from INR1,550.0)	IND BBB-/Stable	Reassigned and affirmed; Outlook revised to Stable from Negative
External commercial borrowing (ECB)	-	-	31 March 2033	INR404.70 (reduced from INR420.2)	IND BBB-/Stable	Reassigned and affirmed; Outlook revised to Stable from Negative
Working capital facility	-	-	-	INR238.50 (increased from INR120.0)	IND BBB-/Stable	Reassigned and affirmed; Outlook revised to Stable from Negative
Loan equivalent risk (LER) hedging facility	-	-	-	INR116.0	IND BBB-/Stable	Reassigned and affirmed; Outlook revised to Stable from Negative
Unsupported rating*	-	-	-	-	WD	Withdrawn

*In line with the Reserve Bank of India's guidance note to credit rating agencies dated 22 April 2022 for bank loan- credit enhanced ratings, Ind-Ra has not assigned credit enhanced ratings to the bank loans availed by VSEPL under the obligor-co-obligor structure. The unsupported rating is no longer required to be disclosed.

Analytical Approach: To arrive at the ratings, Ind-Ra continues to take into consideration the cash flow support available to VSEPL from four other projects (all with debt rated at 'IND BBB-'/Stable), namely - Niranjana Solar Energy Private Limited, Dayanidhi Solar Power Private Limited, ACME Jaisalmer Solar Power Private Limited and Aarohi Solar Private Limited - under the obligor co-obligor structure. All the five projects are fully owned by ACME Solar Holdings Private Limited.

These projects also have compulsorily convertible debentures (CCDs) and interest-free unsecured loans of INR2,015.00 million at a combined level. These instruments are equity-like in nature, as per the transaction documents and the terms and conditions shared by the management. These are subordinated to the senior debt and will be paid off only after all restricted payment conditions of the senior term loan are met and do not have the right to call an event of default. The waterfall arrangement also delineates the subservient nature of sponsor debt obligations. Ind-Ra has not factored in any payments to these junior instruments for arriving at senior debt coverages. The inclusion of these funds into the senior debt category will impact the ratings.

The Outlook revision reflects the receipt of initial two equated monthly instalments (EMI) payments by the projects in a timely manner under the Electricity Late Payment Surcharge 2022 (LPS rules). The projects received communication from the Andhra Pradesh Power Coordination Committee on 4 August 2022, specifying that the dues amounting to INR4,505.60 million as on 31 May 2022 would be paid to the projects on a combined basis. Andhra Pradesh Southern Power Distribution Company Limited (APSPDCL) has opted to clear the dues in 12 EMIs (each instalment of INR375.47 million), starting 6 August 2022. The ratings are supported by the Andhra Pradesh (AP) High Court's favourable order dated 15 March 2022 on the interim tariff issue, directing the AP discoms to clear the dues to renewable power producers at power purchase agreement (PPA) tariff. The ratings are also supported by the projects' long operational history of more than six years and generation being near P90 levels.

The rating is constrained by the stretched liquidity position and the lack of sustained visibility on the receipt of payments from APSPDCL on the current bills (billing months from June 2022). Timely realisation of payments from the counterparty at the PPA tariff, timely receipt of full EMI payments under the LPS rules, adequate sponsor support for debt servicing as and when required; and a healthy plant load factor (PLF) performance will remain key rating monitorables.

Key Rating Drivers

AP Discoms Opting for LPS Rules is Positive Development; Two EMIs Received: AP discoms have opted to join the LPS rules introduced by Ministry of Power, government of India, through its notification dated 3 June 2022. As per the rules, all the discoms in the country were provided an option to liquidate the outstanding dues as on 3 June 2022 and to clear the dues in 12-to-48 months as EMIs. Power Finance Corporation has been identified as the nodal agency for implementation of the rules. AP discoms have opted to liquidate the outstanding dues as on 31 May 2022 into 12 EMIs and have obtained credit lines from Power Finance Corporation and REC Ltd under the rules. The total dues that have been recognised and communicated to the projects amounted to about INR4,505.60 million on a combined basis as on 31 May 2022; the projects are likely to receive INR375.47million in the form of EMIs for 12 months.

Ind-Ra derives comfort from the receipt of the initial two instalments on a timely basis. The first payment was received on 6 August 2022 and the second payment on 6 September 2022. However, the second EMI was of about INR331.48 million, while the first instalment was of INR375.47million. The management has represented that the difference is under reconciliation with APSPDCL. Furthermore, as per the LPS rules, the discoms should continue to make timely payments for the current bills (from the billing month of June 2022), within 2.5 months from the date of the receipt of the bill or one month from the due date as per the PPA, whichever is later. Any delay or under-realisation of EMI payments could lead to a negative rating action.

Favourable High Court Order: The AP High Court, in its order dated September 2019, had ordered the AP discoms to make payments to solar power producers at an interim tariff of INR2.44, instead of the PPA tariff. On 15 March 2022, the high court set aside this order, and directed AP discoms to make the payments at full PPA tariff and clear the dues within six weeks from the date of the order. However, AP discoms subsequently opted to pay the pending dues in 12 instalments under the LPS rules. The HC order reinforces the sanctity of the PPA terms and is a favourable development.

Liquidity Indicator-Stretched; Likely to Improve: VSEPL's average accrual debt service coverage ratio (DSCR) is over 1.25x throughout the loan tenor, as per Ind-Ra's estimates, at PPA tariff. The projects' liquidity is considered weak, given the depleted debt service reserves (DSR) and uncertainties surrounding the timely receipt of payments from APSPDCL. The projects dipped into the DSR on several occasions for debt servicing in FY22; the DSR balance on a combined basis stood at INR8.8 million as on 8 September 2022. The debt servicing during FY22 and 1QFY23 was supported by the additional working capital limits sanctioned by the existing lenders and also by funds of about INR159 million infused by the sponsor to support the projects in meeting debt obligations. However, post the receipt of the two EMIs under the LPS rules, the total free cash balance of the projects was about INR395 million as on 31 August 2022, thereby improving the liquidity position. The projects also had total unutilised working capital limits of INR130 million as on 31 August 2022. This along with the total free cash of the projects amounted to about INR534 million as on 31 August 2022, sufficient to service about four months of debt obligations. Any delays in the receipt of EMIs under the LPS rules and non-receipt of payments from AP discoms at PPA tariff for the current bills, thereby leading to stress on the liquidity, will have a negative impact on the ratings.

Timely Sponsor Support in the Past: On a combined basis, the sponsor provided support of around INR150 million and INR159.60 million in FY21 and FY22, respectively, to the five projects in the form of subordinated interest free unsecured loans. As on 31 March 2022, the sponsor had infused about INR475.43 million in the form of unsecured loans to support the projects in meeting their debt obligations. However, Ind-Ra believes that the projects will need continued and timely sponsor support if the projects receive payments at the reduced tariff level from APSPDCL or the EMIs under the LPS rules are not received in a timely manner.

Fully Tied-up Project Capacity: The project has a 25-year PPA with APSPDCL for the entire plant capacity of 30MW at a levelised tariff of INR7.07/kWh. Furthermore, the ratings are supported by the must-run status for renewable energy projects that exempts them from the merit order system. However, the sale contract does not carry any deemed generation compensation in the event of an occurrence of grid curtailment.

Minimum Technology Risk: The plant is configured with thin film technology-based silicon modules manufactured by BYD Shangluo (Industrial) Company Ltd and Zhongli Talesun Solar Co. Ltd. The presence of a tier-1 solar panel supplier and industry standard warranties mitigate the technology risk to a large extent.

Obligor Co-Obligor Structure Mechanism: Excess cash with any of the other four co-obligor entities can be used for debt servicing or for the creation of a debt service reserve account for any of the other four entities in the event of a shortfall, according to the defined waterfall mechanism. Ind-Ra has evaluated the projects based on the standalone project cash flows and has not consolidated the cash flows, since fund movement across projects is possible only from the surplus account.

Moderate Debt Structure: Structurally, the project has a moderate-tenor amortisation profile. The RTL is repayable over 70 structured quarterly instalments ending FY36, while the ECB is repayable in 65 structured quarterly instalments between 31 March 2017 and 31 March 2033. Both interest rate and forex risks under the ECB facility are fully hedged until December 2024 through swap agreements under the LER hedging facility. The interest rate is floating and is payable on a monthly basis under both the facilities. VSEPL had availed the Reserve Bank of India-prescribed moratorium for its rupee term loan over March-August 2020. As a result, as per the lead lender, the principal repayment has been deferred by two quarters. Furthermore, the accrued interest payable during the moratorium period has been carved out as a sperate term loan and is to be paid in 65 equal instalments. This has led to RTL's amortisation schedule being stretched to 72 quarters from 70 quarters earlier. This has been considered for the base case analysis; any change affecting the coverage ratios is a rating sensitivity.
The financial documents stipulate a DSR equivalent to two quarters of debt servicing for both RTL and ECB. The documents also stipulate the creation of other reserves such as one quarter operations and maintenance reserve before making any restricted payments, an inverter replacement reserve (only in case the annual maintenance contract for inverters is not issued) before seven years of the first disbursement and a hedging reserve; however, the same have not been created due to unavailability of funds.

Moderate Operating Risk: The project has a 25-year operation and maintenance agreement with ACME Cleantech Solutions Private Limited for an agreed price with a fixed annual escalation. The sponsor has adequate experience in developing and operating solar projects of over 3.2GW in India. The sponsor has been engaged in the engineering, procurement and construction of solar projects for more than a decade. Ind-Ra considers the project's operating risk to be low due to the low complexity involved in operating and maintaining solar projects coupled with the ACME group's long track record in the same field.

Moderate Operational and Financial Performance: The plant's PLF remained stable at 21.17% in FY22 (FY21: 21.52%). The project's P90 PLF estimate is 21.10%. The project had achieved average machine and grid availability of over 99% during FY22. Any significant dip in generation levels from the current levels will have a bearing on the rating.

The project's operating revenue remained stable at INR364.82 million in FY22 (FY21: INR364.23 million). The operating margin also remained almost stable at 94% during FY22 (FY21: 95%). As per the audited annual report, there were no contingent liabilities in the project as on 31 March 2022.

High Counterparty Risk: APSPDCL exhibited no gap between the revenue realised and the average cost of supply for the second consecutive year in FY21. Its payable days continued to remain elevated at 287 days in FY21 (FY20: 287), while receivable days increased to 187 days (141 days). Furthermore, the subsidy increased to 28.2% in FY21 (FY20:23.3%). Ind-Ra believes timely payments from APSPDCL remain uncertain due to its weak working capital cycle and increased reliance on the state.

Rating Sensitivities

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

- the project's financial and operational performance being better than base case estimates for a sustained period of time, with a forward-looking average debt service coverage ratio of over 1.15x
- regular payments from APSPDCL for the current bills (from the billing month of June 2022) on a sustained basis

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

- the project's financial and operational performance being weaker than the base case estimates for a sustained period of time, with a forward-looking average debt service coverage ratio of less than 1.10x
- any adverse developments related to APSPDCL's tariff issue
- under-realisation of EMIs under the LPS rules and or current bills (from the billing month of June 2022)
- receivable days for the current bills extending beyond 120 days
- decline in the internal liquidity of the project to less than three months
- lack of timely support from the sponsor for debt servicing
- deterioration in the credit profile of the counterparty and/or sponsor

Company Profile

VSEPL is a wholly owned subsidiary of ACME Solar Energy Private Limited, which is ultimately held by ACME Cleantech Solutions. The holding is in the form of common equity shares and CCDs. Ind-Ra has given 100% equity treatment to the debentures according to the terms and conditions shared. VSEPL operate a 30MW (AC) solar power plant in Pattikonda, Andhra Pradesh. A total 36.7MW of DC capacity is installed against the said AC capacity in a DC:AC ratio of 1.22:1. VSEPL commenced full commercial operations on 30 March 2016.

FINANCIAL SUMMARY

Particulars (INR million)	FY22	FY21
Revenue from operations	364.82	364.23
Total revenue	366.50	368.90
EBITDA	344.90	350.63
EBITDA margin (%)	94	95
Finance cost	242.10	242.23
Interest coverage (EBITDA/Interest) (x)	1.42	1.45
Adjusted gross debt/ EBITDA (x)^	5.69	5.57
Cash and cash equivalents (INR million)	10.20	64.85
^excluding sponsor's CCDs and unsecured loans Source: VSEPL's financials, Ind-Ra		

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Rating Watch/Outlook				
	Rating Type	Rated Limits (million)	Rating	18 August 2021	6 January 2021	30 December 2019	16 September 2019	10 July 2019
RTL	Long-term	INR1,382.60	IND BBB-/Stable	IND BBB-(CE)/Negative	IND BBB-(CE)/Negative	IND BBB-(CE)/RWN	IND BBB+(CE)/RWN	IND BBB+(SO)/RWN
ECB	Long-term	INR404.70	IND BBB-/Stable	IND BBB-(CE)/Negative	IND BBB-(CE)/Negative	IND BBB-(CE)/RWN	IND BBB+(CE)/RWN	IND BBB+(SO)/RWN
Working capital facility	Long-term	INR238.50	IND BBB-/Stable	IND BBB-(CE)/Negative	IND BBB-(CE)/Negative	IND BBB-(CE)/RWN	IND BBB+(CE)/RWN	IND BBB+(SO)/RWN
LER hedging facility	Long-term	INR116.0	IND BBB-/Stable	IND BBB-(CE)/Negative	IND BBB-(CE)/Negative	IND BBB-(CE)/RWN	IND BBB+(CE)/RWN	IND BBB+(SO)/RWN

Unsupported rating	Long-term	-	WD	IND BBB-/Negative	IND BBB-/Negative	IND BBB-/RWN	-	-

Complexity Level of the Instruments

Instrument Type	Complexity
RTL	High
ECB	Low
Working capital facility	Low
LER hedging Facility	High

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 DSCR	1.10x
Maintenance of DSRA	Two quarters of ensuing interest payment and principal repayment
Cash sweep	Anytime from FY20 until final settlement date, if the DSCR is less than 1.0x, the lenders will cash sweep amount equivalent to the difference of the cash corresponding to the actual DSCR and cash corresponding to DSCR of 1.0x. This money will be utilised for the prepayment of outstanding principal amount of the facility in the inverse order of maturity till the final settlement sate.
Cash trap	In any particular financial year, if the operation and maintenance cost exceeds 10% of the base case plan, lenders will hold back an amount equivalent to such excess costs and such cash trapped amount will not be available for restricted payments for that particular financial year.
Source: Facility agreement	

APPLICABLE CRITERIA

The Rating Process

Rating Criteria for Infrastructure and Project Finance

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