RATING RATIONALE

17 Sep 2019

ACME Solar Energy (MP) Pvt Ltd

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities aggregating ₹ 167.29 Crores of ACME Solar Energy (MP) Pvt Ltd

Particulars

<table>
<tr><th rowspan="2">Facility**</th><th colspan="2">Amount (₹ Crs)</th><th rowspan="2">Tenure</th><th colspan="2">Rating*</th></tr>
<tr><th>Previous</th><th>Present</th><th>Previous (May 2018)</th><th>Present@</th></tr>
<tr><td rowspan="2">Fund based</td><td>165.70</td><td>153.00</td><td>Long Term</td><td>BWR A (SO) Stable</td><td>BWR A (CE)# Stable</td></tr>
<tr><td>14.29</td><td>14.29</td><td>Short Term</td><td>BWR A2+</td><td>BWR A2+</td></tr>
<tr><td>Total</td><td>179.99</td><td>167.29</td><td colspan="3">INR One Hundred Sixty Seven Crores and Twenty Nine Lakhs Only</td></tr>
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*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities are provided in Annexure-I

The suffix SO has been replaced with CE in compliance with the guidelines of SEBI regarding ratings deriving credit enhancement from third party support

@ The unsupported rating of the company has been assessed at BWR BBB+ (Stable) based on the operational track record of the project and stability of its operational as well financial performance

RATING ACTION / OUTLOOK

The rating for the long term facility has derived credit enhancement in the form of unconditional & irrevocable co-obligor undertaking available from ACME Solar Technologies (Gujarat) Pvt Ltd. The nature of credit enhancement is explained in detail in the later part of the rationale.

The ratings continue to draw strength from the experienced and reputed promoters, established operational track record of the plant for five years, stable power generation levels over the past three years, revenue visibility as long term PPA is in place with fixed tariff, satisfactory track record of payments from the off-taker, generation of sufficient cash accruals to ensure timely servicing of debt and maintenance of TRA & DSRA equivalent to one quarter of principal and interest.

The ratings however, continue to remain constrained on account of susceptibility of the company's performance to adverse climatic conditions & technological changes, any change in the credit profile of the offtaker leading to increase in counterparty risk, considerable amount of loans extended to holding company which are not generating any income.

The outlook has been kept as Stable as the company's performance is likely to remain consistent with stable revenue and cash generation.

KEY RATING DRIVERS

Credit Strengths:

Experienced Promoters & Management: The company is a step down subsidiary of ACME Cleantech Solutions Pvt Ltd, flagship company of the ACME Group and leading player in the renewable energy sector. The group has a portfolio of 1814 MW of operational assets. Apart from this, the group has solar power assets under implementation with a capacity of 1555 MW and solar power assets of another 1150 MW are in the pipeline.

Co-Obligor Undertaking: The borrowing derives credit enhancement from an unconditional & irrevocable co-obligor undertaking executed between ACME Solar Energy (MP) Pvt Ltd, ACME Solar Technologies (Gujarat) P Ltd (ASTGPL, Co-obligor) and the lenders under which each of the co-obligor will provide support to the other in the event of insufficiency of funds for debt servicing.

Operational Track Record of the Plant: The plant commenced commercial operations in Jan 2014 and has a demonstrated track record of satisfactory level of generation for the past five years. Average Plant Load Factor (PLF) has remained in the range of 20%-22% over the last three years lending stability to the revenue and profitability.

Revenue Visibility due to Assured Offtake: ASEMP has entered into a long term power purchase agreement (PPA) with MP Power Management Company Ltd (MPPMCL) in January 2014 for a period of 25 years. The PPA provides for defined tariffs to the company for the duration of the agreement with average levelized tariff being at Rs.8.05/kWh.

Satisfactory Track Record of Payments from MPPMCL: As per the terms of PPA, MPPMCL has to make payments to the Company within 30 days from the submission of the bill. MPPMCL has been complying with this requirement and the payments usually come within 30-40 days from the date of the bill. In the past two years, the company has been able to maintain its receivables days at less than 35 days due to timely payments from the offtaker.

Adequacy of Cash Generation by Co-Obligors: Both ASEMP and ASTGPL are self-sustaining and earning sufficient cash accruals to ensure timely servicing of their dues. On a consolidated basis, both entities have earned cash accruals amounting to ~ Rs. 34 Crs in comparison with their cumulative principal obligation of ~ Rs. 24 Crs in the past two years. Both companies are expected to maintain their performance, revenues and cash profits in the future as well.

Maintenance of TRA & DSRA: ASEMP is maintaining a Trust & Retention Account (TRA) with Axis Bank and all the project cash flows are routed through the account. The TRA is managed through 15 sub-accounts including a separate account for Debt Repayment in which regular transfers are made to ensure timely debt repayments. In addition to this, the company has maintained a Debt Service Reserve Account (DSRA) in the form of a fixed deposit equivalent to one quarter of principal and interest.

Credit Risks:

Counterparty Risk: The company is supplying power to MP Power Management Company Ltd (MPPMCL) which is the holding company for all MP Discoms. While, the overall credit risk profile of the company is weak, it has been making payments to the company on time, with support from the Government. Any variation in the credit profile of MPPMCL or delays in payments by MPPMCL is a potential risk factor and is to be monitored. Also, many states are now considering renegotiation of PPAs executed at higher tariffs with renewable energy providers and any such move by MPPMCL in the future will severely impact the performance of the company.

Advances Extended to Holding Company: ASEMP has extended a loan amounting to Rs. 94.03 Crs as on March 31, 2019 to its holding company i.e. ACME Solar Holdings Pvt Ltd which are interest free in nature and repayable on demand. The company has refinanced its debt facilities in FY17 to pay off its existing debt and provide funds to its holding company which has deteriorated its leverage. The Gearing however, has been declining YoY due to continuous loan repayments.

Inherent Risks Associated with Solar Power Sector: The solar plants' performances are susceptible to adverse climatic conditions. The generation levels usually drop during July-August with onset of monsoon and are at peak in the summer months of April-May. The company nonetheless, benefits from the location of its plant in Madhya Pradesh which receives adequate number of sunny days. The plant of co-obligor is located at Gujarat which is also a favourable location in terms of solar power generation.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at the rating, BWR has considered credit enhancement available in the form of unconditional & irrevocable co-obligor undertaking available from ASTGPL under which both the entities will provide support to each other in the event of insufficiency of funds for debt servicing. Accordingly, a consolidated view of the cash flows available for cumulative debt servicing has been taken.

Please refer to the applicable criteria at the end.

RATING SENSITIVITIES

Going forward, the ability of the company to maintain its operational & financial performance with stable cash generation and continue recovering dues as per PPA from the offtaker in a timely manner shall remain key rating sensitivities. BWR will monitor the consolidated cash flows of the co-obligors and their sufficiency with respect to the cumulative repayment obligation will be a sensitive factor for the rating.

Positive: If the company recovers the loans extended to its holding company and reduces its leverage (2.40x as on March 31, 2019) with the proceeds, it will be considered positive for the rating.

Negative: The rating can be revised downwards if the PLF (~ 21% in FY19) falls significantly impacting the revenue and cash generation of the company. Any considerable fall in the cumulative cash flows of the co-obligors with respect to cumulative repayment obligation will also impact the rating negatively.

LIQUIDITY POSITION: ADEQUATE

The co-obligors, on a consolidated basis, have earned cash accruals of ~ Rs. 34 Crs as compared to their cumulative repayment obligation of ~ Rs. 24 Crs providing sufficient cushion in terms of debt servicing. In addition, the company has maintained DSRA equivalent to one quarter of principal and interest as an additional comfort to the lenders. Further, both the co-obligors have been sanctioned working capital demand loans equivalent to about six months of debt servicing (principal and interest) as a cushion for timely debt payments.

COMPANY PROFILE

ACME Solar Energy (MP) Pvt Ltd (ASEMP) is a 100% subsidiary of ACME Solar Energy Pvt Ltd, which is a step down subsidiary of ACME Cleantech Solutions Pvt Ltd (rated BWR BBB+/Stable). ASEMP being Special Purpose Vehicle (SPV) was set up to develop grid-connected solar power projects in Madhya Pradesh. It has set up a 25 MW solar power project based on Thin Film Photovoltaic (PV) technology using Polycrystalline & Thin Film PV modules in the state of Madhya Pradesh under the MP State Solar Policy. The company is supplying power to M.P. Power Management Co. Ltd (MPPMCL) under Power Purchase Agreement (PPA) signed in Jan 2014 at a levelized tariff of Rs. 8.05/kWh for a period of 25 years. The COD was achieved on Jan 18, 2014 and the plant has operated at a plant load factor (PLF) in the range of 20%-22% over the past two years.

PROFILE OF CO-OBLIGOR

ASTGPL, incorporated in 2009, is also a step down subsidiary of ACME Cleantech Solutions Pvt Ltd (rated BWR BBB+/Stable). It has set up a 15 MW grid-connected solar power plant in district Anand, Gujarat using thin film technology. The company is supplying power to Gujarat Urja Vikas Nigam Ltd (GUVNL) (rated BWR AA+ (Stable)/A1+) under a 25 years Power Purchase Agreement (PPA) signed in May 2010 at a tariff of Rs.15/kWh for first 12 years and at Rs. 5/kWh for the next 13 years as per the Gujarat State Solar Policy Framework 200. The COD was achieved on March 13, 2012 and the plant has operated at a plant load factor (PLF) of 18.32% in FY18.

KEY FINANCIAL INDICATORS

Particulars	Units	FY18 (A)	FY19 (A)
Revenue from Operations	Rs. Crs	37.73	36.31
EBITDA	Rs. Crs	34.61	33.32
PAT	Rs. Crs	3.95	10.06
Operating Margin	%	91.72	91.77
Net Profit Margin	%	10.46	27.72

Total Debt	Rs. Crs	177.33	167.21
Tangible Net Worth	Rs. Crs	59.68	69.75
Total Debt/TNW	Times	2.97	2.40
Receivables Days	Days	33	32

FINANCIAL INDICATORS – CO-OBLIGOR

Particulars	Units	FY18 (A)	FY19 (A)
Revenue from Operations	Rs. Crs	22.61	23.38
EBITDA	Rs. Crs	20.40	20.91
PAT	Rs. Crs	2.36	4.21
Operating Margin	%	90.26	89.44
Net Profit Margin	%	10.44	18.01
Tangible Net Worth	Rs. Crs	39.19	43.40
Total Debt/TNW	Times	3.17	2.60

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY

Facility	Current Rating			Rating History		
Fund Based	**Tenure**	**Amount (₹ Crs)**	**Rating**	**2018**	**2017**	**2016**
Term Loan	Long Term	153.00	BWR A- (CE)/Stable	BWR A (SO)/Stable	BWR A (SO)/Stable	NA
WCDL	Short Term	14.29	BWR A2+	BWR A2+	BWR A2+	NA
Total		**167.29**	**INR One Hundred Sixty Seven Crores and Twenty Nine Lakhs Only**			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

HYPERLINK/REFERENCE TO APPLICABLE CRITERIA

- **General Criteria**
- **Approach to Financial Ratios**
- **Infrastructure Sector**
- **Short Term Debt**
- **Credit Enhancement**

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ACME Solar Energy (MP) Pvt Ltd
ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	IIFCL	Term Loan	38.00	**-**	38.00
2.	India Infradebt	Term Loan	65.00	-	65.00
3.	L&T IDF	Term Loan	50.00	-	50.00
4.	L&T Fincorp	WCDL	-	14.29	14.29
TOTAL					**167.29**

Total - INR One Hundred Sixty Seven Crores and Twenty Nine Lakhs Only

For print and digital media

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