



## Rating Rationale

ACME Solar Energy (Madhya Pradesh) Pvt. Ltd.

04 May 2018

Brickwork Ratings reaffirm the ratings for the bank loan facilities aggregating Rs. 179.99 crores of ACME Solar Energy (Madhya Pradesh) Pvt. Ltd (ASEMPPL or ‘the Company’).

### Particulars

Facility Rated	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous	Present
<b>Fund Based</b>	191.00	165.70	<b>Long Term</b>	<b>BWR A (SO)</b> (Pronounced as BWR Single A (Structured Obligation)) <b>(Outlook Stable)</b>	<b>BWR A (SO)</b> (Pronounced as BWR Single A (Structured Obligation)) <b>(Outlook Stable)</b> <b>(Reaffirmed)</b>
<b>Non Fund Based</b>	14.29	14.29	<b>Short Term</b>	<b>BWR A2+</b> (Pronounced as BWR A Two Plus)	<b>BWR A2+</b> (Pronounced as BWR A Two Plus) <b>(Reaffirmed)</b>
<b>Total</b>	<b>205.29</b>	<b>Rs. 179.99 Crores</b> <b>(INR One Hundred and Seventy Nine Crores and Ninety Nine Lakhs Only.)</b>			

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

**Long Term Rating reaffirmed at BWR A – (SO) (Outlook Stable). Short Term Rating reaffirmed at BWR A2+.**

### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the Company’s audited financial results upto FY17, un-audited financials for 9MFY18 and projected financials for FY18, publicly available information and clarifications provided by the Company.

The ratings takes into account the credit enhancement extended in the form of irrevocable & unconditional co-obligor undertakings provided by ACME Solar Technologies (Gujarat) Pvt. Ltd. & the Company to each other in order to support in the event of insufficiency of funds in debt servicing. BWR also takes note of the maintenance of Trust & Retention Account (TRA).

The ratings draw strength from the Company’s established track record of operations with satisfactory power generation levels over past three years, experienced promoters and



management in this sector, assured off-take of power in view of long term PPA (Purchase Power Agreement) with M.P. Power Management Company Limited (MPPMCL) at a fixed tariff, besides satisfactory track record of payment from MPPMCL every month and secured mechanism in place by way of Debt Service Reserve Account (DSRA) equivalent to one quarter of principal and interest payment.

The ratings are, however, continue to factor in the counterparty credit risk in terms of change in the creditworthiness of the off-taker, inherent risks associated with solar power business such as adverse climatic conditions, technological challenges & change in government policies etc. and any move by MPPMCL to renegotiate the PPA agreement by a downward revision in the tariff will impact the Company's cash flow adversely. There is an additional burden by way of increasing debt borrowings which resulted adverse impact on its profitability margins and coverage ratios during FY17. However, BWR notes that the Company has maintained adequate margins of safety in the payment of current & future debt obligations and displayed improvement in its profitability margins and coverage ratios during FY18.

### **Analytical Approach**

For arriving at the ratings, BWR has taken into account, *inter alia*, the explicit support provided by ACME Solar Technologies (Gujarat) Pvt. Ltd. in the form of providing co-obligor undertakings executed between them and lenders, for providing support to each other in the event of insufficiency of funds in debt servicing.

Detailed in the Rating Criteria hyperlinks is provided at the end of this rationale.

### **Rating Outlook**

BWR believes the ACME Solar Energy (MP) Pvt. Ltd. business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement amidst increasing debt levels. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures, or there are payment delays from MPPMCL.

### **Key Rating Drivers**

#### **Credit Strengths:**

Experienced promoters in solar power sector: The Company benefits from the long term experience of the promoters and its management in this industry. The Company is a step down subsidiary of ACME Cleantech Solutions Pvt. Ltd. which has commissioned more than 1100 MW of solar capacity as on February 2018.

Long-Term PPA with satisfactory payment track record: There is an assured off-take of power in view of long term PPA (Purchase Power Agreement) with M.P. Power Management Company Limited (MPPMCL) at a fixed tariff for a period of 25 years. This reflects healthy long-term



revenue visibility of the Company. Further, there is a satisfactory track record of payment from MPPMCL as the Company receives payment with 3-4 days from the due date.

Secured mechanism is in place: The Company has maintained adequate margins of safety in the payment of its current & future debt obligations. As per the sanctioned terms, ASEMPPL has maintained Debt Service Reserve Account (DSRA) equivalent to one quarter of principal and interest payment and also received sanction of working capital demand loan for Rs. 14.42 Crs which covers around 6 months of debt servicing and thus provides additional comfort to its existing lenders.

Co-obligor undertaking: Co-obligor undertaking among the co-obligors and the lenders remain same. As per the terms of undertakings executed between the Company, ACME Solar Technologies (Gujarat) P Ltd (Co-obligor) and the lenders, each of the co-obligor will provide support in the event of insufficiency of funds in debt servicing.

Operational track record with satisfactory power generation levels: The commencement of operation was achieved in Jan 2014 and thus have operational track record of more than 4 years for the Company. The Company has set up a 25 MW solar power project which is operating at a at a plant load factor (PLF) of 21.76% during FY17 and further improved to 22.01% for 9MFY18.

### **Credit Weaknesses**

Inherent risk associated with solar power business: The various risk factors which can impact the Company's operations are the volatility in solar radiation levels, decline in power generation due to change in temperature and climatic conditions, inverter inefficiency, module degradation due to aging etc.

Exposure to counterparty credit risk: The Company's operations remain exposed to the counterparty credit risk as MPPMCL is the sole off-taker. However, the Company experience comfort from MPPMCL in terms of having satisfactory track record of payments from them over past four years.

High leveraging level: The Capital structure of the Company remains at moderate level on account of increasing debt borrowings post refinancing. Gearing ratio stood at 3.35 times in FY17 as against 1.82 times in FY16. The additional loans were availed for the purpose of extending interest-free loans to its group companies and remaining for DSRA creation and prepayment charges. Hence, DSRA maintained for one quarter of debt servicing and availability of WCDL for two quarters of debt servicing provide adequate comfort for the Company. The Company's profitability levels also improved and it is estimated to report cash profit for FY18.

### **About the Company**

ACME Solar Energy (Madhya Pradesh) Pvt Ltd (ASEMPPL) is a 100% subsidiary of ACME Solar Energy Pvt Ltd, which is a step down subsidiary of ACME Cleantech Solutions P Ltd.



ASEMPPL 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 Poly-Crystalline & 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) (rated CARE A- (SO)/A2+) under Power Purchase Agreement (PPA's) signed in Jan 2014 at a weighted average fixed tariff of Rs. 8.05/kWh for a period of 25 years. The COD was achieved in Jan 2014 and the plant has operated at a plant load factor (PLF) of 21.76% during FY17. The EPC contract for the project was done by ACME Cleantech Solutions Pvt Ltd, holding company, on a fixed-time price basis.

#### **About the Co-Obligor**

ACME Solar Technologies (Gujarat) Pvt. Ltd (ASTGPL), incorporated in 2009, is a SPV of ACME Solar Energy Pvt. Ltd, which 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) under a 25 years Power Purchase Agreement (PPA's) signed in May 2010 at a tariff of Rs. 15/kWh for first 12 years and at Rs. 5/kWh for next 13 years. The COD was achieved on March 13, 2012 and the plant has operated at a plant load factor (PLF) of 18.86% in FY17. The EPC contract for the project was done by ACME Cleantech Solutions Pvt Ltd, holding company, on a fixed-time price basis.

#### **Company Financial Performance**

ASEMPPL has reported a total operating income of Rs. 38.16 Crs in FY17 as against Rs. 39.08 Crs in FY16. It has reported a net loss of Rs. 16.92 Crs during FY17 as against net profit of Rs. 3.80 Crs during FY16. Net losses reported owing to significant increase in interest cost during refinancing. Total interest cost reported includes other borrowings cost of Rs. 9.63 Crs in FY17 which consist of upfront fees to new lenders, prepayment charges to previous lenders & other consultant fees which is a one-time cost and will not be there in FY18 financial numbers. Thus, the company estimates interest cost of around Rs. 18 Crs for FY18 which will enable it to generate positive cash accruals. As on 31<sup>st</sup> March 2017, it has reported a tangible net worth of Rs. 55.74 Crs against Rs. 72.66 Crs as on 31<sup>st</sup> March 2016.

Key financial indicators are summarized below.

Particulars	FY16 (A)	FY17 (A)
Total Operating Income (Rs. Crs)	39.08	38.16
EBITDA (Rs. Crs)	36.16	34.49
PAT/(Net Loss) (Rs. Crs)	3.80	(16.92)
Total Tangible Networth (Rs. Crs)	72.66	55.74
Gearing (Total Debt/TNW) Ratio (times)	1.82	3.35
ISCR (times)	2.11	1.31



**Rating History for the last three years (including withdrawn/suspended ratings)**

Sl. No.	Facility	Current Rating (2018)			Rating History		
		Type	Amount (Rs Crs)	Rating	22 Feb 2017	2016	2015
1	Fund Based	Long Term	165.70	BWR A (SO) (Outlook Stable) (Reaffirmed)	BWR A (SO) (Outlook Stable)	N.A.	N.A.
2	Non Fund Based	Short Term	14.29	BWR A2+ (Reaffirmed)	BWR A2+	N.A.	N.A.
<b>Total</b>			<b>179.99</b>	<b>INR One Hundred and Seventy Nine Crores and Ninety Nine Lakhs Only</b>			

*\*FY refers to the period from 1<sup>st</sup> April to 31<sup>st</sup> March*

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)
- [Structured Obligation \(SO\) Instruments](#)

For any other criteria obtain hyperlinks from website

<b>Analytical Contacts</b>	<b>Media</b>
Ashwini Mital Senior General Manager <a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a>	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>
	<b>Relationship Contact</b>
	<a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a>
<b>Phone: 1-860-425-2742</b>	

For print and digital media



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**Note on complexity levels of the rated instrument:**

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**About Brickwork Ratings**

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