April 30, 2024

ACME Chittorgarh Solar Energy Private Limited: Rating upgraded; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based - Term loan	1,019.00	976.11	[ICRA]AA-; upgraded from [ICRA]A+; outlook revised to Stable from Positive
Long term – Unallocated	31.00	73.89	[ICRA]AA-; upgraded from [ICRA]A+; outlook revised to Stable from Positive
Total	**1,050.00**	**1,050.00**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the rating for ACME Chittorgarh Solar Energy Private Limited (ACSEPL) factors in the healthy generation performance of its 250-MW solar power plant in FY2023 and FY2024 following the completion of DC capacity upsizing and the continued timely payments from the offtaker. The company reported a PLF of 27.24% in FY2023 and 27.35% in FY2024, which remains in line with the P-90 estimate (adjusted for module degradation). This in turn has resulted in comfortable debt coverage metrics for the company with a debt service coverage ratio (DSCR) of over 1.3x.

The rating continues to factor in the managerial and financial support from a strong parent – Ayana Renewable Power Private Limited (ARPPL; rated [ICRA]AA- (Stable)/[ICRA]A1+) - which acquired the entity from the ACME Group in November 2021. ARPPL's credit profile is supported by its growing renewable power portfolio and superior financial flexibility from having strong sponsors and the large capital commitments made by the sponsors — National Investment and Infrastructure Fund Limited (NIIF), British International Investment (BII; erstwhile CDC Group Plc; a UK Government-owned development finance institution) and Green Growth Equity Fund (GGEF). The sponsors have made a capital commitment of $721 million in ARPPL till date with NIIF holding 51% along with majority board representation.

Further, the rating considers the limited demand and tariff risks for ACSEPL's 250-MW solar power project, with a 25-year long-term power purchase agreement (PPA) with Maharashtra State Electricity Distribution Company Limited (MSEDCL) for the entire project capacity at a fixed tariff of Rs. 2.72 per unit. The company has also secured additional tariff from MSEDCL under change-in-law, in lieu of the safeguard duty imposed on imported solar modules.

Further, ICRA favourably takes note of the cost-competitive tariff rate offered by the project, which is lower than the average power procurement cost (APPC) of MSEDCL. Also, the timely payments from MSEDCL, a debt service reserve account (DSRA) equivalent to one quarter of interest and principal payments and the fixed interest rate till March 2025 provide comfort from a credit perspective. The debt coverage metrics are expected to be comfortable with the DSCR on the external debt estimated to remain at ~1.3x over the debt tenure, supported by the long tenure of debt and competitive cost of financing.

The rating is, however, constrained by the cash flows and debt protection metrics being sensitive to the generation performance. Any adverse variation in weather conditions may impact the PLF levels and consequently affect the cash flows as the PPA tariff is single part and fixed in nature. This constraint is amplified by the geographic concentration of the asset, with the entire capacity at a single location in Rajasthan.

The rating also factors in the counterparty credit risk on account of exposure to a single buyer, MSEDCL. The credit profile of MSEDCL remains linked to the timely pass-through of cost variations to its customers and the receipt of subsidy dues from the state government in a timely manner. Nonetheless, the payments have been timely so far and MSEDCL has also created payment security in the form of letter of credit (LC).

While comfort is drawn from the fixed interest rate on the debt till March 2025, ICRA notes that ACSEPL's debt coverage metrics remain exposed to the interest rate movement thereafter because of the fixed tariff under the PPA. Further, the company's operations remain exposed to the regulatory risks pertaining to the scheduling and forecasting requirements of solar power projects. However, the risk of variation is lower for solar power projects compared to wind power projects.

The Stable outlook on the [ICRA]AA- rating of ACSEPL reflects ICRA's opinion that the company would benefit from the long-term PPA at a fixed tariff, timely payments from the customer and expectations of a satisfactory generation performance.

Key rating drivers and their description

Credit strengths

Strong managerial and financial support from Ayana Group - The Ayana Group is backed by NIIF, BII and GGEF. NIIF is anchored by the GoI in collaboration with leading global and domestic institutional investors and is India's first sovereign investment fund. The full ownership of the BII belongs to the Secretary of State for International Development, which is controlled by the UK Government. EverSource Capital, a joint venture between Everstone Capital and Lightsource BP, is the fund manager of GGEF, a $700-million target private fund, which has NIIF and the UK Government as anchor investors. All the three shareholders have committed a capital of $721 million, which increased from $330 million earlier. Moreover, NIIF increased its shareholding to 51% as of November 2021 from 25.5% as of March 2021, along with majority board representation. ICRA notes that ARPPL is expected to remain strategically important to NIIF, reflected in the largest equity commitment from its master fund. ACSEPL enjoys strong managerial and financial support, being part of the Ayana platform. ARPPL has a portfolio of 4.2-GW renewable assets, comprising operating capacity of 1.59 GW and under-development capacity of 2.61 GW.

Revenue visibility from long-term PPA with MSEDCL; superior tariff competitiveness - ACSEPL has signed a long-term PPA with MSEDCL for the entire project capacity of 250 MW at a fixed tariff of Rs. 2.72 per unit for a tenure of 25 years, limiting the demand and tariff risks. The company also secured additional tariff from MSEDCL under change-in-law, in lieu of the safeguard duty imposed on imported solar modules. The tariff remains competitive for the offtaker, MSEDCL, in comparison to its average power procurement cost.

Comfortable debt coverage metrics – The debt coverage metrics for the company remain comfortable with a projected cumulative DSCR of 1.3x over the debt repayment tenure, supported by the long-term PPA at a reasonable tariff, the long tenure of the project debt and a highly competitive interest rate. Further, the company has a fixed interest rate till March 2025.

Liquidity supported by timely payments and presence of DSRA – The liquidity profile of ACSEPL is adequate, supported by timely payments from MSEDCL and a cash DSRA equivalent to one quarter of interest and principal payments.

Credit challenges

Single-asset operations; sensitivity of debt metrics to energy generation – The debt metrics for the solar power project under ACSEPL remains sensitive to the PLF level, given the one-part tariff structure under the PPA. Hence, any adverse variation in weather conditions and/or module performance may impact the PLF and consequently the cash flows. The geographic concentration of the asset amplifies the generation risk. The plant's generation performance has improved after the completion of the DC upsizing, with a PLF of 27.24% in FY2023 and 27.34% in FY2024 remaining in line with the P-90 estimate (adjusted for module degradation). The demonstration of generation performance in line or above the appraised estimate on a sustained basis remains important for the company.

Counterparty credit risk due to exposure to a single buyer - The company remains exposed to counterparty credit risks due to the exposure to a single buyer, MSEDCL. MSEDCL's financial profile is dependent on the timely pass-through of cost variations to customers under its distribution licensee operations and subsidy payments from the state government. Nonetheless, the payments have been on time so far and MSEDCL has also created payment security in the form of letter of credit (LC).

Leveraged capital structure and exposure to interest rate movement– The capital structure of the company is leveraged, reflected in the debt-funded capex deployed to set up the project and the addition debt of Rs. 150 crore availed as part of the refinancing. While comfort is drawn from the fixed interest rate on the debt till March 2025, the company would remain exposed to interest rate movement thereafter.

Regulatory challenges of implementing scheduling and forecasting framework - The regulatory challenges of implementing the scheduling and forecasting framework for solar power projects pose a risk, given the variable nature of solar energy generation. However, the risk is less prominent for solar power projects compared to wind power projects.

Liquidity position: Adequate

ACSEPL's liquidity position is supported by adequate cash flows from operations in relation to the debt servicing obligations and a DSRA equivalent to one quarter of interest and principal obligations. The cash flows from operations are expected to be ~Rs. 71-79 crore over the next two years against an annual debt repayment obligation of Rs. 48.17 crore in FY2025 and Rs. 46.97 crore in FY2026. Further, the company had cash and bank balances of Rs. 114 crore as on February 29, 2024, apart from DSRA of Rs. 30.65 crore in the form of BG.

Rating sensitivities

Positive factors – ICRA could upgrade ACSEPL's rating if credit profile of the parent, Ayana Renewable Power Private Limited, improves along with the continuation of generation performance in line or above the P-90 estimate and timely payments from the offtaker.

Negative factors – The rating could be downgraded in case of a significant underperformance in generation that will adversely impact the cash flows. Specific credit metrics that could lead to a downgrade include the cumulative DSCR on the project debt falling below 1.25 times. Further, any significant delays in receiving payments from the offtaker adversely impacting the company's liquidity would be a negative trigger. Also, any weakening of the credit profile of the parent, or any change in linkages/support philosophy between the parent and ACSEPL would be the negative factors.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar
Parent/Group support	Parent/Group Company: Ayana Renewable Power Private Limited. ICRA expects ACSEPL's parent, ARPPL, to be willing to extend financial support to ACSEPL, should there be a need, given the strategic importance that ACSEPL has for ARPPL
Consolidation/Standalone	The rating is based on the standalone financial profile of the rated entity

About the company

ACSEPL, an SPV of the Ayana Group, is operating a 250-MW (AC capacity) solar power plant in the Jodhpur district of Rajasthan. The company was incorporated by ACME Solar Holdings Limited in March 2018 and the project was fully commissioned on January 01, 2020. In November 2021, the Ayana Group fully acquired the project from the ACME Group.

Key financial indicators (audited)

ACSEPL Standalone	FY2022	FY2023
Operating income (Rs. crore)	167.80	172.93
PAT (Rs. crore)	-27.76	17.01
OPBDIT/OI (%)	83.96%	81.87%
PAT/OI (%)	-16.54%	9.84%
Total outside liabilities/Tangible net worth (times)*	11.34	6.51
Total debt/OPBDIT (times)*	13.08	7.91
Interest coverage (times)	1.01	1.57

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *includes the earlier debt that was yet to be prepaid as on March 31, 2022 along with the additional debt drawn under refinancing*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 30, 2024	Apr 28, 2023	Apr 06, 2022	Jan 21, 2022
1	**Term loan**	Long-Term	976.11	963.44	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	**Unallocated**	Long-Term	73.89	-	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	-	-
3	**Proposed term loans**	Long-Term	-	-	-	-	-	[ICRA]A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Term loan	Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan**	Mar 2022	-	Mar 2040	976.11	[ICRA]AA- (Stable)
NA	**Unallocated**	-	-	-	73.89	[ICRA]AA- (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not Applicable

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Sanket Thakkar
+91 6923 3066
sanket.thakkar@icraindia.com

Vikram V
+91 40 6939 6410
vikram.v@icraindia.com

Saurabh Omprakash Gupta
+91 22 6169 3359
saurabh.gupta@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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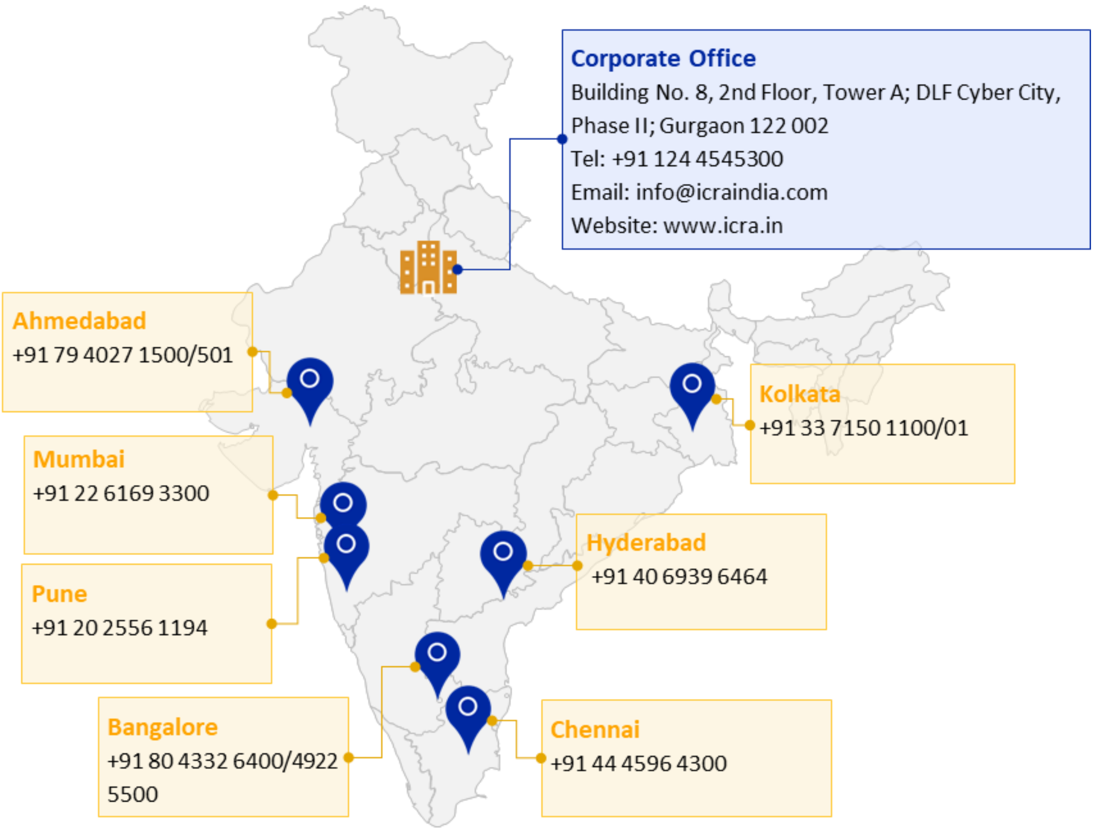

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