August 30, 2019

Arinsun Clean Energy Private Limited: Rating reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	906.00	906.00	[ICRA]A-(Positive); Reaffirmed, Outlook revised from Stable to Positive
Cash Credit Limit	44.00	44.00	[ICRA]A-(Positive); Reaffirmed, Outlook revised from Stable to Positive
Total	**950.00**	**950.00**	

**Details mentioned in Annexure 1*

Rationale

The revision in outlook of Arinsun Clean Energy Private Limited (ACEPL) takes into account the timely commissioning of the company's entire 250-MW_{AC} solar power capacity in May 2019 within the appraised project cost and satisfactory plant load factor (PLF) level over the last four-month period. The rating continues to favourably factor in the benefits associated with the project being located in Rewa Solar Park, Madhya Pradesh, since the land availability and evacuation network has been taken care of by the solar park developer - Rewa Ultra Mega Solar Limited (RUMSL). The rating derives comfort from the experience of the sponsor, Solenergi Power Private Limited (SPPL), a 100% indirect subsidiary of Actis Energy 4 Funds. The rating further positively reflects the long-term power purchase agreements (PPAs) with Madhya Pradesh Power Management Company Limited (MPPMCL) and Delhi Metro Rail Corporation (DMRC) at a competitive tariff of Rs. 3.3/unit, which mitigates the offtake risk to a significant extent. The rating considers the benefits available to the company through a favourable payment security mechanism involving a payment security fund that comprises three months of tariff receivables and the guarantee from the Government of Madhya Pradesh (GoMP) and the deemed generation clause that guarantees energy offtake and minimum supply obligations. The rating also factors the availability of long-tenure debt (18.75-year post CoD) and creation of debt service reserve account (DSRA) for one quarter.

The rating, however, is constrained by limited track record of operations and the company's exposure to the risk of variability in solar generation as well as interest rate risk owing to the single-part nature of the tariff. While payment security mechanism as per the PPA comprises of payment security fund to be created by the nodal agency, the same however remains pending. The ratings further draw comfort from the warranty cover on the performance of PV modules from OEM suppliers. However, the extent to which the warranty terms are honoured remains to be seen in the long run. Moreover, ICRA notes that the company's operations remain exposed to regulatory risk pertaining to scheduling and forecasting requirements. ICRA, however, notes that the variance in cash flows due to variation in solar irradiance level remains lower for solar PV-based projects than other renewable source-based projects.

ICRA also notes that the company is in the process of receiving approvals from regulatory commissions to get tariff compensation through change in law clause for the cost impact due to levy of safeguard duty and GST (Goods & Services Tax). The timeliness in approval of such pass-through by Central Electricity Regulatory Commission (CERC) along with the subsequent implementation by the off-takers remain important and will be a credit positive.

Outlook: Positive

The Positive outlook reflects the timely commissioning of the company's entire solar power capacity within the appraised project cost. The rating may be upgraded in case of achievement of healthy PLF levels and timely collections from company's off-takers in a sustained manner. The outlook may be revised to Stable in case of deterioration in operational performance or any material delays from the counterparty which affects the company's liquidity profile.

Key rating drivers

Credit strengths

Timely commissioning of entire solar power capacity – ACEPL has timely commissioned its entire 250-MW_{AC} solar power capacity in May 2019 and within the budgeted project cost of Rs. 1206 crore. The actual project cost remained within the budgeted level of Rs. 1206 crore, since the additional cost implication due to levy of safeguard duty and GST was mitigated by the savings in BOP cost and the lower module costs. Post commissioning, the plant has been able to achieve healthy PLF levels supported by timely payments from the counterparties.

Benefits associated with its location in Rewa Solar Park – Since the solar power plant is located in Rewa Solar Park, the responsibility of maintenance of the evacuation infrastructure comes under the scope of RUMSL. RUMSL, a joint venture between Madhya Pradesh Urja Vikas Nigam Limited (MPUVNL) and the Solar Energy Corporation of India (SECI) has been assigned by the Ministry of New and Renewable Energy (MNRE) as the solar power park developer for the entire 750-MW Rewa solar project.

Healthy revenue visibility with long-term PPAs for 25 years and cost competitive tariff – The entire 250-MW_{AC} capacity of the project has been tied-up with MPPMCL for 411 million units and with DMRC for 115 million units. Presence of robust payment security mechanism in PPA with MPPMCL and the deemed generation clause in both the PPAs limit the counterparty risk to a certain extent. The PPA tariff (levelised at Rs. 3.3/unit) is cost competitive from the offtakers' perspective and this, in turn, substantially mitigates the counterparty credit risk.

Long-tenure debt availability – The actual project cost of Rs. 1206 crore is funded through a debt of Rs. 906 crore and the rest through equity. The company's debt coverage metrics are expected to remain comfortable supported by long-term debt repayment tenure of 18.75-year post CoD. Assuming the P-90 PLF level of 22.79% (AC), the cumulative average DSCR for the project is estimated at 1.26 times, which is estimated to improve to 1.40 times, assuming the tariff compensation for GST and safeguard duty is implemented.

Highly qualified and professional management team; strong track record in executing solar projects with Actis – Actis has experience in setting up energy projects in Asia, Africa and Latin America. The operational aspects of the project are being closely monitored by the management personnel at Actis level.

Limited technological risk as solar modules are procured from tier-I suppliers – Multi-crystalline modules used for the project are procured from GCL and Chint Solar, both are tier-I suppliers. Apart from that, the company has taken a warranty cover for a period of 10 years on the performance of PV modules from suppliers as well as the PV product insurance for a period of 25 years. However, the extent to which the warranty terms are honoured remains to be seen in the long run.

Credit challenges

Limited track record of operations – Since the plant got commissioned in May 2019, its track record remains limited at about four months. Going forward, the company's ability to ensure plant availability and generation levels within the expected limits remain crucial from the credit perspective.

Variance in cash flows due to fluctuation in solar irradiance – The key factors that may impact the operations of the solar plant are solar radiation levels, losses in PV systems owing to temperature and climatic conditions, design parameters of the plant, inverter efficiency and module degradation due to ageing. However, the variance in solar irradiance levels has historically been much lower than the variation in other sources of renewable energy such as wind and hydro-power projects.

Challenges associated with implementation of forecasting and scheduling regulations – The company remains exposed to regulatory challenges from the implementation of scheduling and forecasting framework for solar power projects in Madhya Pradesh. This is mainly due to the limited experience in scheduling and forecasting for the industry players in India and the variable nature of solar energy generation.

Exposure to interest rate risk – The project remains exposed to interest rate risk, given the single part fixed nature of tariff.

Liquidity position

The DSRA equivalent to one quarter of principal and interest obligations has been partially funded by cash and the remaining is in the form of bank guarantee from SEPL. The company has access to working capital facilities amounting to Rs. 57.29 crore, which at present remains unutilised.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Solar Power Producers
Parent/Group Support	Parent/Group Company: SEPL The rating assigned to ACEPL factors in the high likelihood of its parent, SEPL extending financial support to it because of close business linkages between the two companies.
Consolidation / Standalone	The ratings are based on standalone financial profile of the company.

About the company

ACEPL is a special purpose vehicle incorporated in December 2016 under Sprng Energy platform to set up a 250-MW solar power project in Gurh Tehsil, Rewa district, Madhya Pradesh. Sprng Energy platform (via Sprng Energy Private Limited (SEPL)) was set up by Actis Energy 4 LP and Actis Energy 4 A LP (together known as AE4) with an objective to install a capacity of around 1.8 GW (solar, wind) in India over a period of three to four years. The project got commissioned in May 2019.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating August 2019	Date & Rating in FY2019 September 2018	Date & Rating in FY2018 -	Date & Rating in FY2017 -
1	Term Loans	Long Term	906.00	852.46	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-	-
2	Cash Credit Limit	Long Term	44.00	-	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	December 2017	9.95%	FY 2038	604.5	[ICRA]A- (Positive)
NA	Term Loan 2	December 2017	9.88%	FY 2038	301.5	[ICRA]A- (Positive)
NA	Cash Credit limit	December 2017	-	NA	44.0	[ICRA]A- (Positive)

Source: ACEPL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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