Niranjana Solar Energy Private Limited

Ratings

Facilities	Amount (Rs. Crore)	Rating1	Remarks
Long-term Loan@	120.37	CARE BBB (SO) [Triple B (Structured Obligation)]	Assigned
Long-term Bank Facilities- Non-fund-based (Forward Contract/ Derivate Limits)	11.00	CARE BBB- (Triple B Minus)	
Total Facilities	**131.37 (Rupees One Hundred Thirty One crore and Thirty Seven lakh only)**		

@ backed by unconditional and irrevocable corporate guarantee provided by Acme Cleantech Solutions Private Limited (ACSPL, rated 'CARE BBB+', 'CARE A2') which is valid up-to the later of:
One full year of operations with better revenues than the projections given in the base case business plan, in the opinion of Lenders / LIE.
On the date on which security stipulated in the common loan agreement and the guarantee facility agreement is perfected to the satisfaction of lenders.
On the date on which borrower irrevocably discharges all its secured obligations of the bank guarantee facility provider, to the satisfaction of bank guarantee facility provider.
On the date on which the borrower obtains right of way for the transmission line till the delivery point, to the satisfaction of the lenders / LIE.
On the first anniversary date of the COD.

Rating Rationale

The ratings assigned to the bank facilities of Niranjana Solar Energy Private Limited (NSEPL) derive strength from experienced promoter, viz, Acme Cleantech Solutions Private Limited (ACSPL) with experience in successfully developing and operating solar power assets across India, unconditional and irrevocable corporate guarantee from ACSPL for the term loan with validity as described above, fixed-price Engineering Procurement and Construction(EPC) and proposed O&M contract with ACSPL, long-term off-take arrangement in the form of a Power Purchase Arrangement signed with state Discom, synchronization of the entire capacity with the grid mitigating the execution risks, proposed Debt Service Reserve Account(DSRA) mechanism, and favorable policy framework and demand outlook for the renewable energy sector.
However, the ratings are constrained by lack of track record of operations, counter party credit risk on account of relatively weak financial profile of the off-taker, viz, Southern Power Distribution Company of Andhra Pradesh (APSPDCL) and forex risk arising out of use of dollar denominated debt. Going forward, achievement of envisaged Capacity Utilization Factor (CUF) levels and timely receipt of payments from the off-taker shall be the key rating sensitivities.

Background

APSPDCL awarded a total capacity of 160-MW Solar PV Projects, to Acme Cleantech Solutions Private Limited under the tender for procurement of 500-MW solar power from the Grid connected Solar PV project in the state of Andhra Pradesh. The project was executed under five wholly-owned SPVs, namely, Aarohi Solar Pvt. Ltd. (ASPL; 50 MW), Acme Jaisalmer Solar Power Pvt. Ltd (AJSPPL; 20 MW), Dayanidhi Solar Power Pvt. Ltd (DSPPL; 40 MW), Niranjana Solar Energy Pvt. Ltd (NSEPL; 20 MW) and Vishwatma Solar Energy Pvt. Ltd (VSEPL; 30 MW). The Power Purchase Agreement (PPA) has been signed with APSPDCL for all the project SPVs in December 2014 for 25 Years at a weighted average tariff of Rs.5.75/kWh, with an annual escalation of 3.00% till tenth year from SCOD and tenth year tariff for the remaining term of the PPA. NSEPL's plant located at village Pattikonda, District Kurnool, Andhra Pradesh, has been synchronized to grid on March 31, 2016, and is supplying power to APSPDCL at a tariff of Rs.5.71/unit.

Credit Risk Assessment

Experienced promoter and management

ACME group was founded by Mr Manoj Kr Upadhyay, who has almost two decades of experience in the power and telecom sector. In 2003, he founded ACSPL (erstwhile ACME Tele Power Limited) the flagship company of the group, to provide innovative, energy efficient, environment friendly products for Passive Telecom Infrastructure. ACSPL is held by the promoters through a holding company MKU Holding Private Limited. Apart from telecom sector, ACSPL is now largely involved in doing EPC work for solar power plants which are being setup by various SPVs. The group has expanded into the solar power segment over the past three years and has 399 MW operational grid-connected solar projects as on April 22, 2016, located across the states of India. Furthermore, the group has a strong order book of 920 MW (as on April 22, 2016) of grid connected projects to be executed in the next couple of years. ACSPL on a standalone basis reported a net profit of Rs.36.17 crore on operating income of Rs.1,001.67

[1]Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications

crore in FY15 (refers to the period April 1 to March 31) and a net profit of Rs.178.02 crore on operating income of Rs.730.23 crore as per 9MFY16 (provisional) results. ACME group has partnered with France-based utility, EDF for setting up various solar projects in JV and is also contemplating to raise funds from other investors to raise growth capital for funding the projects in hand.

Corporate Guarantee by ACSPL for the term loan

The term loan being availed by NSEPL is backed by unconditional and irrevocable, joint and several corporate guarantee from ACSPL and ASEPL which is valid up-to the later of:

One full year of operations with better revenues than the projections given in the base case business plan, in the opinion of Lenders / LIE.

On the date on which security stipulated in the common loan agreement and the guarantee facility agreement is perfected to the satisfaction of lenders.

On the date on which borrower irrevocably discharges all its secured obligations of the guarantee facility provider, to the satisfaction of guarantee facility provider.

On the date on which the borrower obtains right of way for the transmission line till the delivery point, to the satisfaction of the lenders / LIE.

On the first anniversary date of the COD.

Long-term PPA signed for entire capacity giving revenue visibility, however, relatively weak financial risk profile of the off-taker

NSEPL is supplying entire power to APSPDCL under a 25-year PPA, which was signed in December 2014. APSPDCL would purchase power at a tariff of Rs.5.71/kWh for first tariff year, with an escalation of 3.00% p.a. till tenth tariff year. Going further, tenth year's tariff will be applicable from eleventh year till the term of PPA without any further escalation. As per the terms of PPA, the due date for payment is 30 days from the meter reading date, provided invoice is received by APSPDCL within five working days from meter reading. In case of any delay in payment from the due date, the company is entitled to an interest at prevailing SBI bank rate, on the amount of outstanding payment. Also, as per the PPA, APSPDCL would be entitled to a rebate at the rate of 1%, on the amount paid before the due date, in case the payment is made before the due date. Furthermore, the payments will be backed by irrevocable revolving letter of credit of one month billing value. The said LC can be invoked in case APSPDCL fails to pay the amount by due date of payment; however LC cannot be invoked for any disputed bill amount. The maximum CUF as stipulated under the PPA terms is 25% above which the energy delivered would be charged at 50% of the agreed tariff. Also, the minimum PLF has been stipulated at a CUF of 14% below which the company has to pay a compensation equivalent to 25% of the tariff for the units delivered below CUF of 14%. However, the off-taker, viz, APSPDCL has a relatively weak financial profile reflected by negative net worth as on March 31, 2015, significant subsidy support from the government, and relatively long payable cycle. Going forward, timely receipt of payments will be a key rating monitorable.

Synchronized project; however lack of track record of operations

NSEPL was synchronized to the grid on March 31, 2016; however, COD certificate is yet to be received from APSPDCL. The project cost is Rs.164.89 crore funded in Debt/Equity ratio of2.70x.The energy assessment study has been conducted by Sgurr Energy India Pvt. Ltd. (SEI). Additionally, assessment study has been vetted by lead lender-empaneled technical consultant. Currently, the O&M of the project is being done by ACSPL; however, the O&M agreement is yet to be signed. The delay in signing of O&M agreement was on account of change in O&M vendor from Acme Solar Energy Private Limited (ASEPL) to ACSPL as initially the project was planned to be executed under ASEPL. ACSPL has submitted a request for withdrawal of ASEPL from the said agreement, post which O&M agreement can be signed with ACSPL.

Moderately comfortable coverage indicators

NSEPL along with other 4 SPVs, viz, AJSPPL, DSPPL, ASPL, VSEPL have signed a deed of hypothecation along with the security trustee on behalf of the lenders, as per which each of the five SPVs will provide unconditional and irrevocable support to each other towards meeting shortfall in maintaining the required DSRA amount and/or meeting the debt service requirements. Considering the combined cash flows of all the SPVs, the debt coverage indicators are moderately comfortable with average DSCR of 1.32xand minimum DSCR of 1.18x. Furthermore, as per the terms of loan, Debt Service Reserve Account (DSRA) comprising one quarter's interest and principal repayments needs to be created at the time of commissioning, which will be further increased to DSRA comprising 2 quarter's interest and principal repayments after completing six months from the COD. The DSRA is under the process of being created for ASPL, while for the other 4 SPVs, the COD is yet to be declared as on May 31, 2016. The SPVs also have the option to furnish bank guarantees in lieu of funded DSRA as per the terms of the loan sanction.

Exposure to foreign currency fluctuation risk on the dollar denominated long-term loan; though currently completely hedged

The company has availed dollar denominated term loans for payment of letter of credit (LC) backed purchase of equipment; however, the said loan is capped at rupee amount as per the common loan agreement. Currently the company has completely hedged its LCs exposure via forward contracts. However going forward the company plans to undertake currency swap transactions for hedging foreign currency fluctuation risk arising out of debt servicing of dollar denominated loan.

Favorable industry outlook

Encouraging policy framework in the renewable energy (RE) sector has resulted in the share of installed capacity of RE rising

from 5.90% of total energy capacity (approx. 7.7 GW of 132 GW) as on March 31, 2007, to around 14.34% (approximately 42.75 GW of 298 GW) as on March 31, 2016. India has an attractive geography for solar energy. Solar radiation is about 5,000 trillion kWh/year and most parts enjoy 300 clear sunny days a year. Solar power sector's cumulative installed capacity has increased from around 35 MW as on March 31, 2011, to around 6.76 GW as on March 31, 2016. The major drivers for the growth in solar capacity addition have been various government initiatives and policies (both Central and respective States) including feed-in-tariffs and renewable purchase obligations (RPO), decline in equipment cost over the years, technological advancement, shorter implementation schedules and lower fuel availability risks as compared to conventional sources of energy.
As per the National Solar Mission Scheme, cumulative solar installed capacity was projected to reach 20 GW by 2022, which has been significantly revised to 100 GW (including 40 GW rooftop projects) by 2022. Various state governments such as Gujarat, Madhya Pradesh, Karnataka, Rajasthan, Tamil Nadu, Orissa, Andhra Pradesh, Telangana, Uttar Pradesh, Punjab, etc, have come out with state policies for awarding solar power projects. Also, other entities like NTPC, SECI, etc, are coming out with tenders of large capacities in GW size. Solar projects have relatively lower execution risks, stable long-term cash flow visibility with long-term off-take arrangements at a fixed tariff and minimal O&M requirements. While weak financial health of discoms, stricter RPO enforcement by the state regulators and level of degradation of the modules given relatively lesser track record of technology in Indian conditions remain crucial; given the thrust by the government for RE capacity addition, rising cost of conventional energy assets vis-à-vis declining cost of solar assets, relatively faster execution cycle and distributed nature of solar energy, the outlook is favorable for the solar sector.

Details of Rated Facilities

1.Long-term facilities
1.A. Long-term Loans

Sr. No.	Lender	Rated Amount (Rs. Crore)
1.	State Bank of India	38.00
2.	India Infrastructure Finance Company (UK) Ltd.	30.40*
3.	Tata Cleantech Capital Ltd.	4.59
4.	PFC Green Energy Ltd.	14.40
5.	India Infrastructure Finance Company Ltd.	32.98
	Total	**120.37**

*** ECB of USD 4.50 million capped at Rs.30.40 crore.**

1.B. Non-fund-based limits (Rs. Cr)

Sr. No.	Name of Bank	Non-fund-based Limits		
		FC/DL*	Others	Total non-fund-based limits
1	State Bank of India	11.00	-	11.00
	TOTAL	**11.00**	**-**	**11.00**

**FC/DL=Forward Contracts / Derivative Limits*

Total Long-term facilities (1.A.+1.B.) Rs.131.37 crore

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