Grahati Solar Energy Private Limited

July 30, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	349.15	CARE BBB+ (CE); Negative [Triple B Plus (Credit Enhancement); Outlook: Negative]*	Revised from CARE A- (SO); Stable [Single A Minus (Structured Obligation); Outlook: Stable]*
Short-term Bank Facilities	-	-	Withdrawn^
Total Facilities	**349.15 (Rs. Three hundred and Forty Nine crore and Fifteen lakh only)**		

Details of instruments/facilities in Annexure-1

^CARE has withdrawn the rating assigned to the short term bank facilities Grahati Solar Energy Private Limited with immediate effect, as the company has fully repaid the amounts under the said facility and there is no amount outstanding under the facility.

***Based** on credit enhancement in the form of a Co-Obligor Undertaking signed between Mihit Solar Power Private Limited (rated CARE BBB+ (CE); Negative), Grahati Solar Energy Private Limited and Dayakara Solar Power Private Limited (rated (rated CARE BBB+ (CE); Negative) (co-obligors) in favour of each other as well as the lender, as per which in the event of insufficiency of funds in debt servicing, the lenders/lender's agent shall utilize the amounts available in surplus account to meet such shortfall in accordance with the Trust and Retention Account (TRA) Agreement to ensure debt service by the due date.

Detailed Rationale & Key Rating Drivers

The long-term rating assigned to the bank facilities of Mihit Solar Power Private Limited (MSPPL, rated *CARE BBB+ (CE); Negative*), Grahati Solar Energy Private Limited (GSEPL) and Dayakara Solar Power Private Limited (DSPPL, rated *CARE BBB+ (CE); Negative*) (referred to as co-obligors) is based on credit enhancement in the form of irrevocable and unconditional co-obligor undertakings provided by the aforementioned SPVs in favor of the lender, as per which the co-obligors have agreed that in the event of insufficiency of funds/shortfall in debt servicing, the lenders/lender's agent shall utilize the amounts available in their surplus account to meet such shortfall to ensure debt servicing by the due date. Given the co-obligor undertakings and the terms of the financing agreement, CARE has combined the operational and financial risk profiles of MSPPL, GSEPL and DSPPL for analysis.

The revision in the rating takes into account significant increase in receivables cycle from Southern Power Distribution Company of Telangana Limited (TSSPDCL) which accounts for 52% of the capacity under the co-obligor structure. Recently, receivable cycle has elongated to 10 months for GSEPL and DSPPL as against 1 month as per Power Purchase Agreements (PPAs) from the date of invoicing, leading to a stretched liquidity position. The surplus cash generated by MSPPL is being utilized to support GSEPL and DSPPL as per the co-obligor structure. Further, on account of significant delays in payment receipts, Debt Service Reserve Account (DSRA) for GSEPL and DSPPL could not be created leading to levying of additional 1% interest for both the projects by the lender. Also, the group was earlier availing umbrella working capital facility of Rs.50 crore from Piramal Capital & Housing Finance Limited, which was being utilized to support various SPVs including GSEPL and DSPPL. However, the same has been fully repaid and is no longer available, requiring the projects to be supported by infusion of funds in the form of unsecured loans by ACSPL.

The rating, however, continues to draw comfort from the presence of experienced promoters viz. Acme Cleantech Solutions Private Limited (ACSPL) with established track record in setting-up and operating solar power projects, long term off-take arrangement in the form of Power Purchase Agreements (PPAs) signed with two state utilities at fixed tariffs, geographical diversity of the assets, satisfactory operational performance and track record of more than 3 years, moderately comfortable debt service coverage indicators and debt service reserve account (DSRA) equivalent to one quarter of debt obligations in MSPPL already in place.

The rating is tempered by counter-party credit risks given relatively weak financial risk profiles of the discoms, significant delays in receipt of payments from Telangana discom and susceptibility of power generation to variation in climatic conditions as well as technological risks.

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

Going forward, achievement of power generation at the envisaged levels, timely receipt of payments from both the off-takers, timely creation of DSRA in GSEPL and DSPPL, timely infusion of funds by the promoters (ACSPL and ASHL) and adherence to payment terms as per the co-obligor undertakings shall be key rating sensitivities.

Outlook: Negative

The outlook for the rating is revised to 'Negative' on account of significant delays in receipt of payments from TSSPDCL which has impacted the overall liquidity profile of the 3 SPVs under the co-obligor structure. In case of further delays in payment receipts from TSSPDCL, the financial risk profile and liquidity position would be further impacted which will lead to further weakening of the structure. The outlook may be revised to 'Stable' if the receivables cycle from TSSPDCL improves significantly.

Detailed description of the key rating drivers

Key Rating Strengths

Co-obligor undertaking and diversification of assets: As per the terms of the co-obligor undertakings executed between MSPPL, GSEPL and DSPPL (co-obligors) and lenders, each of the co-obligors will provide support in the event of insufficiency of funds in debt servicing. As a result, the cash flows get comfort with respect to diversification of assets in terms of location, modules suppliers as well as off-takers. The coverage indicators on a combined basis continue to remain moderately comfortable.

Satisfactory operational performance with track record of more than 3 years: The 74 MW solar plant under MSPPL was commissioned in phases from January 2016 till March 2016 and has an operational track record of over 3 years now. The company achieved net CUF of 16.96% during FY19 and 19.56% during 2MFY20 (vis-à-vis 2MFY19 CUF of 18.05%). The 50 MW grid connected solar photovoltaic (PV) power plant under GSEPL achieved commissioning in August 2016. The project has an operational track record of around 3 years. The company achieved net CUF of 23.17% during FY19. Further generation during 2MFY20 was 24.38% as against net CUF of 24.97% during 2MFY19. The generation from the project under DSPPL, commissioned in August 2016, has remained satisfactory marked by net CUF of 23.58% during FY19. Further generation during 2MFY20 was 24.53% as against net CUF of 25.23% during 2MFY19. The overall generation levels in MSPPL have been relatively lower than P-90 estimates while in GSEPL and DSPPL have been largely in-line with P-90 estimates.
Going forward, achievement of the envisaged generation levels will remain important for the projects.

Long-term PPAs: MSPPL is supplying entire power under long-term PPAs to Punjab State Power Corporation Limited (PSPCL, rated 'CARE BB; Stable', 'CARE A4') for a period of 25 years at a weighted average tariff of Rs.7.09/kWh. GSEPL and DSPPL are supplying power under 25 years PPAs to Southern Power Distribution Company of Telangana Limited (TSSPDCL, rated 'CARE BB; Stable', 'CARE A4') at a tariff of Rs.6.73/kWh and Rs.6.84/kWh, respectively. Presence of long-term PPAs with respective state discoms at a fixed tariff provides long-term revenue visibility. As per the terms of the PPA, PSPCL need to make payments in 2 months while TSSPDCL need to make payments in 1 month.

Moderately comfortable financial risk profile: The co-obligors refinanced the term loans during FY18. The refinanced term loan has tenure of 17.75 years along with fixed interest cost for the next 10 years mitigating the co-obligors from interest rate fluctuation risk to a certain extent. The coverage indicators are expected to be moderately comfortable on combined basis for the tenure of the refinanced debt. As per the sanctioned terms, all the three co-obligors need to maintain Debt Service Reserve Account (DSRA) equivalent to one quarter of debt obligations from project cash flows. MSPPL has created DSRA equivalent to one quarter of debt servicing, however DSRA is yet to be created by GSEPL and DSPPL. Accordingly, the lenders are levying additional interest of 1% for non-creation of DSRA. Timely creation of DSRA in GSEPL and DSPPL would also remain critical from liquidity perspective.

Experienced Management: The management of co-obligors is experienced with track record of setting up and operating solar power projects. ACSPL, the ultimate holding company of co-obligors has commissioned 1.81 GW of solar capacity as on February, 2019.

Key Rating Weaknesses

Relatively weak credit profile of the off-takers, significant increase in receivable cycle of TSSPDCL: Southern Power Distribution Company of Telangana Limited (TSSPDCL), the off-taker for the two co-obligors viz. GSEPL and DSPPL; has a relatively weak credit profile having weak debt coverage indicators along with off-taker operating in a restrictive regulatory environment. GSEPL and DSPPL had been receiving payments from TSSPDCL with a delay of around 10-11 months as against stipulation of 30 days as per PPAs from the date of invoicing (GSEPL has received payments till July 2018 while DSPPL has received payments till August 2018). During FY20, company has received 3 payment from Telangana discom.

PSPCL, the off-taker for MSPPL, has a relatively weak credit profile; however, the payments are being received in about 60-70 days as against stipulation of 60 days as per PPA. Going forward, timely receipt of payments from both the discoms will be critical. Accordingly, the financial profile of the discoms along with their payment track record will remain a key monitorable.

Climatic & Technological Risks: Achievement of desired CUF is subject to changes in climatic conditions, amount of degradation of modules as well as other technological risks.

Industry Outlook: As per the National Solar Mission Scheme, cumulative solar installed capacity is projected to reach to 100 GW (including 40 GW rooftop projects) by 2022. 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. However, there are concerns pertaining to weak financial health of discoms and their ability to pay timely to the developers, building up of sufficient evacuation infrastructure to cater to huge RE capacity addition, lack of stricter RPO enforcement by the state regulators and level of degradation of the modules given relatively lesser track record of technology in Indian conditions

Liquidity position

As on July 2019, MSPPL, GSEPL and DSPPL had a cash balance of Rs.15.44 crore, Rs.4.51 crore and Rs.0.94 crore, respectively. MSPPL also has a DSRA of Rs.15.24 crore (equivalent to 1 quarter of debt obligations) as on July, 2019 in the form of FDs. ACSPL had cash balance of around Rs.200 crore as on July 2019 at standalone level which would partly be utilized to provide need based support to the various SPVs including MSPPL, GSEPL and DSPPL. The 3 SPVs have combined principal repayments of Rs.42.77 crore in FY20 and Rs.43.60 crore in FY21. During last 12 months (August 2018 – July 2019), the three companies has received combined payments of Rs.111.43 crore.

Analytical Approach: Combined

MSPPL, GSEPL along with DSPPL have executed co-obligor undertakings. The co-obligors have undertaken that in the event of insufficiency of funds in debt servicing, the lenders/lender's agent shall utilize the amounts available in surplus account to meet such shortfall in accordance with the TRA to ensure debt service by the due date. The monies provided by the co-obligor shall be in the nature of unsecured interest free ICDs and shall rank subordinate to the dues of the borrower to the lenders. Thus, a combined analytical approach has been taken.

Applicable Criteria

CARE's policy on Withdrawal of Ratings
Criteria for Short Term Instruments
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Infrastructure Sector Ratings
Financial ratios – Non-Financial Sector
Rating Methodology - Private Power Producers
Rating Methodology: Factoring Linkages in Ratings
Criteria of Rating Credit Enhanced Debt

About the Company

Grahati Solar Energy Private Limited (GSEPL), a 100% subsidiary of Acme Solar Energy Private Limited (ASEPL) and a step-down subsidiary of ACSPL, has set up a 50-MW grid connected solar photovoltaic (PV) power project in District Mahabubnagar, Telangana using Poly-Crystalline Silicon technology. The company had secured the capacity through an open competitive bidding as part of procurement of 500 MW under the state solar policy of Telangana.
The project achieved COD on August 3, 2016. The project was set up at a cost of Rs.445.33 crore (Rs.8.91 crore/MW) funded at debt-equity ratio of 2.70x. The company is supplying entire power to Southern Power Distribution Company of Telangana Limited (TSSPDCL) under 25 year Power Purchase Agreement (PPA), which was signed on March 3, 2015 at a fixed tariff of Rs.6.737/kWh.

Brief Financials – Standalone GSEPL (Rs. crore)	FY18 (A)	FY19 (Prov)
Total operating income	69.72	69.11
PBILDT	65.94	65.13
PAT	-26.55	-8.53
Overall gearing (times)	4.55	4.98
Interest coverage (times)	1.56	1.79

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	July 2035	349.15	CARE BBB+ (CE); Negative
Fund-based - ST-Working Capital Demand loan	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	349.15	CARE BBB+ (CE); Negative	-	1)CARE A- (SO); Stable (02-Jan-19)	1)CARE A- (SO); Stable (28-Sep-17)	1)CARE BBB+ (SO); Stable (07-Mar-17)
2.	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	1)CARE A2+ (02-Jan-19)	1)CARE A2+ (28-Sep-17)	1)CARE A2 (07-Mar-17)

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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