October 29, 2024

Aarohi Solar Private Limited: [ICRA]BBB+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	320.20	[ICRA]BBB+ (Stable); assigned
Total	**320.20**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating takes into account the co-obligor facility agreement among Aarohi Solar Private Limited (ASPL), Niranjana Solar Energy Private Limited (NSEPL), Dayanidhi Solar Power Private Limited (DSPPL), ACME Jaisalmer Solar Power Private Limited (AJSPPL) and Vishwatma Solar Energy Private Limited (VSEPL) with cross-default linkages and sharing of the surplus balance for meeting any shortfall in debt servicing obligations.

Accordingly, the rating approach for assessing the rating of ASPL is given below:

1. An assessment of the credit profile of ASPL

2. An assessment of the co-obligor group's (ASPL, NSEPL, VSEPL, DSPPL & AJSPPL) credit profile notched up basis implicit support from parent, ACME Solar Holdings Limited (ASH)

3. The final rating for ASPL is arrived at by suitably notching up the standalone rating on the basis of the implicit support from the co-obligor group's credit profile

The assigned rating favourably factors in the presence of an experienced sponsor, the ACME Group, which has a long track record in developing and operating renewable energy assets across multiple states in India. The rating is backed by the operational status of the entire solar capacity (160 MWac) in the co-obligor pool and the presence of 25-year power purchase agreements (PPAs) with Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL) with an annual escalation in tariff of 3% (till 10^{th} year of operations) for the entire capacity, thus limiting the demand and pricing risks. Further, the rating factors in the adequate track record of generation performance since commissioning in 2016. Moreover, the improved collection period from its sole offtaker, APSPDCL, and the availability of a peak two-quarter debt service reserve account (DSRA) in the form of fixed deposits support the liquidity profile of the company.

The rating is however constrained by the exposure to a single counterparty, APSPDCL, which has a modest financial profile. Also, the rating is constrained by the weak competitiveness of the project tariff as it remains higher than the average power purchase of APSPDCL. While the company has recovered a large portion of the past dues from APSPDCL under the Late Payment Scheme (LPS) rules notified in June 2022 and is receiving payments for the running bills in a regular manner, the sustainability of the same remains a key monitorable for the company.

ICRA notes that the excess DC capacity installed at the project sites (installed after COD) has been removed by the company in December 2023 following the directions of the regulatory authorities. At a pool level, 17 MW of DC capacity has been removed. The company has started recovering the dues pertaining to this capacity billed till May 2023 under a structured plan, with full recovery expected by Q2 FY2026. Also, the company is expected to prepay the debt proportionate to the excess DC capacity removed from the site using the surplus cash and the recovery of the past dues from the offtaker. ICRA expects the cumulative DSCR of the company to remain above 1.20x over the debt tenure after considering the proportionate debt reduction pertaining to the uninstalled DC capacity. The promoter's contribution infused in the form of debt in the company remains subordinated to the project debt and the payments on this debt are subject to restricted payment conditions stipulated by the lender.

The rating is further tempered by the geographic concentration of the solar projects, a leveraged capital structure and the exposure to the variation in interest rates on the project debt. The rating is also constrained by the vulnerability of the revenues and cash flows to seasonality and variation in solar irradiation across the years. Herein, comfort is drawn from the long operating track record of the projects with a satisfactory generation performance.

The Stable outlook assigned for the long-term rating factors in the expectation of a stable generation performance and the timely collections that would result in steady cash flow visibility for the company, further aided by the presence of a long-term PPA.

Key rating drivers and their description

Credit strengths

Presence of experienced sponsor and co-obligor arrangement: The presence of an experienced sponsor, ACME group with an established track record of developing and operating solar power projects provides comfort. The group has operational renewable assets of 1320 MW and under-construction projects to the tune of 2220 MW where the PPAs are in place with off-takers having strong credit profile. Also, comfort is drawn from the co-obligor arrangement among the five SPVs with aggregate capacity of 160 MW with cross default linkages.

Low offtake and price risk owing to presence of long-term PPA - The entire solar power capacity (50 MW) under the company has been contracted under a 25-year PPA with APSPDCL. The PPA has an annual escalation of 3% in tariff for the first 10 years of operations that provides revenue visibility for the company and limits the offtake and tariff risks.

Satisfactory track record of generation performance: The generation performance for the solar power project of the company has remained satisfactory since commissioning in March 2016. With removal of excess DC capacity in December 2023, the PLFs have moderated in Q4 FY2024 and H1 FY2025, however the same remain satisfactory.

Adequate debt coverage metrics: The company is expected to achieve adequate debt coverage metrics with cumulative DSCR remaining well above 1.2x supported by demonstrated track record of operations, long maturity of the debt profile and long-term PPA with attractive tariff rates. ICRA has considered pre-payment of proportionate debt pertaining to uninstalled DC capacity in FY2025.

Credit challenges

Counterparty risk arising out of exposure to a single discom in Andhra Pradesh with a modest financial profile: The long-term PPA with APSPDCL exposes co-obligor to the counterparty credit risk of being exposed to a single discom, which has a moderate financial profile. The financial profile of the discom is constrained by high subsidy dependence and inadequate tariffs in relation to the cost of supply. Nevertheless, the collection period from APSPDCL has improved following the implementation of LPS rules since June 2022, with a significant reduction in outstanding receivables. Moreover, the company has started recovering dues pertaining to the uninstalled DC capacity through instalments starting from October 1, 2024, with full recovery expected by Q2 FY2026. The collection period for the ongoing bills remains satisfactory at about 75 days.

Cash flow remains vulnerable to variability in solar irradiance and geographic concentration of projects: The company is entirely dependent on power generation from the solar power project for its revenues and cash accruals. Given the single part tariff in the PPA, the company may lose revenues and profits if the power generation declines due to variability in solar irradiance. Further, risk is amplified by the geographic concentration of the asset as the entire capacity is at a single location. Also, the competitiveness of the tariff offered by the project remains low, which may lead to the risk of grid curtailment.

Interest rate risk - ASPL's debt coverage metrics remain sensitive to the floating nature of the interest rate on the project debt because of a leveraged capital structure and no tariff escalation from the 11th year, as per the PPA.

Liquidity position: Adequate

The liquidity position is expected to remain adequate with the cash flow from operations estimated to remain higher than the debt repayment obligation, mainly supported by stable generation and the collection performance of the company. Moreover, the availability of a peak two-quarter debt service reserve account (DSRA) of Rs. 33.21 crore and unencumbered cash & balance of Rs. 9.06 crore as on September 30, 2024 provides adequate cushion to meet the debt obligations.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the generation performance improves above the historical average, leading to an improvement in the company's debt coverage metrics along with timely realisations of bills from the off taker, APSPDCL. An improvement in the credit profile of the holding company, ACME Solar Holdings Limited, will also favour an upgrade.

Negative factors – ICRA could downgrade the rating if an under-performance in generation impacts the debt coverage metrics, dragging the cumulative DSCR below 1.15x. An elongation in the realisation days of bills from APSPDCL or any deterioration in the credit profile of ACME Solar Holdings Limited would be the other negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Power - Solar
Parent/Group support	ICRA has consolidated the financials of the five SPVs under the co-obligor to arrive at the notional group rating, after factoring in the support available from the parent, ASH. The notional group rating is used to notch up the individual SPV ratings factoring in implicit support, given the cross-default linkages.
Consolidation/Standalone	Standalone

About the company

Aarohi Solar Private Limited (ASPL), incorporated in June 2008, has developed a solar PV project of 50-MW capacity in Anantapur, Andhra Pradesh, which was fully commissioned in March 2016. The company is a wholly-owned subsidiary of ASH. It has a long-term PPA for 25 years with APSPDCL at an initial tariff of Rs.5.63/unit with 3% annual escalation for the first 10 years of the PPA.

About the other companies in co-obligor pool

Acme Jaisalmer Solar Power Private Limited (AJSPPL), incorporated in November 2009, has developed a solar PV project of 20-MW capacity in Pattikonda, Andhra Pradesh, which was fully commissioned in May 2016. The company is a wholly-owned subsidiary of ASH. It has a long-term PPA for 25 years with APSPDCL at an initial tariff of Rs. 5.63/unit with 3% annual escalation for the first 10 years of the PPA.

Dayanidhi Solar Power Private Limited (DSPPL), incorporated in November 2014, has developed a solar PV project of 40-MW capacity in Chittoor, Andhra Pradesh, which was fully commissioned in April 2016. The company is a wholly-owned subsidiary of ASH. It has a long-term PPA for 25 years with APSPDCL at an initial tariff of Rs. 5.97/unit with 3% annual escalation for the first 10 years of the PPA.

Niranjana Solar Power Private Limited (NSPPL), incorporated in January 2014, has developed a solar PV project of 20-MW capacity in Kurnool, Andhra Pradesh, which was fully commissioned in March 2016. The company is a wholly-owned subsidiary of ASH. It has a long-term PPA for 25 years with APSPDCL at an initial tariff of Rs. 5.71/unit with 3% annual escalation for the first 10 years of the PPA.

Vishwatma Solar Energy Private Limited (VSEPL), incorporated in January 2014, has developed a solar PV project of 30-MW capacity in Kurnool, Andhra Pradesh, which was fully commissioned in April 2016. The company is a wholly-owned subsidiary of ASH. It has a long-term PPA for 25 years with APSPDCL at an initial tariff of Rs. 5.71/unit with 3% annual escalation for the first 10 years of the PPA.

Key financial indicators (audited)

ASPL (Standalone)	FY2023	FY2024
Operating income	60.79	59.18
PAT	(9.73)	5.60
OPBDIT/OI	95.10%	95.20%
PAT/OI	(16%)	9.50%
Total outside liabilities/Tangible net worth (times)	63.67	32.14
Total debt/OPBDIT (times)	7.54	6.71
Interest coverage (times)	1.24	1.48

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Key financial indicators (audited) of the co-obligor pool

Co-obligor Pool (5 SPVs Combined)	FY2023	FY2024
Operating income	198.97	199.48
PAT	(27.85)	27.30
OPBDIT/OI	94.60%	94.70%
PAT/OI	(14.0%)	(13.70%)
Total outside liabilities/Tangible net worth (times)	51.87	23.95
Total debt/OPBDIT (times)	7.50	6.49
Interest coverage (times)	1.25	1.53

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable.

Any other information: None.

Rating history for past three years

	Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
					FY2024		FY2023		FY2022	
		Type	Amount rated (Rs. crore)	October 29, 2024	Date	Rating	Date	Rating	Date	Rating
1	Long-term fund-based – Term loan	Long term	320.20	[ICRA]BBB+ (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	NA	NA	FY2038	320.20	[ICRA]BBB+ (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-NA

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About ICRA Limited:

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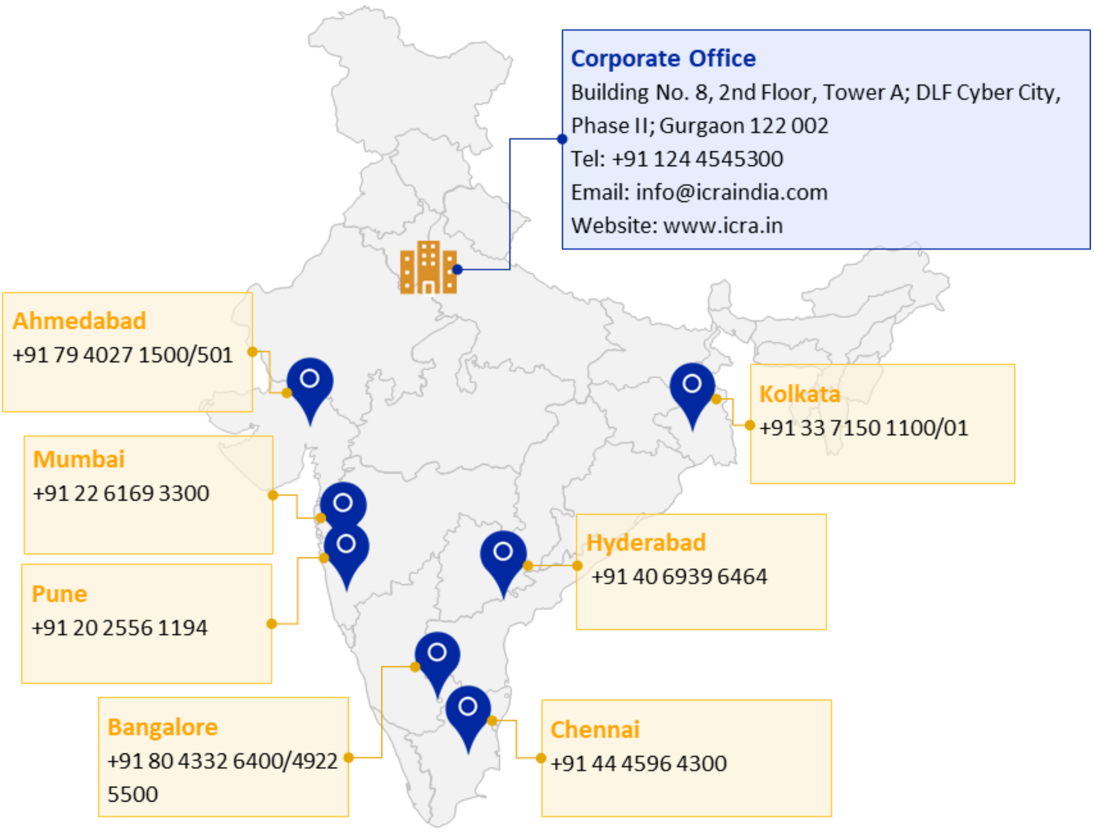

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