

Press Release

Acme Cleantech Solutions Private Limited

December 07, 2020

Rating Upgraded & Withdrawn



Total Instruments rated*	Rs.426.00 Cr. (Non-Convertible Debenture)
Long Term Rating	ACUITE A (Upgraded & Withdrawn)
Total Bank Facilities Rated*	Rs. 540.00 Cr.
Long Term Rating	ACUITE A / Outlook: Stable (Upgraded)
Short Term Rating	ACUITE A1 (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE A**' (read as **ACUITE A**) from '**ACUITE A-**' (read as **ACUITE A minus**) and the short-term rating to '**ACUITE A1**' (read as **ACUITE A one**) from '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.540.00 crore bank facilities of Acme Cleantech Solutions Private Limited (ACSPL). The outlook is '**Stable**'.

Further, Acuite has also upgraded and withdrawn the long-term rating to '**ACUITE A**' (read as **ACUITE A**) from '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 426.00 crore non-convertible debenture (NCD) issue.

Reasons for Upgrade

The rating upgrade is driven by an expected turnaround in the liquidity position of ACSPL. ACSPL has prepaid its Non-Convertible debentures of Rs.426 Cr. in October 2020 and nominal Suppliers Credit outstanding as on 31 March 2020, thus significantly improving the liquidity position of ACSPL. ACSPL has been able to recover its debtor positions which have improved to Rs.132 Cr. in FY2020 from Rs.1149 Cr. FY2019. The group has demonstrated an ability to generate cash flows by monetizing its assets. Acme Group has sold its 600 MW project.

Further, the business profile of ACSPL has been altered and now the company will be predominantly engaged in O&M for Solar Projects, procurement and supply of solar modules and provide financial support to IPP within the group, whenever required. The EPC business has been transferred to Acme Solar Holdings Limited, a subsidiary of ACSPL. Going ahead, the scalability of ACSPL will be impacted, however, operating margins are likely to improve. Further, PAT margins are also likely to improve on account of significant reduction on interest outgo from H2FY2021. Further, ACSPL has healthy order book position of Rs. 5,570 Cr. with a total capacity of 2630 MW, thus giving a healthy revenue visibility in near to medium term. Acuite expected significant improvement in liquidity position and financial risk profile of ACSPL on account of no long term debt outstanding as on 30 November 2020 and the company does not plan to raise any long term debt in the near future.

About the Company

Acme Cleantech Solutions Private Limited (ACSPL) incorporated in 2003 and promoted by Mr. Manoj Kumar Upadhyay is the flagship company of Acme Group. ACSPL is now primarily engaged in Operations and Maintenance (O&M) work for solar power plants, procurement and supply of solar modules and support to is IPP (SPVs) whenever required. The EPC business of ACSPL has been transferred to Acme Solar Holding Limited (ASHL). Acme Group has around 54 operational SPVs with an aggregate solar capacity of 2169 MW across more than 10 states.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the ACSPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established player in the solar energy sector**

Mr. Manoj Upadhyay, the promoter has almost two decades of experience in the power and telecom sector. ACSPL started operations by providing energy saving products to telecom operators and later included consultancy, design, manufacture and maintenance of integrated passive infrastructure, especially for the telecom sector. Till FY2009, the company rolled out majority of telecom towers commissioned by Bharati Airtel across the country. ACSPL started with EPC contracts in 2011 by setting up different solar projects under its SPVs. ACSPL has so far successfully executed projects with installation of more than 2000 MW spread across different states, namely, Uttarakhand, Haryana, Jharkhand, Andhra Pradesh, Punjab, Madhya Pradesh, Odisha and Gujarat to name a few. Majority of the projects of Acme Group have the long term PPA (tenor of 25 years) signed with NTPC, State Discom and SECI, thereby establishing long term offtake arrangements. Acuite believes that the company will sustain its existing business profile on the back of an established track record of operations and being one of the leading players in the solar sector.

- **Expected improvement in Financial Risk profile**

The financial risk profile of ACSPL is comfortable marked by healthy net worth, comfortable debt protection metrics and coverage indicators. The financial risk profile of ACSPL is expected to improve on account of prepaid of NCDs and Suppliers Credit and no long term debt from H2FY2021.

The tangible net worth stood at Rs.1707.90 crore as on 31 March, 2020 as against Rs.1739.75 crore as on 31 March, 2019. The gearing stood at 0.30 times as on March 31, 2020 against 0.66 times as on March 31, 2019. The total debt of Rs.517.90 outstanding as on 31 March 2020 which includes NCD of Rs.356.70 Cr., working capital of Rs.48.93 Cr. and unsecured loans from promoter and group companies of Rs.112.22 Cr. Further, the gearing for FY2021 and henceforth is expected to be at around 0.10 times on account of redemption of NCDs.

The interest cost has reduced to Rs.84.25 crore in FY2020 from Rs.139.17 crore in the previous year. The coverage indicators are healthy marked by Interest coverage ratio of 1.78 times for FY2020 as compared to 2.52 times in the previous year. Debt/EBITDA stood at 3.46 times for FY2020 as compared to 3.26 times for FY2019. The total outside liabilities to tangible net worth ratio (TOL/TNW) has improved to 1.14 times as on 31 March 2020 as compared to 1.59 times in the previous year.

Acuite expects the coverage indicators of ACSPL to be improve from FY2021 (debt/equity at ~0.10 time and Debt/EBITDA to fall below 2 times). Any challenges faced by the company to attain these financial metrics could impart a downward revision of the rating.

Weaknesses

- **Decline in the scalability and absolute Operating margins**

The business profile of ACSPL has been altered as compared to previous years. Initially, ACSPL used to undertake EPC contracts for construction of solar power projects for its subsidiaries. Since FY2020, the company will be engaged in Operation and Maintenance (O&M) of solar power plants, procurement and supply of solar modules and financial support to its subsidiaries, whenever required. The EPC business has been transferred to Acme Solar Holdings Limited (ASHL). Thus, on account of the same, the revenues on a standalone basis for ACSPL will be impacted. Further, the revenues has also been impacted in FY2021 on account of outbreak of COVID-19 followed by lockdowns across the country. The revenues for FY2020 stood at Rs.588.25 Cr. as compared to Rs.2854.90 Cr. in FY2019. Further, the company has booked revenues of ~Rs.80 Cr. in H1FY2021.

The operating margins for FY2020 stood improved at 21.48 per cent as compared to 13.98 per cent in FY2019. From FY2022, the company is likely to attain operating margins above 20 per cent. However, on account of change in business profile which has led to a significant decline in revenues, the absolute operating margins are likely to be lower. In the previous years, the absolute EBITDA stood in the range of 400-450 Cr. Further, the PAT margins are expected to improve on account of decline

in interest outgo from H2FY2020. Acuite believes ACSPL's ability to maintain its healthy financial risk profile will be central to the rating. Any significant deterioration will impinge a negative bias towards the rating.

• **Exposure to intense competition and regulatory risks related to the solar sector in India**

The performance of the solar power industry in India is dependent on the regulatory environment surrounding the industry. There has been a significant decline in the cost of solar power primarily due to a marked decline in Photo-Voltaic (PV) cell prices in the recent past. Further, entry of large players has intensified the competitive landscape in the solar sector. However, the intense competition has also resulted in highly competitive prices, sometimes going as low as Rs. 2.44 per unit as per latest Solar Energy Corporation of India (SECI) bidding. Acuite believes that this intense competition and changes in renewable energy related policies resulting in fewer solar power purchase commitments for Discoms and/or availability of low cost power from other sources may impact the scale of operations for ACSPL.

Rating Sensitivities

- Significant and sustained growth in order book, execution and operating profits
- Higher than expected increase in debt levels
- Any deterioration in liquidity position

Material Covenants

None

Liquidity position – Strong

ACSPL's liquidity is strong marked by no long term debt, realization of debtors and expected healthy net cash accruals. The company has realized its debtors in FY2020 which improved at Rs.132 Cr. for FY2020 as against Rs.1149 Cr. in FY2020. Further, the company has prepaid its NCDs in October 2020 and repaid its Suppliers Credit in FY2020 leaving the company with no long term repayment obligation and decline in interest outgo from H2FY2021. The company has unencumbered fixed deposits of ~40 Cr. and cash and bank balance of Rs.21.46 Cr. as on 31 March 2020. ACSPL will be required to support its SPVs as a sponsor wherever necessary. Further, any significant build up in receivables in SPV levels would require additional support from ACSPL, thereby impacting the liquidity of ACSPL.

Outlook: Stable

Acuite believes that ACSPL will maintain a 'Stable' outlook over the medium term on account of the company's established market position in the solar sector and extensive experience of its promoters. The outlook may be revised to 'Positive' in case of a substantial increase in net cash accruals along with significant improvement in its capital structure and debt protection indicators owing to a reduction in debt levels. Conversely, the outlook may be revised to 'Negative' in case of a sharp decline in profitability margins or deterioration in the financial risk profile due to increase in working capital requirements or significant support to its SPVs.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	588.25	2,854.90
PAT	Rs. Cr.	28.11	149.03
PAT Margin	(%)	4.78	5.22
Total Debt/Tangible Net Worth	Times	0.30	0.66
PBDIT/Interest	Times	1.78	2.52

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector – <https://www.acuite.in/view-rating-criteria-50.htm>
- Infrastructure Entities – <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years) for bank facilities rated:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
06-Sept-19	Cash Credit	Long term	10.00	ACUITE A- /Stable (Downgraded)
	Bank Guarantee	Short Term	200.00	ACUITE A2+ (Downgraded)
	Bank Guarantee	Short Term	150.00	ACUITE A2+ (Downgraded)
	Bank Guarantee	Short Term	125.00	ACUITE A2+ (Downgraded)
	Bank Guarantee	Short Term	55.00	ACUITE A2+ (Downgraded)
19-Oct-18	Cash Credit	Long term	10.00	ACUITE A /Stable (Reaffirmed)
	Bank Guarantee	Short Term	200.00	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	150.00	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	125.00	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	55.00	ACUITE A1 (Assigned)
05-April-18	Cash Credit	Long term	5.00	ACUITE A /Stable (Assigned)
	Bank Guarantee	Short Term	200.00	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	150.00	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	100.00	ACUITE A1 (Assigned)

Rating History (Upto last three years) for instruments rated:

Date	Name of Instrument	Term	Amount (Rs. Cr)	Ratings/Outlook
06-Sept-19	Non-Convertible Debentures	Long term	426.00	ACUITE A- /Stable (Downgraded)
19-Oct-18	Non-Convertible Debentures	Long term	426.00	ACUITE A /Stable (Reaffirmed)
05-Apr-18	Non-Convertible Debentures	Long term	426.00	ACUITE A /Stable (Assigned)

***Annexure – Details of bank facilities rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A / Stable (Upgraded from ACUITE A- / Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A / Stable (Upgraded from ACUITE A- / Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A1 (Upgraded from ACUITE A2+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	125.00	ACUITE A1 (Upgraded from ACUITE A2+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	170.00	ACUITE A1 (Upgraded from ACUITE A2+)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A1 (Upgraded from ACUITE A2+)

***Annexure – Details of instruments rated**

ISIN	Name of Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (Rs. Cr.)	Rating / Outlook
INE236I07012	Secured Redeemable Non-Convertible Debentures	27-Jul-16	8.00%	26-Jan-22	426.00	ACUITE A (Upgraded & Withdrawn)

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About Acuité Ratings & Research:

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