Press Release

Acme Cleantech Solutions Private Limited

September 06, 2019

Rating Downgraded

Total Instruments rated*	Rs.426.00 Cr. (Non-Convertible Debenture)
Long Term Rating	ACUITE A- / Outlook: Stable (Downgraded)
Total Bank Facilities Rated*	Rs. 540.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable (Downgraded)
Short Term Rating	ACUITE A2+ (Downgraded)

** Refer Annexure for details*

Rating Rationale

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

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

Reasons for Downgrade

The rating downgrade is driven by significant build up in receivables which has impacted the financial risk profile of ACSPL. The receivables (mostly from SPVs of the Acme Group) have increased from Rs.886.25 crore in FY2018 to Rs.1023.72 crore FY2019 (Prov.). ACSPL's interest cost (including forex loss) has significantly increased to Rs.236.74 crore in FY2019 (Prov.) from Rs.118.48 crore in FY2018. The Interest coverage ratio (ICR) has declined to 1.97 times for FY2019 (Prov.) from 2.55 times in the previous years. The previous rating had factored a deleveraging by monetisation of the investments in SPVs. Acuité believes that the significant monetisation over the near term would be difficult in the view of the sector related challenges. The solar tariffs have been witnessing progressive decline, which have impacted the returns from the solar projects. The cases of renegotiation of tariffs by certain states like Andhra Pradesh and Telangana is likely to add to challenges of the sector. More than 40% of total operational capacity of the Acme Group has a concentration in Andhra Pradesh and Telangana. Any further deterioration in debtor levels or continuing challenges in deleveraging by March 2020 could impart a negative bias towards the rating.

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 primarily engaged in Engineering, Procurement and Construction (EPC) work for solar power plants, which are being set up through various SPV's under the management of ACSPL.

Acme Group has around 47 operational SPVs with an aggregate solar capacity of ~1814 MW across more than 10 states. ACSPL is engaged in providing energy management solutions, operations and asset management services primarily for telecom sector. ACSPL is further engaged in the manufacturing of products which focuses on planning and operation of energy consuming units in the telecom industry and energy efficient Power Interface Units (PIUs), Integrated Power Management Systems (IPMS), Line Conditioner Units (LCUs) and Energy Management Units (EMUs). ACSPL provides products for efficiently managing power in telecom industry and it has developed products such as the Telecom grade DC Power House (DCPH), which reduces the overall diesel consumption at the project/telecom tower sites and also provides installation of roof top solar panels for providing power to the telecom towers. The major clients from telecom sector include Airtel, Aircel, Idea Cellular Limited and Tata Teleservices Limited.

Analytical Approach

Acuité 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 1364 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. Acuité believes that the company will sustain its existing business profile on the back of established track record of operations and being one of the leading players in the solar sector.

- **Moderation in Financial Risk profile**

  The financial risk profile of ACSPL is comfortable marked by healthy net worth and comfortable debt protection metrics. The tangible net worth stood at Rs.1734.21 crore as on 31 March, 2019 (Provisional) as against Rs.1590.29 crore as on 31 March, 2018. The gearing stood at 0.60 times as on March 31, 2019 (Provisional) against 1.04 times as on March 31, 2018. The total debt of Rs.1047.97 outstanding as on 31 March 2019 (Prov.) does not include Supplier Credit of Rs.517.86 crore, which are backed by Fixed Deposits in the respective TRAs in the books of SPV. The interest cost has increase to Rs.236.74 crore for FY2019 (Prov.) from Rs.118.48 crore. This has led to deterioration in Interest coverage indicator, which stood at 1.97 times for FY2019 (Prov.) as against 2.55 times in the previous year. Debt/EBITDA slightly improved at 2.25 times in FY2019 (Provisional) (PY: 3.80 times) mainly on account of the decrease in debt levels outstanding as on 31 March 2019.

  The total outside liabilities to tangible net worth ratio (TOL/TNW) remained moderate at around 1.55 times as on March 31, 2019 (Provisional) (PY: 1.91 times). In FY2019 (Prov.), Profit Before Tax (PBT) has declined to Rs.224.58 crore in FY2019 (Prov.) from Rs.333.70 crore in the previous year. The net cash accruals had declined in FY2018 on account of decline in net profits due to one-time write off expenses amounting to Rs.162.93 crore.

  Acuité expects the coverage indicators of ACSPL to be stabilised by FY2020 (debt/equity to range below 1 time and debt/EBITDA between 2.50 to 2 times respectively). Any challenges faced by the company to attain this financial metrics could impart a downward revision of the rating. The key for the company would be divestment of its non-core assets and monitise its investments in SPVs which was expected in FY2019. Further, the company would be highly dependent on divestment of its non-core assets and montise its investments in SPVs will be key to improve its capital structure. The company ability to timely divest its non-core asset or monitise its investments in its SPVs through various options would be a key rating monitorable.

Weaknesses

- **Susceptibility of the operating revenues to risk associated with timely completion and funding of the projects**

  The company undertakes EPC contracts for construction of solar power projects for its subsidiaries. ACSPL enters into fixed price turnkey contract with its SPVs which also stipulates timelines for the completion of the project as per the agreed schedule and the cost. The operating income of ACSPL stood at Rs.2862.86 crore in FY2019 (Provisional) as compared to Rs.2771.32 crore in FY2018. ACSPL implemented over 600MW+ of solar power projects in FY2019. Further, the company has unexecuted order book position of around ~Rs.7500.00 crore to be executed in the near to medium term. EBITDA margins have remained healthy at 16.25 per cent in FY2019 (Provisional) as against 15.69 per cent in FY2018 albeit on a declining job work expenses and freight outward. This is majorly on account of delay in implementation of two projects (namely SECI-Andhra Pradesh (150 MW) and SECI-Karnataka (160 MW)) and the revenues, which were supposed to be booked in FY2018 got deferred in Q1 of FY2019. Profit before tax (PBT) has declined in FY2019 (Prov.) from FY2018. The company has achieved PBT of Rs.224.58 crore for FY2019 (Prov.) as against Rs.333.70 crore. The significant decline in profits are mainly on account of higher interest outgo of the company in FY2019 (Prov.) which stood at Rs.236.74 crore as against Rs.118.48 crore in the previous year.

Timely implementation of the projects depends on the acquisition of land & receipt of other approvals. Secondly, the increased investment in the sector following the government push in the renewable energy coupled with lowering of capital cost has resulted in significant decline in solar tariffs. This has impacted the profitability of the players. The financial health of the discoms and the stance of certain states to renegotiate existing tariffs will continue to have a major impact in the performance of the solar projects. This in turn influence the policy of the lenders towards financing solar sector.

- **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 have been a significant decline in 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. Acuité 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.

Liquidity position

ACSPL has moderate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.149.74 crore to 203.09 crore during the last three years through 2018-19 (Prov.). ACSPL operations are moderately working capital intensive as marked by gross current asset (GCA) days of 210 in FY2019 (Prov.) This is majorly on account of continuous increase in debtors position since FY2018. The debtors stood at Rs.1023.72 crore as on 31 March, 2019 (PY: Rs.886.25 crore). This has led to increased reliance on external bank borrowings. ACSPL maintains unencumbered cash and bank balances of Rs.18.70 crore as on March 31, 2019 (Prov.). The current ratio of the company stands moderate at 1.22 times as on March 31, 2019 (Prov.) 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

Acuité 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 substantial increase in net cash accruals along with significant improvement in its capital structure and debt protection indicators owing to reduction in debt levels. Conversely, the outlook may be revised to 'Negative' in case of 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	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	2,862.86	2,771.32	3,622.71
EBITDA	Rs. Cr.	465.18	434.77	573.09
PAT	Rs. Cr.	143.91	106.87	195.53
EBITDA Margin	(%)	16.25	15.69	15.82
PAT Margin	(%)	5.03	3.86	5.40
ROCE	(%)	15.33	10.67	25.42
Total Debt/Tangible Net Worth	Times	0.60	1.04	0.54
PBDIT/Interest	Times	1.97	2.55	4.66
Total Debt/PBDIT	Times	2.25	3.80	1.41
Gross Current Assets (Days)	Days	210	256	134

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-17.htm
- Infrastructure Entities - https://www.acuite.in/view-rating-criteria-14.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

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

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
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
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	10.00	ACUITE A- / Stable (Downgraded from ACUITE A / Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A2+ (Downgraded from ACUITE A1)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A2+ (Downgraded from ACUITE A1)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	125.00	ACUITE A2+ (Downgraded from ACUITE A1)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A2+ (Downgraded from ACUITE A1)

*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- / Stable (Downgraded from ACUITE A / Stable)

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