ACME SOLAR HOLDINGS LIMITED

LONG TERM SUBSCRIBE

IPO Report

06th Nov '24

Snapshot

Company is a renewable energy company in India with a portfolio of solar, wind, hybrid and firm and dispatchable renewable energy ("FDRE") projects. Company is one of the largest renewable energy independent power producers ("IPP") in India and among the top 10 renewable energy players in India in terms of operational capacity as of June 30, 2024 and over the years, company have diversified and expanded its portfolio from solar power projects to become an integrated renewable energy company in India.

VALUATION

Company is bringing the issue at price band of Rs 275-289 per share at p/e multiple of 25x on annualized FY24 PAT basis. Company being large renewable energy player well positioned to capitalize on strong industry tailwinds has end-to-end value chain capabilities and an integrated approach to developing renewable power projects by in-house project development, engineering, procurements, construction, operations and maintenance teams has expansive portfolio diversified across different renewable energy technologies. Company has committed Promoters and senior management team but looking after financials , we recommend " Long Term Subscribe" on issue.

Price Band (Rs./Share)	**275-289**
Opening date of the issue	**06th Nov '2024**
Closing Date of the issue	**08th Nov'2024**
No of shares pre issue	52,22,07,910 Eq Shares
Issue Size	Rs 2900 Cr
Offer For Sale	Rs 505 Cr
Face Value (Rs/ share)	Rs 2/share
Employee Discount	Rs 27/share
Bid Lot	51
BIDDING DETAILS	
QIBs (Including Anchor)	75% of the offer (Approx 7,88,18,183 Eq Shares)
Non-Institutional	15% of the offer (Approx 1,57,63,636 Eq Shares)
Retail	10% of the offer (Approx 1,05,09,090 Eq Shares)
Employees	4,03,225 Eq Shares
Lead managers	Nuvama Wealth Management, ICICI Securities, JM Financial, Kotak Mahindra Capital, Motilal Oswal Investment Advisors
Registrar to the issue	KFin Technologies Limited

WHAT WE LIKE

Large renewable energy player well positioned to capitalize on strong industry tailwinds in company's IPP business

Company is one of the largest renewable energy independent power producers ("IPP") in India and among the top 10 renewable energy players in India in terms of operational capacity as of March 31, 2024, in India. Company have an aggregate Operational Project capacity of 1,340 MW (1,826 MWp); Under Construction Contracted Project capacity of 3,250 MW and Under Construction Awarded Project capacity of 1,730 MW

Expansive portfolio diversified across different renewable energy technologies

Company have an expansive portfolio of projects diversified across different renewable energy technologies. Company's projects are located across 11 Indian states of Rajasthan, Gujarat, Punjab, Madhya Pradesh, Uttar Pradesh, Bihar, Chattisgarh, Andhra Pradesh, Odisha, Karnataka and Telangana. States like Gujarat, Rajasthan, Madhya Pradesh, Andhra Pradesh, Karnataka, and Tamil Nadu offer more solar irradiance as compared to other parts of India which makes them desirable for installing solar projects. Further, states such as Gujarat, Maharashtra, Karnataka, Tamil Nadu and Andhra Pradesh have excellent wind as well solar potential and provide great opportunities for supply of hybrid power

Long-term stable cash flows based on contracts with central and state government entities

Almost all of company's portfolio is contracted through long term power purchase agreements with central and state government backed entities typically for a period of 25 years. As of June 30, 2024, the weighted average residual period (based on the contracted capacity) under the PPAs for all company's Operational Projects was 19.94 years. Company generally execute its PPAs before it commence the development and construction of its projects. As a result, once the project is commissioned and it is connected to the grid, company is able to immediately sell electricity pursuant to its contractual arrangements.

COMPANY BACKGROUND

Company develop, build, own, operate and maintain utility scale renewable energy projects (through its in-house engineering, procurement and construction ("EPC") division and operation and maintenance ("O&M") team, and generate revenue through the sale of electricity to various off-takers including central and state government-backed entities. Company was established in 2015 to consolidate the ACME Group's renewable energy business and to capitalize on the opportunities in the Indian renewable energy industry. The ACME Group is promoted by Manoj Kumar Upadhyay and ACME Cleantech was incorporated in 2003. It originally operated as a provider of energy management solutions to wireless telecommunications operators in India and subsequently entered into the renewable energy generation business in 2009.

The ACME Group has been one of the early entrants in the solar IPP business in India (Source: CRISIL Report) and commissioned its first solar power plant in Fiscal 2012. The ACME Group has a track record of developing, executing and commissioning a total of 2,719 MW (3,668 MWp) of solar power projects from inception. Company have an aggregate Operational Project capacity of 1,340 MW (1,826 MWp) solar power projects; Under Construction Contracted Project capacity of 3,250 MW including solar power projects of 1,500 MW (2,192 MWp), wind power projects of 150 MW, hybrid projects of 1,030 MW and FDRE projects of 570 MW; and Under Construction Awarded Project capacity of 1,730 MW comprising 600 MW (870 MWp) of solar power projects, 450 MW hybrid power projects and 680 MW of FDRE power projects.

The revenue from company's projects in the three months ended June 30, 2024 and June 30, 2023 and Fiscals 2024, 2023 and comprises of revenue from its operational solar projects. FDRE projects offer firm power supply as per demand given by utilities and a higher capacity utilization factor ("CUF") compared to pure-play solar and wind projects. Further, expected tariff ranges have resulted in being higher than the norm of ₹2.5 to ₹ 2.6 per unit, approaching the range of ₹3 to ₹ 5 per unit.

With this expanding portfolio, company have enhanced its capabilities and product offerings and emphasized its commitment to sustainable energy development. This ensures that company remain responsive to evolving market dynamics while maintaining its presence as a key player in the renewable energy sector. Company have also strategically divested certain solar power projects to investors delivering value to the shareholders, with a cumulative capacity of 1,379 MW (1,842 MWp) and used the proceeds from such sale to grow its business.

In addition to the above, company have secured connectivity of 647 MW, which has not been allocated to any projects, and have also applied for connectivity of 3,300 MW for future bids. Further, ACME Cleantech has signed a memorandum of understanding with the Government of Uttar Pradesh for the development of a 600 MW closed loop pump storage project in the state by ACME Urja Two Private Limited, the relevant project SPV. On June 17, 2024, company acquired the entire equity share capital of ACME Urja Two Private Limited. Terms of reference required for environment clearance has been completed, the site for the project has been identified for which land acquisition is underway and the project implementation will start once the project off-take has been firmed up and the power purchase agreement is executed. Furthers, bids for engineering, procurement and construction for the project has been floated.

According to the CRISIL Report, states like Gujarat, Rajasthan, Madhya Pradesh, Andhra Pradesh, Karnataka, and Tamil Nadu offer more solar irradiance as compared to other parts of India which makes them desirable for installing solar projects. As can be seen from the above map, more than 80% of company's Operational and Under Construction portfolio is in such states.

INVESTMENT RATIONALE

End-to-end value chain capabilities and an integrated approach to developing renewable power projects by its in-house project development, EPC and O&M teams	Company have an integrated in-house approach to executing its renewable projects across the entire life cycle of developing a project, from PPA signing to the project achieving commercial operations within 18 to 24 months and subsequently operating and maintaining the project. Company have leveraged its capabilities to capitalize on the growing renewable power industry in India and successfully won competitive bids for diverse renewable energy projects. Company's project development team has extensive experience in the renewable energy industry with the experience of completing renewable energy projects in a time and cost efficient manner. Company's end-to-end value chain capabilities include tendering and bidding, land acquisition and obtaining relevant approvals, financial closure, design engineering, procurement and construction and operations and maintenance.
Deep, long-term, expanding client relationships across healthcare Payers and Providers	All of company's clients are Payers and Providers based in the U.S. As of January 2024, company served five of the top 10 Payers by enrolment in the U.S. Company's clients also include one of the largest U.S.-based hospital networks in terms of revenue as of January 2024, three of the top 6 PBMs by claims volume and other large diagnostic laboratories, hospitals, DMEs and radiology companies. As of June 30, 2024, company's five largest client groups had an average tenure of 17 years with the Business. Company have high client stickiness and retention. Due to the sticky nature of its services and solutions, recurring revenues account for a high proportion of company's total revenues. For the Financial Year 2024 and the quarter ended June 30, 2024, company's revenue retention rates (i.e., revenues from existing clients as a percentage of revenues from such clients earned in the previous year / corresponding period in the previous year) were 110.75% and 110.82%, respectively.
Multi-shore, scalable and flexible delivery model with certified data protection and service standards	Company have a multi-shore service delivery model, whereby it provide its services from 31 locationsin five countries (U.S., Colombia, Jamaica, India and the Philippines). As of June 30, 2024, company had 35,858 employees servicing Members across the U.S. In Financial Year 2024, company helped Payers process 105 million claims and handle over 75 million Member and Provider interactions. Company determine the location of service delivery in consultation with its clients, depending upon their requirements. Company follow a flexible work from home model with many of its employees working from home.Company have dedicated leaders for each of its core service lines who are responsible for their respective service lines in each geography. At the same time, company have streamlined its global processes, allowing company to scale its services, as required, and ensure predictable and consistent service delivery.
Experienced management and board, motivated employee base, marquee sponsor support and a sustainability focused culture	Company's Key Managerial Personnel and Senior Management Personnel are positioned across the regions in which company operate, and is experienced across Payer and Provider operations, healthcare, IT services, sales and marketing, outsourcing, and technology transformation. Company's Key Managerial Personnel and Senior Management Personnel have been associated with the Business for an average of 23 years as of June 30, 2024, and have several years of industry experience. Further, three of company's Directors have a combined experience of over 65 years of experience in the healthcare industry as of June 30, 2024.

OBJECTS OF OFFER

The Offer comprises a Fresh Issue of face value of ₹ 2 each, aggregating up to ₹ 23,950.00 million by company and an Offer for Sale of up to ₹ 5,050.00 million by the Promoter Selling Shareholder.

Fresh Issue

Company proposes to utilize the Net Proceeds towards funding the following objects (collectively, the “Objects”):

1. Investment in company’s Subsidiaries for repayment/prepayment, in full or in part, of certain outstanding borrowings availed by Subsidiaries; and
2. General corporate purposes.

RISKS

Company may not be able to grow its portfolio of renewable energy power projects as company rely on highly competitive renewable energy power project auctions. Further, company’s future growth is significantly dependent on successfully executing its Under Construction Awarded Projects and Under Construction Contracted Projects. In the event, company is not successful in executing its future projects, its business and results of operations may be adversely impacted

Source:RHP

INDUSTRY OVERVIEW

Key driving factors for adoption of ESS in India

RE capacity addition: GoI has set an ambitious target of 450 GW of RE capacity addition by 2030. Such high quantum, variability, and intermittent nature of RE will drive installation of energy storage in India.

Demand profile: During non-solar peak periods, additional generation and ramping requirements are high. Further, the projected peak load growth and the expanding disparity between peak and base demand will necessitate sufficient capacity expansion and adoption of storage-based generation technologies. Additionally, energy storage will also help in addressing ramping requirements as well as providing capacity during non-solar hours.

Regulatory and Policy Support: The GoI has placed emphasis on developing BESS and PHS capacity to improve grid operations. In April 2023, the MoP issued guidelines and incentives for the PHS project to catalyse the growth of the PHS market. Other policy support to ESS includes transmission charges waiver, inclusion of ESO, VGF scheme for BESS, among others.

Storage duration: PHS offers energy storage of 6 to 12 hours, which is significantly longer than BESS. Thus, PHS is well suited for energy-shifting applications, wherein excess RE generation can be shifted to peak demand periods of late evenings. On the other hand, a single BESS can be used for multiple applications such as voltage and frequency regulation, spinning reserves, peak shaving.

Maturity of technology: Pumped storage is a proven technology and has been in use for decades to support/balance grids. Unlike other storage technologies, performance of PHS is quite reliable on long term basis. With the evolution in BESS technology and falling costs, its adoption will also see an improvement.

Self-sufficiency of domestic equipment: PHS project infrastructure is similar to a hydropower plant. Thus, with India already having a significant presence in hydropower, most PHS project components can be sourced locally. This is in high contrast to BESS, wherein battery cells, a key project component, still need to be almost wholly imported. However, with capacities awarded under the PLI scheme for advanced chemical cell battery storage, share of indigenous solutions would increase.

Economical: PHS is a cost-effective ESS technology due to a significantly longer project life (40 to 50 years) as compared to other ESS technologies. For BESS solutions too, with rising R&D and subsequent improvement in technology as well as increasing scale, cost competitiveness of such solutions to improve.

Availability of finance: The long project life of PHS has the potential to provide a stable and consistent cash inflow for about 40 years. This healthy cash-flow profile enables favourable project financing arrangements for PHS, such as lower loan rates and a higher debt-equity ratio.

Sustainable: With long useful life (more than 40 years for plant and equipment and more than 80-100 years for Dam), PHS provide long term solution. Since it involves only the flow of water (uphill & downhill), it has relatively minimal environmental impact. For batteries, a special consideration is degradation. Batteries degrade as they age, decreases the amount of capacity they can store. The expected life of the batteries is about 10 to 15 years (depending on the technology and how the batteries are operated). By the end of that time, the batteries’ capacity is expected to be reduced to less than 70% of their original capacity. Furthermore, the MoEF&CC has issued Battery Waste Management Rules, 2022 to ensure proper collection and recycling/refurbishment of waste batteries and use of recovered materials from wastes into new batteries. This will ensure environmentally sound management of waste batteries.

Consolidated Financials

(Rs in Mn)

Financials	FY22	FY23	FY24	Q1 FY 2025
Total Revenue (A)	14879.02	12949.04	13192.50	3096.40
Total Expenditure (B)	2475.8	1223.11	2301.02	379.18
EBIDTA	12403.22	11725.93	10891.48	2717.22
EBIDTA Margin	83.36	90.55	82.56	87.75
Other Income	748.24	664.69	1470.17	303.74
Depreciation	5462.75	4848.02	3081.38	555.62
EBIT	7688.71	7542.60	9280.27	2465.34
Interest	9960.08	8090.97	7672.93	1962.83
PBT	-2271.37	-548.37	1607.34	502.51
Share of profit in Asso	0.00	0.00	0.00	0.00
PBIT	-2271.37	-548.37	1607.34	502.51
Exceptional	3295.63	394.36	7486.91	0.00
PBT	1024.26	-154.01	9094.25	502.51
Tax	404.16	-122.27	2116.44	488.62
PAT	620.10	-31.74	6977.81	13.89
NPM	4.17	-0.25	52.89	0.45
ROE%	3.25	-0.17	26.93	0.07
EPS	1.12	-0.06	12.55	0.03
Eq Cap	1,044.42	1,044.42	1,044.42	1,044.42
Net Worth	19,087.63	19,005.63	25,908.69	25,921.21

(Source: RHP)

Peer Comparison

Company Name	Face Value	EPS	P/E	ROE %	NAV
Company	***2***	***12.55***	--	***26.93***	***49.61***
Peers					
Adani Green Energy Limited	10	6.21	291.7	7.22	85.86
ReNew Energy Global PLC	10	9.94	48.8	3.07	332.16

(Source: RHP)

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