September 29, 2023

VS Lignite Power Private Limited: Provisional rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Proposed term loan	200.00	Provisional [ICRA]BBB- (Stable); assigned
Proposed working capital	50.00	Provisional [ICRA]BBB- (Stable); assigned
Long term - Unallocated	5.00	Provisional [ICRA]BBB- (Stable); assigned
Total	**255.00**	

**Instrument details are provided in Annexure-1*

Rating in the absence of pending actions / documents	[ICRA]BBB-

Rationale

ICRA's provisional rating for the proposed bank facilities of VS Lignite Power Private Limited (VSLPPL) factors in the presence of a long-term (10-year) power purchase agreement (PPA) with a strong counterparty, PTC India Limited (PTC; rated [ICRA]A1+), for its 135-MW lignite based power plant in Rajasthan. The PPA has been signed for a net capacity of 115 MW with a minimum guaranteed offtake of 75% of the contracted capacity and a minimum tariff obligation of Rs. 3.25/unit, mitigating the demand and tariff risks to a large extent. The rating factors in the credit strength of the offtaker, which is expected to result in timely payments. The rating also factors in the low fuel availability risk, given the presence of a captive lignite mine in Rajasthan, with a capacity of 1.0 million metric tonnes per annum (MTPA). The captive mine has ensured stable lignite supply to the plant so far. The terms of the proposed term loan require the company to repay ~58% of the debt over FY2024 to FY2026 and the debt coverage metrics are expected to remain adequate during this period.

VSLPPL, earlier promoted by KSK Electricity Financing India Pvt. Ltd. (KEFIPL), was taken over by Sherisha Technologies Private Limited (STPL) in March 2021 through the National Company Law Tribunal (NCLT) proceedings under the Insolvency and Bankruptcy Code (IBC). Post takeover by STPL, VSLPPL has demonstrated a satisfactory track record of operations over the past two years selling power through short-term agreements and has repaid ~32% of the sustainable debt of Rs. 170 crore approved under the resolution plan. As part of the proposed refinancing, VSLPPL proposes to raise additional debt to fund the mining capex and acquire a water pumping system to supply water to its project, which is currently housed under SN Nirman Infra Projects Private Limited. This in turn is expected to result in cost savings for the company.

The rating is, however, constrained by the sensitivity of the debt coverage metrics to the plant load factor (PLF) achieved, actual tariff realisation and the mining cost. The single-part tariff under the PPA exposes the company's revenues and profitability to the generation of the thermal power plant. Further, the actual tariff realisation (over and above the minimum tariff obligation) is linked to PTC signing a back-to-back power sale agreements (PSA). Given the expected increase in mining cost from FY2027 due to a change in the mining block having a higher stripping ratio and lack of any fuel cost pass-through mechanism under the PPA, the ability of the company to achieve cost-reflective tariffs under the PPA with PTC would remain important.

Also, ICRA notes that demonstration of a longer track record of satisfactory operations under the new promoter group remains important from a credit perspective. Further, ICRA notes that the proposed loan has a cross-default clause with the promoter group – STPL, STPL Power Services LLP and STPL Solutions LLP - and a put option is also available for the lender at the end of the sixth year. The refinancing risk at this time would be mitigated, given the scheduled repayment of 79% of the debt in the first six years and availability of adequate tail period under the PPA. Further, the cross-default linkage is limited to a loan extended by the proposed lender of VSLPPL to these entities. ICRA notes these entities do not have any outstanding debt from this lender.

The Stable outlook on VSLPPL's provisional rating reflects the benefits of the long-term PPA to the company with a strong counterparty and adequate debt coverage metrics expected on the proposed term loan over the next three years.

Key rating drivers and their description

Credit strengths

Long-term PPA limits demand and tariff risk – VSLPPL has signed a 10-year PPA for 115 MW with PTC, effective from July 2023. The offtaker has a minimum offtake obligation of 75% of the contracted capacity and a minimum tariff obligation of Rs. 3.25/unit. While PTC is an intermediary and could choose to sell power in the short-term market or sign a medium-term or long-term power sale agreement (PSA) with an ultimate offtaker, the presence of a long-term PPA reduces the demand and tariff risk to a large extent for VSLPPL.

Low fuel availability risk – The plant is located at the pithead of the captive Gurha (East) lignite block with a capacity of 1.0 MTPA, ensuring stable lignite supply so far. The annual production from the mine is sufficient to operate the power plant at the minimum required PLF under the PPA. Further, the company is permitted to sell excess lignite and other mining by-products in the open market, providing an avenue for additional revenue.

Strong customer profile mitigates counterparty credit risk – The presence of a strong offtaker, PTC (rated [ICRA]A1+), though the sole customer, mitigates the counterparty credit risk and is expected to result in timely payments.

Credit challenges

Sensitivity of debt coverage metrics to tariff realised and mining cost – The debt coverage metrics of the company over the tenure of the proposed debt would remain sensitive to the actual tariff realised under the PPA (over and above the minimum tariff) that is linked to PTC signing a back-to-back PSA and the expected increase in mining cost from FY2027 onwards due to a change in the mining block that has a higher stripping ratio. However, the proposed acquisition of a water pumping system in FY2024 is expected to result in cost savings for the company. Considering the cost savings and the minimum tariff guaranteed under the PPA, the debt coverage metrics of the company are expected to be adequate over FY2024 to FY2026. Thereafter, it will remain sensitive to the tariff realised and escalation in fuel costs.

Vulnerability of revenues and profitability to generation – The single-part tariff under the PPA exposes the company's revenues and profitability to the PLF levels achieved by the thermal power plant. It is also exposed to the risk of any significant increase in fuel cost that cannot be passed through under the terms of the PPA.

Demonstration of longer track record of operations under new promoter – In March 2021, the company had been taken over by STPL through the NCLT route. The company has been demonstrating a satisfactory operating track record for the past two years and repaid ~32% of the sustainable debt agreed under the resolution plan. Demonstration of a longer track record of satisfactory operations under the new promoter would provide greater comfort on its operating performance and financial policy. Further, ICRA notes that the proposed loan has a cross-default clause with the promoter group – STPL, STPL Power Services LLP and STPL Solutions LLP - and a put option is also available for the lender at the end of the sixth year. Nonetheless, the cross-default linkage is limited to a loan extended by the proposed lender of VSLPPL to these entities. ICRA notes these entities do not have any outstanding debt from this lender.

Liquidity position: Adequate

VSLPPL's liquidity position is expected to remain adequate with a healthy buffer between cash flows from operations and debt servicing obligations. Further, the company has unencumbered cash and bank balances of Rs. 17.08 crore as of May 2023. Further, VSLPPL proposes to avail working capital facilities of Rs. 50 crore and is required to create debt service reserve (DSRA) equivalent of one quarter of debt servicing under the terms of the proposed loan. The proposed acquisition of the water pumping system for the project and mining capex is expected to be funded through additional debt being availed under the refinancing.

Rating sensitivities

Positive factors – The rating could be upgraded based on the demonstration of a longer track record of satisfactory operations under the new promoter and signing of a long-term PPA with the ultimate customer by PTC, providing certainty on the tariff realisation and thereby strengthening the debt coverage metrics.

Negative factors – The rating could witness a downward revision in case of a sharp decline in the profitability of the company, adversely impacting its debt coverage metrics, either due to inadequate tariffs, or a sharp increase in operating costs, or weakening of the operating efficiencies. Also, any delays in receiving payments from PTC adversely impacting the company's liquidity profile is another downgrade factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Thermal Power Producers] [Policy on Assigning Provisional Ratings]
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the rated entity

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon execution of:

1. Loan agreement
2. Trust and retention account agreement
3. Creation of DSRA
4. Any other documents required for the transaction

Validity of the provisional rating

In case the debt instrument/borrowing facility to which a provisional rating has been assigned is subsequently issued, the provisional rating will have to be converted into a final rating within 90 days (validity period) from the date of issuance of the debt instrument/date of availing the borrowing facilities. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final, in circumstances where the rated entity expressly indicates its intention to complete the pending actions/documents over the near term. In no circumstance shall the validity period be extended beyond 180 days from the date of issuance. For further details, refer to ICRA's Policy on Provisional Ratings available at www.icra.in.

If neither the pending actions/documents nor the issuance is completed after one year of assignment of the provisional rating, ICRA will withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at www.icra.in.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon a review of the required actions/documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at www.icra.in.

About the company

VSLPPL operates a lignite-fired power plant with an installed capacity of 135 MW in the Bikaner district of Rajasthan. The power plant was commissioned in July 2010 and sources fuel from a captive lignite mine. Earlier, VSLPPL was promoted by KEFIPL, a power project investment arm under Hyderabad-based KSK Group. In March 2021, the company was acquired by STPL through the NCLT proceedings under IBC. The shareholding of the company is held by STPL Power Services LLP (51%) and STPL Solutions LLP (49%). The company has tied up a 10-year PPA with PTC India Limited with effect from July 2023.

Key financial indicators (audited)

VSLPPL Standalone	FY2022	FY2023^
Operating income (Rs. crore)	229.0	301.3
PAT (Rs. crore)	-36.9	42.6
OPBDIT/OI (%)	21.5%	22.4%
PAT/OI (%)	-16.1%	14.1%
Total outside liabilities/Tangible net worth (times)	17.32	3.98
Total debt/OPBDIT (times)	3.21	1.93
Interest coverage (times)	3.13	4.75

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Jul 31, 2023 (Rs. crore)	Date & rating	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Sep 29, 2023	-	-	-
1	**Proposed term loan**	Long-Term	200.00	-	**Provisional [ICRA]BBB- (Stable)**	-	-	-
2	**Proposed working capital**	Long-Term	50.00	-	**Provisional [ICRA]BBB- (Stable)**	-	-	-
3	**Unallocated**	Long-Term	5.00	-	**Provisional [ICRA]BBB- (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Proposed term loan	Simple
Proposed working capital	Simple
Unallocated	NA

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 / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Proposed term loan**	-	-	-	200.00	Provisional [ICRA]BBB- (Stable)
NA	**Proposed working capital**	-	-	-	50.00	Provisional [ICRA]BBB- (Stable)
NA	**Unallocated**	-	-	-	5.00	Provisional [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

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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