

VS Lignite Power Private Limited

| Instrument | Amount | Rating Action |
|------------------------------|------------------------------|--------------------------------|
| | in Rs crores | As on March 2016 |
| Term loans | 72.56 (revised from 85.16) | Revised to [ICRA]BB (Negative) |
| Fund based limits | 50.00 (revised from 52.00) | Revised to [ICRA]BB (Negative) |
| Non-Fund based limits | 10.00 | Revised at [ICRA]A4 |
| Unallocated | 203.19 (revised form 188.59) | Revised to [ICRA]BB (Negative) |

ICRA has revised the long term rating to [ICRA]BB (pronounced ICRA double B) from [ICRA]BBB- (pronounced ICRA triple B minus)¹ and short term rating to [ICRA]A4 (pronounced ICRA A four) from [ICRA]A3 (pronounced ICRA A three) for the term loans, fund based, non-fund based and unallocated limits of VS Lignite Power Private Limited (VSLPL) aggregating to Rs. 335.75 crore². The outlook on the long term rating remains Negative.

The revision in the ratings assigned to VSLPL factors in the weak financial profile of the company owing to continued losses from the power generation business resulting in negative net-worth and weak debt coverage indicators. Until March 2015, the operations of the 135 MW lignite based power plant were adversely affected by inadequate tariff with group captive industrial consumers in relation to the cost of generation. In March 2015, the company has terminated the power sale agreements with the group captive consumers citing the directive from Ministry of Coal, Government of India (GoI), stipulating projects with captive mines to supply power generated using fuel from such mines to state discoms through long term PPAs. However, VSLPL is yet to tie-up long term PPA with state discoms resulting in high demand and tariff risks for the power generation business. While the company is currently supplying to Rajasthan state discoms through short term sale agreements, ICRA notes the tariff under the prevailing sale remains unviable in relation to the cost of generation for the project. The ratings also factor in the high counter-party credit risks given the weak financial profile of Rajasthan discoms as well as the pending receivables on account of disputed payments with industrial customers. ICRA further takes note of the significant weakening of the credit profile of the group characterized by decline in profitability, high debt levels and weak debt coverage indicators at a consolidated level owing to multiple factors including significant delays in execution of the 3600 MW thermal power project located in Chhattisgarh, as well as continued losses for some of the operational projects of the group.

However, the ratings positively factor in the low fuel availability risks for the power generation operations of the company given the presence of a captive lignite mining block and in view of the stable supply of lignite over the past 5-6 years. The ratings also factor in the sanction received from three major lenders in the consortium (accounting for 60% of the outstanding debt) for implementation of 5/25 flexible structuring scheme for the project debt allowing longer repayment tenure and ballooning repayment structure. Nonetheless, ICRA notes that receipt of formal sanction from the remaining lenders in the consortium remains critical for implementation of the longer repayment tenure. Going forward, ICRA notes that the ability of the company to tie-up long term PPAs with the state discoms at rates more stable than what is achieved currently is critical for future profitability of the project.

Company Profile

VSLPL is a special purpose vehicle (SPV) promoted by Hyderabad based KSK group. VSLPL operates a 135 MW lignite fired power plant at Gurha village in Bikaner district of Rajasthan. The plant was synchronized to the grid in March 2010 and commissioning was announced in July 2010. The power plant sources fuel from a captive lignite mine and is right now selling power to Rajasthan state electricity distribution companies (discoms) through short term power sale agreements. The operations and maintenance (O&M) of the power plant is carried out by Operational Energy Group Limited.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

² Rs 1 Crore = Rs 100 Lakh = Rs 10 Million



Recent Results

In FY2015, VSLPL reported operating income of Rs. 233.48 crore with net loss of Rs. 29.83 crore, as against operating income and net loss of Rs. 253.40 crore and Rs. 26.22 crore respectively in FY2014.

March, 2016

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