December 27, 2023

VS Lignite Power Private Limited: Provisional rating withdrawn; [ICRA]BBB- (Stable) assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Proposed term loan	200.00	-	Provisional [ICRA]BBB- (Stable); withdrawn
Proposed working capital	50.00	-	Provisional [ICRA]BBB- (Stable); withdrawn
Long Term – Fund Based – Term Loan	-	97.65	[ICRA]BBB- (Stable); assigned
Long term – Unallocated	5.00	157.35	Provisional [ICRA]BBB- (Stable); withdrawn and [ICRA]BBB- (Stable); assigned
Total	**255.00**	**255.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's withdrawal of the provisional rating of [ICRA]BBB- (Stable) for the proposed bank facilities of VS Lignite Power Private Limited (VSLPPL) is at the company's request, attributed to a delay in execution of the loan documents for the proposed loan. Further, ICRA has assigned a rating of [ICRA]BBB- (Stable) for the company's existing bank facilities.

The assigned rating for the bank facilities of VSLPPL continues to factor 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-megawatt (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 a stable lignite supply to the plant so far.

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). Following the takeover by STPL, VSLPPL has demonstrated a satisfactory track record of operations over the past two and half years, selling power through short-term agreements and has repaid ~43% of the sustainable debt of Rs. 170 crore approved under the resolution plan.

The rating is, however constrained by the sensitivity of debt coverage metrics to the actual tariff realised, plant load factor (PLF) achieved, mining expenses and water charges incurred over the debt tenure. Further, the single-part tariff under the PPA exposes the company's revenues and profitability to the generation of the thermal power plant. Also, the actual tariff realisation (beyond the minimum tariff obligation) is linked to PTC signing a back-to-back power sale agreement (PSA). Given the lack of any fuel cost pass-through mechanism under the PPA, the company's ability to achieve cost-reflective tariffs under the PPA with PTC would remain important. Also, ICRA notes that the demonstration of a longer track record of satisfactory operations under the new promoter group remains important from a credit perspective.

The Stable outlook on VSLPPL's rating reflects the benefits of the long-term PPA to the company, with a strong counterparty and adequate debt coverage metrics on the existing term loan.

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 a 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 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. Further, it is also dependent on the PLF achieved, mining expenses and water charges incurred over the debt tenure.

Vulnerability of revenues and profitability to generation and fuel cost – 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 and other operating costs, given the lack of any cost pass-through mechanism under the PPA terms.

Demonstration of longer track record of operations under new promoter – In March 2021, the company was taken over by STPL through the NCLT route. The company has demonstrated a satisfactory operating track record for the past two and half years and repaid ~43% of the sustainable debt agreed under the resolution plan. The demonstration of a longer track record of satisfactory operations under the new promoter would provide greater comfort to its operating performance and financial policy.

Liquidity position: Adequate

VSLPPL's liquidity position is expected to remain adequate with an adequate buffer between cash flows from operations and debt servicing obligations. Further, the company has unencumbered cash and bank balances of Rs. 62.53 crore as of October 2023 against the outstanding debt obligation of Rs. 97.65 crore. The mining capex going forward is expected to be funded through cash flows from operations and available cash balances.

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 the 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, a sharp increase in operating costs or a weakening of the operating efficiencies. Also, any delays in receiving payments from PTC, adversely impacting the company's liquidity profile, is another downgrading factor. Specific credit metric for downgrade includes the cumulative DSCR falling below 1.20 times.

Analytical approach

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

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	301.4
PAT (Rs. crore)	-36.9	41.4
OPBDIT/OI (%)	21.5%	22.0%
PAT/OI (%)	-16.1%	13.7%
Total outside liabilities/Tangible net worth (times)	17.32	4.07
Total debt/OPBDIT (times)	3.21	1.97
Interest coverage (times)	3.13	4.66

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

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 Nov 30, 2023 (Rs. crore)	Date & rating			Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 27, 2023	Sep 29, 2023	June 30, 2023	June 20, 2022	April 22, 2021	-
1	**Proposed term loan**	Long-Term	200.00	-	**Provisional [ICRA]BBB- (Stable); withdrawn**	**Provisional [ICRA]BBB- (Stable)**	-	-	-	-
2	**Proposed working capital**	Long-Term	50.00	-	**Provisional [ICRA]BBB- (Stable); withdrawn**	**Provisional [ICRA]BBB- (Stable)**	-	-	-	-
3	**Term Loan**	Long-Term	97.65	97.65	**[ICRA]BBB- (Stable); assigned**	-	-	-	-	-
4	**Unallocated**	Long-Term	157.35	-	**Provisional [ICRA]BBB- (Stable); withdrawn and [ICRA]BBB- (Stable); assigned**	**Provisional [ICRA]BBB- (Stable)**	-	-	-	-
5	**Fund Based-Cash Credit**	Long-Term					**[ICRA]D; ISSUER NOT COOPERATING; Withdrawn**	**[ICRA]D; ISSUER NOT COOPERATING**	**[ICRA]D; ISSUER NOT COOPERATING**	-
6	**Fund Based-Term Loan**	Long-Term					**[ICRA]D; ISSUER NOT COOPERATING; Withdrawn**	**[ICRA]D; ISSUER NOT COOPERATING**	**[ICRA]D; ISSUER NOT COOPERATING**	-
7	**Unallocated**	Long-Term					**[ICRA]D; ISSUER NOT COOPERATING; Withdrawn**	**[ICRA]D; ISSUER NOT COOPERATING**	**[ICRA]D; ISSUER NOT COOPERATING**	-
8	**Non-Fund Based-Others**	Short-Term					**[ICRA]D; ISSUER NOT COOPERATING; Withdrawn**	**[ICRA]D; ISSUER NOT COOPERATING**	**[ICRA]D; ISSUER NOT COOPERATING**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Proposed Term loan	Simple
Proposed Working Capital	Simple
Term Loan	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); withdrawn
NA	**Proposed Working Capital**	-	-	-	50.00	Provisional [ICRA]BBB- (Stable); withdrawn
NA	**Term loan – I**	May-2021	-	Mar-2026	45.59	[ICRA]BBB- (Stable)
NA	**Term loan – II**	May-2021	-	Mar-2026	2.74	[ICRA]BBB- (Stable)
NA	**Term loan – III**	May-2021	-	Mar-2026	17.31	[ICRA]BBB- (Stable)
NA	**Term loan – IV**	May-2021	-	Mar-2026	16.38	[ICRA]BBB- (Stable)
NA	**Term loan – V**	May-2021	-	Mar-2026	8.50	[ICRA]BBB- (Stable)
NA	**Term loan – VI**	May-2021	-	Mar-2026	7.13	[ICRA]BBB- (Stable)
NA	**Unallocated**	-	-	-	157.35	Provisional [ICRA]BBB- (Stable); withdrawn and [ICRA]BBB- (Stable) assigned

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

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 4547 4829
vikram.v@icraindia.com

Vinayak Ramesh
+91 40 4547 4829
r.vinayak@icraindia.com

Saurabh Gupta
+91 22 6169 339
saurabh.gupta@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches