July 26, 2024

Kishtwar Transmission Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	305.00	305.00	[ICRA]BBB- (Stable); reaffirmed
Total	**305.00**	**305.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the rating for Kishtwar Transmission Limited (KTL) takes into consideration the track record of its parent, the Sterlite Group, in the implementation and operation of power transmission projects. In India, the Group has completed 12 power transmission projects as of March 2024, with another eight transmission projects, including KTL, under implementation. The commissioned power transmission projects have been operating at healthy line availability of more than 99%.

KTL derives synergy from its ultimate parent, Sterlite Power Transmission Limited (SPTL), which is involved in the engineering, procurement and construction (EPC) of power transmission projects and supply of power transmission conductors. SPTL and GIC have partnered and created a new platform in 2024 to develop and operate power transmission projects in India. SPTL will own the majority stake of 51% and GIC will own the remaining 49% stake. GIC is a leading global investment firm established to manage Singapore's foreign reserves and has a diversified portfolio spanning across asset classes. Further, SPTL is in process of demerging its transmission business to Sterlite Grid 5 Limited, (SGL 5), which will hold the 51% stake in this platform with GIC holding the balance 49%. KTL will be one of the projects under this new platform.

The company has awarded a fixed-price EPC contract to SPTL, thereby eliminating raw material price movement risk. The rating also favourably takes note of the completion of financial closure with the company securing a Rs. 305-crore term loan for the project, with a moratorium period of nine months and a door-to-door tenure of 23 years. Further, the company has received ~40% of the budgeted equity so far, with the sponsors expected to have adequate resources to fund the balance equity.

ICRA positively notes that the project benefits from an assured offtake and stable cash inflows in the form of fixed monthly charges under the terms of the 35-year transmission service agreement (TSA), provided the line availability is maintained above the normative level of 98%, post commissioning. Further, the project, being a part of the interstate transmission system (ISTS), is expected to benefit from favourable payment security under the pooling mechanism managed by the Central Transmission Utility of India Limited (CTU), a subsidiary of Power Grid Corporation of India Limited, during the operating period.

The rating is, however, constrained by implementation risks, with the project being in the early stage of construction. The company is currently working on foundations for four out of the five towers required for the project and civil works are underway for the substation. The company has obtained transmission licence and Section 164 clearance; however, the PTCC[1] clearance and approval from Ministry of Defence are yet to be received. The rating also factors in the risks related to delays in receiving approvals and right of way. However, the non-applicability of forest approval, environment clearance and Railway/ River/ Road/ Power Line crossings for this project limit the approval risks. Also, the transmission line length of the project is only 1.4 kms, thereby limiting the right of way risks. The company has acquired ~83% of the required land for the project substation; however, the land required for the project's scope has been fully acquired and the pending land acquisition is for

[1] *Power & Telecommunications Coordination Committee*

the future scope. The timely acquisition of the right of way for the towers and the receipt of pending approvals without any delays would be important.

Further, as KTL's transmission project is linked to the 1,000-MW Pakaldul hydropower project of Chenab Valley Power Projects Private Limited (a JV of NHPC Limited and Jammu And Kashmir State Power Development Corporation Limited), delays in the commissioning of the generation project could lead to the receipt of 50% of the transmission charges for the first six months after the commissioning of the transmission project or date of commissioning of the generation project, whichever is earlier, post which the receipt of full transmission charges will commence, subject to the requisite availability.

After commissioning, the company's profitability would be exposed to line availability and fluctuations in operations and maintenance (O&M) expenses. Nonetheless, the experience of the Group in the power transmission business should ensure adequate resource allocation for maintaining availability above the normative level of 98.0% and cost-efficient execution of O&M activity. The rating also takes into account the exposure of the company's debt coverage metrics to interest rate movement, post CoD, given the high leverage level with the project funded through debt and equity of 75:25 and the floating interest rates.

The Stable outlook reflects ICRA's expectation that the project would progress as per the company's expected timelines on the back of the established track record of the Sterlite Group in executing power transmission projects.

Key rating drivers and their description

Credit strengths

Established track record of Sterlite Group in implementation and operation of power transmission projects – The Group is one of the major private players in India's power transmission sector and the project will benefit from the established track record of the Group.

Synergy with SPTL; fixed-price EPC contract signed – The company enjoys synergy with SPTL, which is involved in the EPC of power transmission projects and the supply of power transmission conductors. The experience of SPTL will help in the timely execution of the project. The presence of a fixed-price EPC contract with SPTL helps the company to offset the exposure to adverse raw material price movements.

Financial closure for debt funding – The company has achieved financial closure for debt funding of Rs. 305 crore, which has a door-to-door tenure of 23 years, including a moratorium of nine months post the scheduled CoD. Further, the promoters have infused Rs. 40.58 crore as on June 12, 2024, out of their total contribution of Rs. 101.67 crore in the project cost, and are expected to have adequate resources to fund the balance equity in a timely manner. Further, SPTL has a track record of supporting its SPVs to fund the cost overruns, if any.

Assured offtake under long-term TSA; strong payment security – Post commissioning, the company will enjoy assured offtake and stable cash inflows in the form of fixed monthly charges, provided the line availability is maintained above the normative level of 98% under the TSA with the long-term transmission customers. The project will also benefit from the diversified counterparty risk and favourable payment security under the pooling mechanism, once commissioned. Under this mechanism, the Central Transmission Utility of India Limited (CTU) collects monthly transmission charges from ISTS customers, which are distributed to all the ISTS licensees from the centrally collected pool.

Credit challenges

Implementation risks associated with typical power transmission projects – At present, the project is in an early stage of construction, which exposes it to significant execution risks. The company is currently working on foundations for four of the five towers required for the project and civil works are underway for the substation. The company has obtained transmission licence and Section 164 clearance; however, the PTCC clearance and approval from the Ministry of Defence are yet to be received. The rating factors in the risks related to delays in receiving approvals and right of way. However, the non-applicability of forest approval, environment clearance and railway/river/road/power line crossings for this project limits the approval risks. Also, the transmission line length of the project is only 1.4 km, thereby limiting the right of way risks. The company has acquired ~83% of the required land for the project sub-station; however, the land required for the project's scope has been fully acquired and the pending land acquisition is for the future scope.

Moderate operations and maintenance risk – Post commissioning, the company's profitability would remain exposed to the variations in O&M expenses and line availability. However, the experience of SPTL in the power transmission business should ensure adequate resource allocation and cost-efficient execution of the O&M activity.

Interest rate risk – The project is being funded by debt-to-equity funding mix of 3:1, with the debt having floating interest rates. Thus, the company's debt coverage would be exposed to interest rate movement, post commissioning, given the largely fixed transmission revenue.

Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate, given the availability of the requisite debt funding for the project and infusion of ~40% of the budgeted equity. The balance equity is expected to be funded by the sponsor in a timely manner. Also, there is adequate buffer between the scheduled commissioning date and the debt repayment commencement date.

Rating sensitivities

Positive factors – ICRA could upgrade KTL's rating if the company progresses towards commissioning the project without any major time and cost overruns.

Negative factors – Pressure on the rating could emerge in case of any significant delay in project implementation, or sizeable cost overrun. Any delay in the infusion of promoter contribution would also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power Transmission
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Kishtwar Transmission Limited (KTL) is a special purpose vehicle (SPV) incorporated to set up a 'Transmission system for the evacuation of power from the Pakaldul HEP in Chenab Valley (Jammu) HEPs - Connectivity system'. The project involves setting up a new substation at Kishtwar, Jammu, along with connecting bays and double circuit transmission line of 1.4 km. The project was awarded through tariff-based competitive bidding by PFC Consulting Limited (PCL; bid process coordinator for power transmission projects appointed by Government of India), wherein Sterlite Grid 24 Limited (subsidiary of SPTL) emerged as the winning bidder with a quoted levellised tariff of Rs. 38.846 crore/annum. Following the bidding process, KTL was acquired by Sterlite Grid 24 Limited from PCL in December 2022. While the letter of intent was issued by PCL in March 2022, the SPV acquisition was delayed owing to delay in the signing of the TSA by one of the LTTCs. The project is being implemented on a built, own, operate and maintain (BOOM) basis, with a TSA tenue of 35 years post commissioning. The budgeted cost of the project is Rs. 406.7 crore, funded through debt and equity of 75:25.

Key financial indicators

	FY2023	FY2024
Operating income	NM	NM
PAT	NM	NM
OPBDIT/OI	NM	NM
PAT/OI	NM	NM
Total outside liabilities/Tangible net worth (times)	NM	NM
Total debt/OPBDIT (times)	NM	NM
Interest coverage (times)	NM	NM

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; NM – Not Meaningful as company is in project stage

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Jul 26, 2024	Apr 06, 2023	-	-
Term loan	Long-term	305.00	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple

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	**Term loans**	December 2022	-	March 2045	305.00	[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

ANALYST CONTACTS

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

Vikram V
+91 40 6939 6410
vikram.v@icraindia.com

Rachit Mehta
+91 22 6169 3328
rachit.mehta2@icraindia.com

Mahesh Patil
+91 22 6169 3379
mahesh.patil@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.

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.

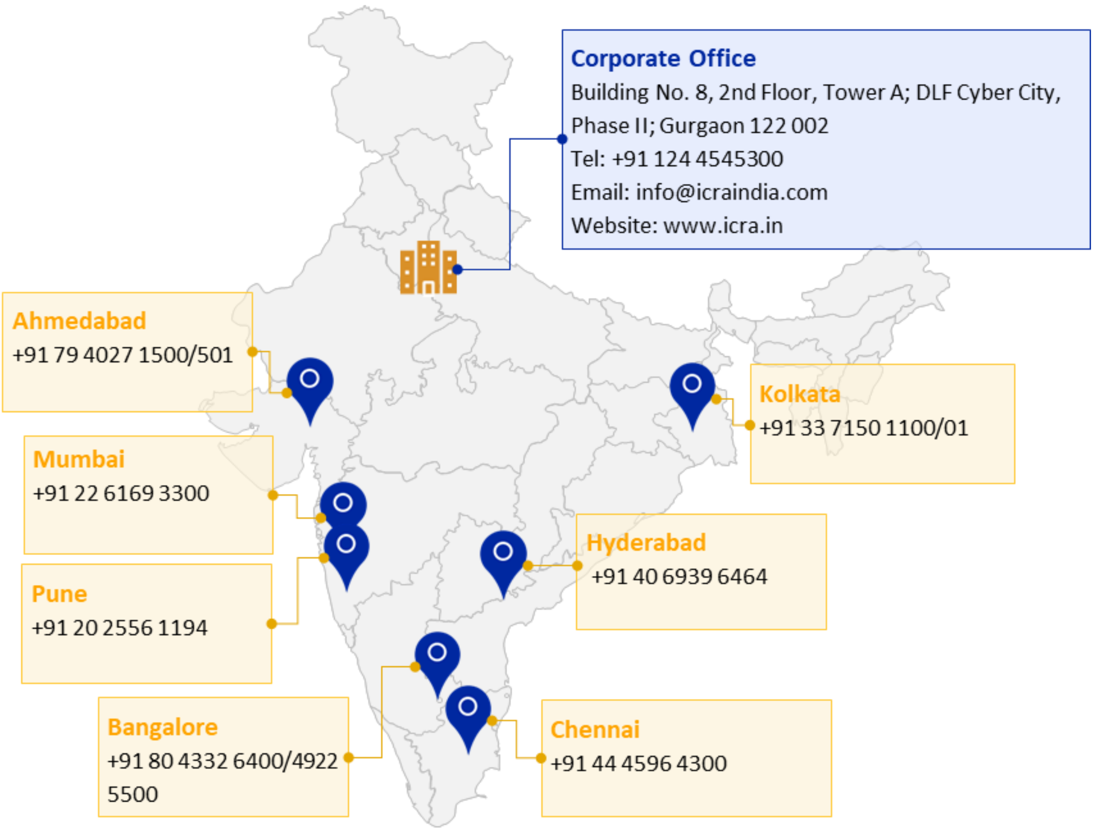
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.