

September 08, 2021

SJVN Thermal Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	5480.48	8448.46	[ICRA]BBB+ (Stable); Reaffirmed
Total	5480.48	8448.46	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating takes into account the strong credit profile, long track record of operations, project execution and management capabilities of SJVN Limited (SJVN), which holds a 100% stake in SJVN Thermal Private Limited (STPL) that is currently developing a 1,320-MW coal-based thermal power plant in Buxar, Bihar. ICRA expects SJVN to infuse equity and facilitate achievement of necessary project milestones/clearances in a timely manner. While the project has witnessed minor delays on account of the Covid-19 pandemic-led lockdown, its commercial operation date (COD) remains January 2024. The rating notes the cost-plus tariff-based power purchase agreement (PPA) based on the Central Electricity Regulatory Commission's (CERC) tariff regulations, which should result in assured returns for the project, subject to allowance of project costs and operations at normative levels. The fuel supply risk for the project is minimal with presence of Fuel Supply Agreement (FSA) from Central Coalfields Limited (CCL) for the entire project capacity. Moreover, the power generated by the Buxar project is likely to be very competitive on account of close proximity to coal mines (expected supply of coal from Magadh – Amrapali coal block in Jharkhand).

The rating, however, is constrained by the sizeable project implementation risks, given the current nascent stage of project development (~23.7% till July 2021). While certain portions of land relating to the water pipeline corridor and railway tracks are yet to be acquired (land for main plant already acquired), both the water source and the nearest railway station (Chausa) are within 5 km (aerial distance, track length 33 km for railway siding) of the project site. Further, it is expected that the works on the transmission line to be developed by Bihar State Transmission Company Limited (or Bihar Transco) for evacuation of power from the project will commence shortly. Overall comfort is drawn from the presence of reputed engineering procurement and construction (EPC) contractor, Larsen & Toubro Ltd (L&T), which has a significant experience in developing projects of such scale. NTPC Limited has been appointed as the project management consultant for end-to-end commissioning of the project, which also offers comfort.

With power being sold to Bihar discoms (for 85% project capacity), the project is exposed to counterparty credit risk resulting from the weak financial profile of its beneficiaries. However, the presence of payment security mechanisms in the PPA and coverage under the tripartite agreements signed between the Government of India, respective state governments and the Reserve Bank of India provides comfort.

The Stable outlook on the rating reflects ICRA's opinion that STPL will continue to benefit from its strong parentage and will be able to commission the project within the budgeted time and cost.

Key rating drivers and their description

Credit strengths

Strong parentage of SJVN – STPL is a wholly-owned subsidiary of SJVN, which has developed and is operating hydro power plants for more than 15 years. It has an installed capacity of 2,016.51 MW, which consists of two hydro power plants of aggregate 1,912 MW, two wind projects of aggregate 97.6 MW and a solar plant of 6.91-MW capacity. The financial profile of SJVN is strong, given the cost-plus tariff and long operational history of its hydro plants, leading to strong accruals that resulted in negative net debt. ICRA expects SJVN to meet the funding requirements of STPL as and when required (not limited to equity funding for the current budgeted cost of the Buxar project)

PPA signed for entire capacity mitigates offtake risk; cost-plus tariff to result in fuel cost pass-through, recovery of fixed costs and assured returns – STPL has executed a PPA with Bihar discoms for its entire capacity. The tariff is based on CERC guidelines, which allow recovery of fixed charges and pass-through of energy charges, along with assured return on equity and incentives. This is a significant source of comfort as it will offer steady revenues, assured return as well as comfortable debt servicing, subject to operating at normative parameters (minimum plant availability factor of 85%). Fuel cost pass-through will result in full recovery of variable costs, subject to operations within the normative parameters. Notably, the company's profitability will not be affected by any increase in fuel costs. This should lead to a healthy financial profile for STPL.

Permitting risks remain low – The project has received clearance from the Ministry of Environment Forest and Climate Change, Bihar Pollution Control Board and Airport Authority of India (for stack height) and 1,058 acres of land required for the main plant has been acquired. The power evacuation is to be undertaken by Bihar Transco.

Minimal fuel supply issues – The company has signed a FSA with CCL for supply of the full quantum of 4.976 MTPA of coal requirement of the station at the price notified by Coal India Limited (CIL). This significantly mitigates the fuel supply risks for the project. Given that the tariff is cost-plus in nature, availability of fuel will enable the company to achieve normative availability for full recovery of capacity charges.

Competitive cost of power results in increased affordability – The project benefits from its proximity to coal mines (coal likely to be supplied from Magadh – Amrapali Coal block located ~465 km from the project site). This should result in a very competitive cost of power, which should lead to full scheduling of power from the plant on account of higher rank in the merit order of the state discoms. Additionally, as the cheaper generated power from the project can be competitively supplied to alternate customers (in the event of non-payment of dues by the Bihar discoms), it will ensure timely payment of dues from its beneficiaries.

Credit challenges

Significant execution risk considering nascent stage of construction – The construction activities have commenced from June 2019 with the award of EPC package to L&T. However, given the very nascent stage of construction, construction delays may result in time and cost overrun. Time and cost overruns will ultimately have to be approved by CERC. Disallowance, if any, and the extent of the same may lead to subdued project returns, as well as lower cushion for debt servicing. The presence of L&T as the EPC contractor (rated [ICRA]AAA (Stable)/A1+) is a source of comfort regarding the timeliness of project execution.

Exposure to counterparty credit risks; mitigated by presence of payment security mechanism – STPL has contracted bulk of its capacity (85%) with Bihar discoms, which exposes it to significant counterparty credit risks, given the weak financial profile of its beneficiaries. ICRA notes that the PPA has adequate payment security mechanism in the form of letter of credit (to be provided by the discoms) and it is also covered under the tri-partite agreement between the state, Central Government and

the Reserve Bank of India, which allows for debiting of state government account in the event of delays in payment from state distribution companies.

Liquidity position: Adequate

STPL's liquidity is **adequate**, supported by SJVN, which is expected to provide the necessary support in terms of management expertise and meeting equity commitments in a timely manner. ICRA notes the tie-up of project debt financing, which will ensure necessary capital to enable commissioning of the project within the budgeted estimates. ICRA expects that with the achievement of design operating parameters, the company's liquidity profile will remain adequate post commissioning. It is likely to generate adequate cash flows for debt servicing and still have surplus cash from operations.

Rating sensitivities

Positive factors – ICRA may upgrade STPL's rating if the project is commissioned within the budgeted time and cost estimates.

Negative factors – Negative pressure on STPL's rating may arise on account of time and cost overruns in commissioning of the thermal project, resulting in lowering of expected return and coverage metrics, or if there is a change in support philosophy or deterioration in credit profile of the parent - SJVN Ltd.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers Rating approach - Implicit parent or group support
Parent/Group Support	Parent – STPL is a wholly-owned subsidiary of SJVN Assigned rating derives comfort from STPL being a 100% owned subsidiary of SJVN; ICRA expects that SJVN will meet the funding requirements of STPL as and when required (not limited to equity funding for the current budgeted cost of the Buxar project)
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity

About the company

STPL, erstwhile Buxar Bijli Company Pvt Ltd. (BBCPL), was incorporated in May 2007 for development of 1,320-MW super critical thermal power project in Buxar, Bihar. SJVN signed MoU with Bihar State Power Holding Company Limited (BSPHCL) and Bihar Infrastructure Company (BPIC) in January 2013, wherein the project was transferred to SJVN. SJVN took over BBCPL in July 2013 and the name of the company was changed to STPL (a wholly-owned subsidiary of SJVN Ltd) in October 2013. The Cabinet Committee of Economic Affairs has approved the proposal of investment for the project at a cost of Rs. 10,439.09 crore in March 2019. The project is to be funded in debt to equity ratio of 70:30. Financial closure has been achieved and the facility agreement for project financing has been signed in March 2021 with consortium of State Bank of India (lead bank), Canara Bank and India Infrastructure Finance Company Limited. So far, Rs. 2,475 crore has been incurred on the project till July 2021 and the same has been funded through equity from SJVN. The PPA has been signed with North Bihar Power Distribution Company Limited (NBPDC) and South Bihar Power Distribution Company Limited (SBPDCL), subsidiaries of Bihar State Power Holding Company Limited (BSPHCL, 85% allocated to Bihar discoms, 15% available with Ministry of Power, Government of India as unallocated quota) for a term of 25 years from start of commercial operations with tariff based on prevailing CERC regulations and will include capacity charge, energy charge, incentives, taxes, levies, etc. The PPA was originally signed with BSPHCL and subsequently assigned to NBPDC and SBPDCL. The project is expected to be commissioned in January 2024.

Key financial indicators (audited)

STPL	FY2020	FY2021
Operating Income (Rs. crore)	0.0	0.0
PAT (Rs. crore)	-0.4	1.1
OPBDIT/OI (%)	NM	NM
PAT/OI (%)	NM	NM
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.2
Total Debt/OPBDIT (times)	NM	NM
Interest Coverage (times)	NM	NM

NM: Not meaningful

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 (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jul 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2018
					Sep 8, 2021	Mar 31, 2021	Feb 17, 2020	-
1	Term Loan	Long-term	8448.46	Nil	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	NCD	Long Term	-	-	-	[ICRA]BBB+ (Stable) - withdrawn	[ICRA]BBB+ (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
State Bank of India	Term loan	16-Mar-21	-	31-Mar-39	3,414.00	[ICRA]BBB+ (Stable)
Canara Bank	Term loan	16-Mar-21	-	31-Mar-39	2,730.46	[ICRA]BBB+ (Stable)
India Infrastructure Finance Company Limited	Term loan	16-Mar-21	-	31-Mar-39	2,304.00	[ICRA]BBB+ (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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