July 05, 2022

Lakadia Vadodara Transmission Project Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	1,417.00	1,417.00	[ICRA]BBB- (Stable); reaffirmed and outlook revised to Stable from Positive
Non-fund based letter of credit#	(710.00)	(500.00)	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed and outlook revised to Stable from Positive
Total	**1,417.00**	**1,417.00**	

**Instrument details are provided in Annexure-1; #sublimit of term loan*

Rationale

ICRA's rating action factors in the delays in the execution of the power transmission project under Lakadia Vadodara Transmission Project Limited (LVTPL), owing to the impact of Covid-19, the cyclone in Gujarat and delays in acquiring right of way (RoW). As a result, the scheduled commissioning date (SCoD) of the project was deferred from November 30, 2021 at the time of the last rating exercise to June 30, 2022 initially, and further to December 30, 2022. The delays in the implementation, along with higher compensation for RoW, are expected to lead to cost overruns for the project. Nonetheless, ICRA takes note of the advanced stage of project construction. The project progress is at 88.4% as on June 15, 2022, with 96.3% of the foundations completed, 90.0% of the towers erected and 68.0% of the stringing work completed. Also, two of the three lenders have approved the extension in the SCoD and the same is under consideration by the third lender.

Further, ICRA notes that the Group has arranged funds for the cost overruns through promoter contribution. Therefore, timely acquisition of the balance RoW, approvals related to various crossings and timely infusion of funds for cost overruns remain important to commission the project within the proposed timeline of December 30, 2022. The company would file a petition for extension in CoD with the Central Electricity Regulatory Commission (CERC), closer to the project completion and for additional tariff arising under change in law items such as higher land compensation, post commissioning.

The ratings continue to factor in the track record of the Sterlite Power Group in implementing and operating power transmission projects. In India, the Group has completed 11 power transmission projects till date and has six projects, including LVTPL, at various stages of implementation. The commissioned power transmission projects have been operating at healthy line availability of more than 99%. LVTPL derives synergy from the group company, Sterlite Power Transmission Limited (SPTL) which is involved in engineering, procurement and construction (EPC) of power transmission projects and supply of power transmission conductors. The company has awarded a fixed price EPC contract to SPTL, therefore, eliminating raw material price movement risk. ICRA notes that the shareholders have infused ~99% of the equity required for the project as of June 2022. The ratings derive comfort from the financial flexibility that LVTPL has by virtue of being a part of the Sterlite Power Group and with AMPCII No.2 SARL as its investor.

The ratings also favourably note that the company has achieved financial closure for Rs. 1,417-crore term loans for the project, with a provision of six months moratorium period and a door-to-door tenure of ~20 years for Rs 1000 crore loan and ~15.5 years for Rs 417 crore loan. Also, the interest rate on the project debt has been reduced to 9.78% (blended rate) from 10.1% earlier. Moreover, the project benefits from assured offtake under the long-term transmission service agreement (TSA) and the tariff payments are expected to be timely as it is part of the inter-state transmission system (ISTS).

However, the company's profitability would be exposed to line availability and fluctuations in operations and maintenance (O&M) expenses post commissioning, although SPTL's experience in the power transmission business should ensure adequate resource allocation and cost-efficient execution of O&M activity. The ratings also consider the exposure to interest rate risks due to the high share of debt funding in the project cost and largely fixed tariff under the TSA.

The Stable outlook assigned to the long-term rating of LVTPL reflects the significant progress achieved in project execution and the approval received from the lenders for extending the SCoD.

Key rating drivers and their description

Credit strengths

Established track record of Sterlite Group; fixed price EPC contract with SPTL – The Sterlite Group is one of the major private players in the power transmission sector in India and the project will benefit from the established track record of the Group in implementing and operating power transmission projects. The company enjoys synergy with the flagship company of the Group, SPTL, which is involved in EPC of power transmission projects and supply of power transmission conductors. This will help in timely execution of the project once the RoW issues have been resolved. Fixed-price EPC contracts with SPTL also helps the company to substantially offset an exposure to adverse raw material price movements.

Financial closure in place for debt funding and majority of promoter funding infused – The company has achieved financial closure for bank loans of Rs. 1,417 crore, which has a door-to-door tenure of ~20 years for a Rs 1,000-crore loan and ~15.5 years for a Rs 417-crore loan, including a moratorium of six months post the scheduled commercial operation date (SCoD). Also, the interest cost has been reduced to 9.78% (blended rate) from 10.1% earlier. As on June 27, 2022, 91% of the project cost has been incurred with the promoters infusing 99% of their contribution and the balance funded through debt. While the project is expected to witness cost overruns owing to revision in land compensation and delays in execution, the sponsors are expected to fund the cost overrun without any additional debt from the lenders.

Assured offtake under long-term TSA and strong payment security – The presence of a long-term TSA and the company being a part of the ISTS network will enjoy assured off-take of power as well as stable cash inflows in the form of annuity-based fixed monthly charges, provided the line availability is maintained above 98%. The project will benefit from the diversified counterparty risk and a favourable payment security under the pooling mechanism, once commissioned. Under this mechanism, the central transmission utility (CTU) i.e. the Central Transmission Utility of India Limited, collects monthly transmission charges from ISTS customers, which are distributed to ISTS licensees from the centrally collected pool.

Credit challenges

Implementation risks associated with project's under-construction status – The project is currently under implementation and has achieved 88.4% construction progress as on June 15, 2022 against the planned progress of 100% as per the catch-up plan. A portion of tower erection (10.0%) and stringing work (32.0%) remains pending, thereby exposing it to execution risks. The project faced delays in execution due to Covid-19, the cyclone in Gujarat and RoW issues, which led to a deferment of the SCoD from November 30, 21 to June 30, 2022 and further now to December 30, 2022. Two of the three lenders have approved the extension in CoD and the third lender is considering the extension request. The company would file a petition for extension in COD with CERC, closer to the project commissioning. Moreover, the project is witnessing cost overruns due to delays in execution and increase in RoW compensation. The ability of the sponsor to secure the pending approvals (related to road, power line and gas pipeline crossing) and the balance RoW along with funding the cost overrun remain important to commission the project within the proposed timelines. Any further delays in commissioning or delays in securing extension approval from the lenders would adversely impact the credit profile of the project.

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

Interest rate risk and high gearing level – The project is being funded with 70:30 debt-to-equity funding mix. Hence, the capital structure would remain leveraged and the debt coverage metrics would be exposed to the interest rate movement, given that the revenues are expected to remain largely fixed while the interest rates will be floating.

Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate, given the availability of requisite funding to complete the project, in the form of sanctioned debt funding for the project and infusion of 99% of the budgeted equity as of June 2022. Further, the sponsor has tied up resources to fund the cost overruns which provide additional comfort. The project debt repayment is scheduled to commence six months post CoD, providing adequate buffer for the project to stabilise post commissioning.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings once the transmission project is fully commissioned.

Negative factors – The ratings could be downgraded in case of a significant delays in project implementation without a commensurate approval from the lenders for CoD extension, thereby impacting its ability to service the debt obligations. Also, the inability of the promoter to fund the cost overruns in a timely manner would be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Power Transmission Companies
Parent/Group Support	ICRA favourably factors in the strong financial flexibility enjoyed by LVTPL by virtue of it being a part of Sterlite Power Group and backed by AMPCII No.2 SARL
Consolidation/Standalone	The ratings are based on the company's standalone profile.

About the company

LVTPL was incorporated in 2019 as a special purpose vehicle to establish ~334 km of 765 kV D/C transmission line from Lakadia to Vadodara. The project also involves the installation of 300 MVAr switchable line rectors and two 765 kV bays at Lakadia and Vadodara substations in Gujarat. LVTPL was transferred to Sterlite Grid 18 Limited (SGL18), (which is held by SPTL and AMPCII No.2 SARL) after it was awarded the project. The project is being implemented on a Build, Own, Operate and Maintain (BOOM) basis and has a transmission service agreement (TSA) with long-term transmission customers for 35 years.

Key financial indicators (audited)

LVTPL Standalone	FY2021	FY2022
Operating income (Rs. crore)	NM	NM
PAT (Rs. crore)	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;

NM: Not meaningful as the project is under construction

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on June 27, 2022 (Rs. crore)	Date & rating as on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					July 05, 2022	June 18, 2021	May 04, 2020	-
1	Term Loan	Long-term	1,417.0	1,245.00	[ICRA]BBB- (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	-
2	Non-fund Based Letter of Credit#	Short-term/ Long-term	(500)	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Positive)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	-

#Sublimit of term loan

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term/ Short -term – Non-Fund Based	Very 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: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Sanction	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan – I	June 2020	-	September 2042	1000.00	[ICRA]BBB- (Stable)
NA	Term Loan – II	September 2019	-	September 2036	217.00	[ICRA]BBB- (Stable)
NA	Term Loan – III	May 2021	-	September 2036	200.00	[ICRA]BBB- (Stable)
NA	Non-fund Based- Letter of Credit#				(500)	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: *Company; #sublimit of term loan*

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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

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

Vikram V
+91 40 4067 6518
vikram.v@icraindia.com

Deep Desai
+91 22 6169 3379
deep.desai@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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