August 30, 2022

Chhattisgarh Hydro Power LLP (Formerly Chhattisgarh Hydro Power (P) Ltd.): Ratings upgraded to [ICRA]A (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term- Term Loan	98.96	80.71	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Long Term – Non-Fund Based	5.00	5.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Total	**103.96**	**85.71**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the improvement in the credit profile of Chhattisgarh Hydro Power LLP's controlling partner, Sarda Energy & Minerals Limited (SEML, the flagship entity of the Sarda Group), on account of a significant increase in the revenue and operating profits that has improved the debt coverage metrics.

The rating also factors in the improved generations with the 24-MW Gullu hydroelectric project achieving a plant load factor (PLF) of 50.5% in FY2021 and 50.4% in FY2022 against a P-90 PLF of 50.1%. The rating continues to consider the favourable regulatory environment (exemption from scheduling norms and high feed-in tariffs for small hydro projects in Chhattisgarh). The rating also reflects the limited offtake risks for the Gullu hydroelectric project, supported by a 35-year long-term power purchase agreement (PPA) with Chhattisgarh State Power Distribution Company Limited (CSPDCL) at a remunerative fixed feed-in tariff of Rs. 5.21/unit, which leads to healthy business returns.

The rating also factors in the prepayment of a term loan of Rs. 6.73 crore in FY2022 and derives strength from the availability of a debt service reserve account (DSRA), amounting to Rs. 10 crore, which would adequately cover six months' debt service requirements for the existing project loan. In addition, the elongated tenure of the loan, with a ballooning repayment, taken at a competitive interest rate, leads to healthy debt service coverage ratio (DSCR), strengthening CHPLLP's credit profile.

ICRA expects SEML to be willing to extend financial support to CHPLLP, should there be a need, given the strategic importance that CHPLLP holds for SEML, for meeting its diversification objectives. The entity has received funding support from the Sarda Group in the past for completing the operational project at Gullu. Further, the strong parentage has led to increased financial flexibility for CHPLLP, as indicated by its ability to raise a long-term 11-year door-to-door tenure loan at an attractive interest rate. SEML's liquidity position remains strong with consolidated cash and liquid investment of Rs. 733 crore as on March 31, 2022 and healthy expected cash accruals in FY2023. The strong financial risk profile of SEML is also reflected in a healthy consolidated net debt/OPBDITA of 0.6 times as on March 31, 2022.

The rating is, however, tempered by CHPLLP's exposure to hydrology risks, given that the profits are directly linked to the rainfall levels. In addition, the entity remains exposed to asset and customer concentration risks, given that it has a single asset delivering power to a single offtaker. The rating also reflects CHPLLP's sizeable upcoming debt-funded capex plan for constructing another 24.9-MW small hydropower project in Chhattisgarh, exposing the LLP to execution risks, and would keep the leverage ratios at an elevated level in the medium term, during the project construction period.

The rating is also constrained by the weak financial profile of the offtaker (CSPDCL), which could potentially lead to working capital blockage in future. Given its corporate status as an LLP, CHPLLP inherently suffers from the potential risk of capital leakage due to withdrawal by the partners, which could adversely impact its capital structure and leverage metrics in future.

Going forward, CHPLLP's financial profile will be supported by the accruals generated from the operational hydropower project as well as the demonstrated funding support from the Sarda Group. In addition, it is expected to benefit from the Group's experience in developing other hydropower projects, which can be leveraged during the development of the upcoming 24.9-MW project within the budgeted time and costs.

The Stable outlook on the rating reflects ICRA's opinion that CHPLLP will be able to operate the Gullu hydroelectric project at a steady-state PLF of over 40% over the medium term, which is significantly higher than the minimum guaranteed supply commitment of 30%. ICRA expects that CHPLLP would be able to maintain a healthy collection efficiency from CSPDCL, which would help to generate adequate retained cash flows to service its scheduled debt repayments.

Key rating drivers and their description

Credit strengths

Stable earnings from hydropower project at Gullu; improvement in generation levels in FY2021 and FY2022 – CHPLLP commissioned a 24-MW small hydropower project at Gullu, in Chhattisgarh, on July 17, 2017. With the completion of synchronisation on March 31, 2017, the project is eligible for 80-IA tax benefits, which support its profits and cash accruals. The LLP has been able to generate free cash flows since its first year of operations in FY2018. Supported by favourable hydrology, the Gullu hydroelectric project generated at a PLF of 50.5% in FY2021 and 50.4% in FY2022, which is on a par with its P-90 PLF of 50.1%. This increase in generation levels improved the overall profitability and debt metrics, thereby providing greater predictability to its future cash flows.
While the project has generated at its P-90 PLF for the last two years, the generations in Q1 FY2023 were low at 3.6 MU against 13.7 MU in Q1 FY2022 on account of scattered and delayed monsoon. However, with the arrival of better monsoon from July-August 2022, the LLP expects to recoup the lost generations of Q1 FY2023 to some extent. Despite the expectations of lower generations in FY2023 compared to the previous two years, ICRA expects the DSCR matrix to remain comfortable at ~1.3 in FY2023. ICRA notes that the LLP has received a capital subsidy of Rs. 5 crore from the Ministry of New and Renewable Energy (MNRE), which supported the overall business returns.

Limited offtake risks for Gullu hydroelectric project supported by long-term PPA – CHPLLP has signed a 35-year long-term PPA with CSPDCL, which covers the entire economic life of the project, at a fixed feed-in tariff of Rs. 5.21/unit. Moreover, ICRA notes that the non-solar renewable purchase obligation (RPO) trajectory in Chhattisgarh has been steadily increasing to 10.5% in FY2022 from 8.5% in FY2021, which partly mitigates the offtake risks. Additionally, to incentivise investments in setting up small hydro projects in the state, the Chhattisgarh State Electricity Regulatory Commission (CSERC) has increased the feed-in tariffs for the upcoming new small hydro projects in the state to Rs. 6.15/unit in FY2021 and Rs. 6.33/unit in FY2022 from Rs. 5.96/unit in FY2020, which indicates a conducive regulatory environment.

Healthy business returns supported by adequate fixed feed-in tariff – The tariff for the 24-MW operational hydroelectric project at Gullu has been fixed at a reasonable level of Rs. 5.21/unit for the entire term of the PPA. Supported by healthy generation levels and remunerative tariffs, the Gullu hydroelectric project is expected to yield a healthy post-tax project IRR[1] of 16.1% and a comfortable cumulative DSCR of 1.84 times. The capital cost intensity for the Rehar-I small hydro project (SHP) is likely to remain higher at ~Rs. 10.04 crore/MW against Rs. 8.9 crore/MW for Gullu. Given the prevailing feed-in tariff of Rs. 6.33/unit, the return indicators for the Rehar-I SHP are estimated to remain favourable as well.

1 *Internal rate of return*

Liquidity buffer from DSRA strengthens credit profile – In addition to the attractive tariff levels and timely collections for Gullu, which supports positive retained cash flows, CHPLLP's liquidity profile is also strengthened by the presence of two quarters of pre-default DSRA kept as fixed deposit with the lender.

Extended ballooning tenure of project debt leading to a comfortable debt service coverage ratio – The loan for the 24-MW Gullu hydropower project has an extended repayment tenure of 10 years with a ballooning structure (one-year moratorium and 10-year repayment). With high interest servicing requirement during the initial years, the ballooning repayment pattern would give CHPLLP an adequate headroom to meet its debt service requirements. Further, the prepayment of two installments of the term loan aggregating to Rs. 6.73 crore in FY2022 provides additional comfort. ICRA expects CHPLLP's DSCR to remain comfortable in a range of 1.3-2.0 times between FY2023 and FY2025.

Exemption from day-ahead scheduling to plug revenue leakage – As the CSERC waived the scheduling requirement for renewable energy projects in December 2019, the LLP has been able to continuously achieve a PLF higher than the design PLF of 50.13% in FY2021 and FY2022. Given the variability in rainfall and the challenges associated with forecasting generation in a run-of-the-river hydroelectric project, CHPLLP's actual generation remained higher than the scheduled generation during the earlier years which is now being averted.

Demonstrated funding support from Sarda Group – CHPLLP's partners include SEML (which has a profit-sharing ratio of 72%) and Sarda Energy Limited (which is a wholly-owned subsidiary of SEML and has a profit-sharing ratio of 28%). ICRA notes that CHPLLP has received funding support from the Sarda Group in the past for completing the operational project at Gullu. Further, the strong parentage has led to increased financial flexibility, as indicated by the entity's ability to raise long-term 11-year door-to-door tenure loan at a competitive interest rate. This apart, it benefits from the Group's experience in the development and operation of other hydropower projects.

Credit challenges

Exposure to hydrology risks – CHPLLP's PPA with CSPDCL is based on a single part feed-in tariff, and consequently, the entire hydrology risk is borne by the seller. Further, the PPA provides for penalty[2] payable by the seller to the offtaker in case the generation in any fiscal falls below the minimum guaranteed supply against a plant load factor (PLF) of 30%. Consequently, in years of poor hydrology, when the PLF is lower than 30%, CHPLLP remains exposed to lower revenues and potentially faces the risk of liquidated damages for a shortfall in the minimum guaranteed supply.

Exposure to asset and customer concentration risks – As on date, CHPLLP has a single operational small hydropower project, supplying power to a single offtaker. This exposes it to asset and customer concentration risks. Moreover, the entity's small scale of operations remains a constraint. However, the commissioning of the 24.9-MW Rehar-1 SHP in FY2025 will reduce the asset concentration risk to some extent.

Exposure to execution risks due to sizeable debt-funded capex plans – Apart from the operational Gullu project, CHPLLP has been allotted three more small hydropower projects in Chhattisgarh having a cumulative capacity of around 74 MW. The construction of the 24.9-MW Rehar-I SHP (in Chhattisgarh) has commenced and is expected to be completed by March 2025. Given the geological challenges associated with the execution of hydroelectric projects, the entity would be exposed to execution risks during the construction period. The Rehar-I SHP's budgeted cost has been pegged at Rs. 250 crore (Rs. 10.04 crore/MW), to be funded in a debt-to-equity mix of around 70:30. The sizeable debt-funded capex is anticipated to lead to a deterioration in CHPLLP's total debt/OPBITDA metric during the project construction period. ICRA estimates that due to the gradual absorption of Rehar-I SHP's project debt in the balance sheet, CHPLLP's total debt/OPBITDA is likely to reach a peak level of around 5.2 times in FY2025 from 1.6 times in FY2022.

[2] *In proportion to the penalty imposed by the State Electricity Regulatory Commission on CSPDCL for non-fulfilment of renewable purchase obligations*

Weak financial profile of the offtaker – The weak financial profile of CSPDCL exposes CHPLLP to the risk of potential working capital blockage in future. However, ICRA notes that payments from CSPDCL have been received within 60-90 days thus far, which, in turn has supported its healthy free cash flow generation.

Risk of capital withdrawal by partners – In the past, CHPLLP has been utilising a part of the surplus funds in extending advances to SEML and repaying unsecured loans from the partners. Given its corporate status as an LLP, the entity inherently suffers from the risk of capital leakage due to withdrawal by the partners, which could adversely impact its capital structure and leverage metrics in future.

Liquidity position: Adequate

CHPLLP's liquidity is **adequate**, with the entity expected to generate positive retained cash flows, which can adequately cover its scheduled debt service obligations. Moreover, the LLP has been generating positive free cash flows during the last four years. However, with the Rehar-I SHP execution expected to gradually pick up from FY2023, its free cash flows are likely to remain negative thereafter during the project construction period. ICRA notes that the LLP has tied up the entire project debt for Rehar-I SHP construction, which mitigates the funding risks to a large extent. CHPLLP's liquidity profile is also supported by the presence of a DSRA of Rs. 10 crore with the lender, which would cover the debt service requirements for two quarters in case of any cash flow shortfalls.

Rating sensitivities

Positive factors - ICRA could upgrade CHPLLP's rating if it is able to commission the upcoming Rehar-I SHP within the budgeted time and costs, or there is a significant improvement in the credit profile of parent SEML.

Negative factors - Pressure on CHPLLP's rating could arise if its PLF levels fall below 30% on a sustained basis, leading to financial burden emanating from the minimum guaranteed supply commitment to the buyer. The rating may also be downgraded if there is a significant deterioration in the collection efficiency, pulling down the retained cash flows lower than the scheduled debt service obligations. Further, the rating may be under pressure if CHPLLP is not able to tie up PPA at a remunerative tariff for Rehar-I SHP prior to the commissioning of the project. Other constraining factors include deterioration in the credit profile of the parent, SEML, or weakening in the linkages with SEML/change in support philosophy of the parent towards CHPLLP.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent Company: Sarda Energy & Minerals Limited (SEML) ICRA expects CHPLLP's controlling partner, SEML, to be willing to extend financial support to CHPLLP, should there be a need, given the strategic importance that CHPLLP holds for SEML for meeting its diversification objectives. ICRA also expects SEML to be willing to extend financial support to CHPLLP out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

CHPLLP (formerly Chhattisgarh Hydro Power Pvt. Ltd) was incorporated on May 24, 2005 as a private limited company. It was converted into an LLP on September 17, 2010. The partners of CHPLLP include SEML (72% profit share) and Sarda Energy Limited (28% profit share).

CHPLLP has commissioned a 2x12-MW Gullu small hydropower plant in the Jashpur district of Chhattisgarh. The plant has entered into a long-term PPA with CSPDCL for a tenure of 35 years at an attractive feed-in tariff of Rs. 5.21/unit. It is constructing another 3X8.3-MW small-hydroelectric project (Rehar-I) on the Rehar river in the Surajpur district of Chhattisgarh.

Key financial indicators (CHPLLP – Standalone)

CHPLLP (Standalone)	FY2021	FY 2022
Operating income (Rs. crore)	56.8	56.6
PAT (Rs. crore)	25.1	33.4
OPBDIT/OI (%)	91.4%	89.9%
PAT/OI (%)	44.2%	59.1%
Total outside liabilities/Tangible net worth (times)	1.1	0.9
Total debt/OPBDIT (times)	1.9	1.6
Interest coverage (times)	5.5	7.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Key financial indicators (SEML – Standalone)

SEML (Consolidated)	FY2021	FY 2022
Operating income (Rs. crore)	2198.8	3914.0
PAT (Rs. crore)	380.4	808.2
OPBDIT/OI (%)	23.0%	34.6%
PAT/OI (%)	17.3%	20.6%
Total outside liabilities/Tangible net worth (times)	1.0	0.7
Total debt/OPBDIT (times)	3.5	1.2
Interest coverage (times)	6.4	9.2

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 (FY2023)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020	
					30-Aug-22	2-Aug-21	2-Jul-21	21-Sep-20	31-May-19	25-Apr-19
1	Term loan	Long Term	80.71	80.71	**[ICRA]A (Stable)**	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-
2	Non-Fund Based	Long Term	5.00	2.40	**[ICRA]A (Stable)**	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-	-
3	Unallocated	Long Term	-	-	-	-	-	[ICRA]BBB+ (Stable)	-	-
4	Issuer Rating	Long Term	-	-	-	[ICRA]A- (Stable) – withdrawn	[ICRA]A- (Stable) – Notice of withdrawal	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term- Term loan	Simple
Long 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 Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Sep 2017	7.2%	FY2028	80.71	[ICRA]A(Stable)
NA	Non-Fund Based	-	-	-	5.00	[ICRA]A(Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

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

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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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