

September 14, 2022

Sembcorp Energy India Limited: Update on Material Event

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Commercial Paper	500.00	500.00	[ICRA]A1+
Total	500.00	500.00	

*Instrument details are provided in Annexure-I

Rationale

On September 05, 2022, it was announced that Sembcorp Industries Ltd (SCI), through its wholly owned subsidiary, Sembcorp Utilities Pte. Ltd. (SUPL), has entered into a share purchase agreement to sell 100% of its shares in Sembcorp Energy India Limited (SEIL) to Tanweer Infrastructure Pte. Ltd (TIPL). TIPL is indirectly owned by a consortium (the Tanweer Consortium) led by Oman Investment Corporation S.A.O.C. (OIC), the Ministry of Defence Pension Fund, Oman (MODPF) and Dar Investment SPC (Dar Investment). The Purchaser is a newly incorporated entity formed for the purpose of acquiring SEIL. The consideration for this acquisition payable by the purchaser to SCI is Rs. 11,733.8 crore in the form of a deferred payment note payable over a period of fifteen years (extendable by another nine years), subject to changes post finalisation of the transaction. The transaction is expected to be completed by May 2023. The transaction is part of SCI's transformation strategy to convert its portfolio to green from brown and to strengthen its balance sheet.

While taking note of the proposed change in ownership of SEIL, ICRA notes that the Sembcorp Group would continue to manage the asset under a technical service agreement, proposed to be signed between a wholly owned subsidiary of SCI and SEIL. Further, the corporate guarantee provided by the Sembcorp Group for some of the debt availed by SEIL would continue even after this transaction. Moreover, given that the sale consideration is receivable by SCI over a period through upstreaming of the project cash flows to TIPL, maintaining a healthy performance of the thermal assets under SEIL remains important for the Sembcorp Group. Also, ICRA takes note of the improved revenue visibility for the assets under SEIL, following the signing of a new power purchase agreement (PPA) for project-2 of SEIL with PTC India Limited (200 MW) in February 2022 and expected commencement of power supply under the new PPA (625 MW) with distribution utilities of Andhra Pradesh from October 2022. The overall capacity tied up under long-term/medium-term PPAs by SEIL now stands at over 85% of the installed capacity. Given these factors, the transaction is not expected to have a material impact on SEIL's credit risk profile. Nonetheless, ICRA would continue to monitor the progress on the transaction and the impact of the final terms of the transaction on SEIL's credit profile.

Please refer to the following link for the previous detailed rationale that captures key rating drivers and their description, the liquidity position, rating sensitivities, and key financial indicators: [Click here](#)

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 Company- Sembcorp Utilities Pte Ltd Rating is based on implicit support from the parent company (Sembcorp Utilities Pte Ltd) which is expected to extend support in case of cash flow mismatches
Consolidation/Standalone	Standalone

About the company

Sembcorp Energy India Limited (SEIL) is a subsidiary of Singapore-based Sembcorp Utilities Pte Limited. Sembcorp Utilities Pte Ltd is part of Sembcorp Industries Ltd, which is owned 49.5% by Temasek (rated AAA by Moodys).

SEIL has 2,640 MW of thermal power projects (Project 1 and Project 2 of 1320 MW each) which are entirely operational. Project 1 has long-term PPAs for 500 MW with the discoms of united Andhra Pradesh (bifurcated into Telangana and Andhra Pradesh) and medium-term PPAs for 570 MW with Telangana discoms valid till FY2024. Project 2 has a long-term PPA for 250 MW with Bangladesh Power Development Board. Further, Project-2 has signed another PPA recently for 625 MW with the discoms of Andhra Pradesh (power supply expected to commence from October 2022) and 200 MW with PTC India Ltd. Thus, the total capacity tied up under long-term/medium term PPAs by the two projects is ~85% of the overall capacity. The remaining capacity of Project 1 and Project 2 is sold through short-term PPA/merchant route. The company has a fuel supply agreement for 4.27 MTPA of coal from MCL for Project 1 and another FSA for 4.27 MTPA of coal from MCL for Project 2. The remaining fuel requirement for Project 1 and Project 2 is met through imported coal and e-auction coal.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
			Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 14, 2022	Jan 28, 2022	Jan 08, 2021	Dec 05, 2019
1	Commercial Paper	Short term	500.00	248.18	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE460M14180	Commercial Paper	March 2022	4.35%	April 2022	50.00	[ICRA]A1+
INE460M14198	Commercial Paper	March 2022	4.45%	June 2022	200.00	[ICRA]A1+
NA	Commercial Paper	Yet to be placed	NA	NA	250.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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