July 24, 2023

Lakadia Vadodara Transmission Project Limited: Rating upgraded and outlook revised to Positive

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]A (Positive); upgraded from [ICRA]BBB- (Stable) with revision in outlook to Positive from Stable
Non-fund based letter of credit#	(500.00)	-	[ICRA]A (Positive)/ [ICRA]A2+; upgraded from [ICRA]BBB- (Stable)/[ICRA]A3 with revision in outlook to Positive from Stable and withdrawn
Total	**1,417.00**	**1,417.00**	

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

Rationale

The upward revision in the ratings factors in the successful completion of the transmission project by Lakadia Vadodara Transmission Project Limited (LVTPL) on January 28, 2023, thereby mitigating the execution and approval-related risks. As on date, the entire project is operational and all the key approvals including energisation approval from the Central Electricity Authority (CEA), trial run completion certificate from the Power System Operation Corporation Limited (POSOCO) and the commissioning certificate from the Lender's Independent Engineer (LIE) are in place. The company has reported healthy operational performance with average line availability of 99.2% since commissioning.

The project cost incurred by LVTPL as of January 2023 stands at Rs 2,023.5 crore, funded through a debt of Rs. 1,417.0 crore and the balance through promoter contribution. However, the project has witnessed an estimated cost overrun of ~Rs. 279 crore, mainly owing to the increase in land compensation costs and higher interest during construction (IDC) due to delays in implementation. The cost overrun is currently funded through the capital creditors of sponsor Sterlite Power Transmission Limited (SPTL). The increase in land compensation was because of the revised guidelines notified by the Government of Gujarat dated December 31, 2021. The company has claimed for additional tariff under change-in-law in lieu of the higher land compensation cost from the long-term transmission customers (LTTCs), as per the Electricity (Timely Recovery of Costs due to Change in Law) Rules dated October 22, 2021 notified by the Ministry of Power, Government of India. The company has confirmed that it is receiving the additional tariff under change-in-law from the LTTCs. While the debt coverage metrics remain comfortable based on the prevailing debt and interest rate, the company is expected to refinance the project debt shortly, wherein a top-up amount can be raised to fund the cost overruns. The debt coverage metrics would remain sensitive to the quantum of the top-up debt and the interest rate post refinancing.

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) signed by LVTPL, provided the line availability is maintained above the normative level of 98%. 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; subsidiary of Power Grid Corporation of India Limited). The CTU is responsible for billing and collection on behalf of all the inter-state transmission licensees in the country, thereby significantly diversifying the counterparty credit risk. LVTPL has started receiving its tariff payments, with the first payment received in June 2023.
The ratings continue to factor in the track record of its parent, Sterlite Group, in the implementation and operation of power transmission projects. In India, the Group has completed 12 power transmission projects till date, with another five

transmission projects under implementation. The commissioned power transmission projects have been operating at healthy line availability of more than 99%.

The ratings, however, remain constrained by the limited operating track record of the project as it was commissioned in January 2023. The demonstration of line availability in line or above the normative level on a sustained basis remains a key monitorable. The stabilisation of collections over the near term remains another key monitorable. Additionally, the project will remain exposed to the variability in operations and maintenance (O&M) expenses, which might impact its profitability. However, the experience of SPTL 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. ICRA also takes note of the cross-default linkages with the sponsor (SPTL) under the terms of the loan agreement. The project has a large bullet repayment of 42.83% for the Rs. 417 crore project term loan (out of total debt of Rs. 1417 crore) at the end of 13.25 years from the repayment commencement date. Nonetheless, the long TSA tenure of 35 years extending well beyond the loan tenure and the high certainty of cash flows for a power transmission project mitigate the risk to a large extent.

The Positive outlook reflects ICRA's expectation that LVTPL's credit profile is likely to improve further over the near to medium term with the demonstration of a satisfactory track record of line availability and stabilisation of the collections, leading to a healthy liquidity position.

ICRA has upgraded with revision in outlook from Stable and withdrawn the [ICRA]A (Positive)/[ICRA]A2+ rating to the interchangeable limit of Rs. 500.00 crore as there is no outstanding amount against the rated instrument and based on the client's request and confirmation from the lenders. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Successful project completion, mitigating execution and approval-related risks – The project was fully commissioned on January 28, 2023 and all key approvals including energisation approvals from the CEA, trial run completion certificate from the POSOCO and the commissioning certificate for the project from the LIE are in place. Also, the project has been added to the pooling mechanism of the CTU and the company has started receiving payments including additional tariff for change-in-law. Given this, the execution risk for the project stands completely mitigated, providing greater visibility towards the full recovery of the transmission charges, as per the TSA.

Assured offtake under long-term TSA; strong payment security – The presence of a long-term TSA with availability-linked tariff payments and the company being a part of the ISTS network ensure assured offtake and stable cash inflows in the form of annuity-based fixed monthly charges, provided the line availability is maintained above 98%. The project would benefit from the diversified counterparty risk and a favourable payment security under the pooling mechanism. Under this mechanism, the CTU collects monthly transmission charges from ISTS customers, which are distributed to ISTS licensees from the centrally collected pool.

Debt coverage metrics expected to be comfortable – The debt coverage metrics of the project are expected to be comfortable, with the cumulative DSCR likely to remain above 1.25x based on the prevailing debt and interest rate and considering the additional tariff under change-in-law. However, the company is expected to refinance the project debt shortly, wherein a top-up amount can be raised to fund the cost overruns. The coverage metrics would remain sensitive to the quantum of the top-up debt and the interest rate, post refinancing.

Established track record of Sterlite Group – 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 in developing and operating power transmission projects.

Credit challenges

Limited track record of operations – The project has a limited track record of operations as it was commissioned in January 2023. As the revenues are linked to the stipulated line availability, the company's ability to maintain line availability in line with or above the normative level of 98% on a sustained basis will be a key rating monitorable. ICRA draws comfort from the reported average line availability of 99.2% since commissioning.

Revision in land compensation rules and delays in project execution led to cost overruns, impacting project returns – The project's commissioning has been delayed from the original scheduled commissioning date (revised to Dec'22 in last rating exercise from Jun'22 and Nov'21 earlier) owing to a number of issues, including Covid-19, the cyclone in Gujarat and delay in the acquisition of right of way. This, along with the increase in land compensation costs because of the revised guidelines notified by the Government of Gujarat, has led to a project cost overrun of Rs. 279 crore, mainly owing to the increase in land compensation costs and higher IDC due to delays in implementation. This is currently being funded through the capital creditors of SPTL. The company has claimed additional tariff from the LTTCs under change-in-law in lieu of the additional cost incurred on land and the same is being received, as per the confirmation received from the company. The company is expected to refinance the project debt shortly, wherein a top-up amount can be raised to fund the cost overruns.

Moderate operations and maintenance risk – As the company's revenues are subject to the maintenance of the stipulated line availability, it is important that the lines are maintained in a good condition, reducing instances of tripping and minimising the outage time. While LVTPL's profitability will remain exposed to the variations in O&M expenses, the risk is partially mitigated as O&M expenses form a small proportion of the revenues. Further, SPTL's experience in the power transmission business should ensure adequate resource allocation and cost-efficient execution of the O&M activity.

Interest rate and refinancing risks – The company's debt coverage metrics remain exposed to interest rate risks due to the high share of debt funding in the project cost, floating interest rates and largely fixed tariff under the TSA. ICRA also takes note of the cross-default linkages with the sponsor (SPTL) under the terms of the loan agreement. Further, the project has a large bullet repayment of 42.83% for the Rs. 417-crore project term loan (out of total debt of Rs. 1,417 crore) at the end of 13.25 years from the repayment commencement date. Nonetheless, the long TSA tenure of 35 years extending well beyond the loan tenure and the high certainty of cash flows mitigate the risk to a large extent.

Liquidity position - Adequate

LVTPL's liquidity profile is expected to be adequate, supported by the project commissioning and commencement of collections for its inter-state transmission project, as per the terms of the TSA. The tariff under the TSA along with the additional tariff under change-in-law are expected to remain adequate in relation to the operating costs and debt servicing obligations. The debt repayment is scheduled to commence from July 2023. As on July 14, 2023, the company has free cash of Rs. 8.65 crore and DSRA balance of Rs 46.4 crore equivalent to 1-quarter of debt servicing, providing additional comfort.

Rating sensitivities

Positive factors - The company's ability to maintain above-normative line availability along with healthy collections on a sustained basis, leading to comfortable debt coverage metrics and a healthy liquidity profile could lead to a rating upgrade.

Negative factors - The company's inability to maintain line availability within the normative levels on a sustained basis, or delays in receiving payments under the pooling mechanism adversely impacting the company's cash flows and liquidity profile may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology – Power Transmission](#) [Policy on Withdrawal of Credit Ratings](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

LVTPL was incorporated in 2019 as a special purpose vehicle to establish a ~334 km 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 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. The project achieved COD on January 28, 2023.

Key financial indicators

	FY2022	FY2023*
Operating Income (Rs. crore)	NM	37.1
PAT (Rs. crore)	NM	-5.3
OPBDITA/OI (%)	NM	81.9%
PAT/OI (%)	NM	-14.4%
Total Outside Liabilities/Tangible Net Worth (times)	NM	24.1
Total Debt/OPBDITA (times)	NM	63.2
Interest Coverage (times)	NM	1.3

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; NM – Not meaningful as company was in project phase
*Source: Company data, ICRA Research; All ratios as per ICRA calculations; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Jun 30, 2023 (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jul 24, 2023	July 05, 2022	June 18, 2021	May 04, 2020
1	**Fund based limits**	Long Term	1417.00	1417.00	**[ICRA]A (Positive)**	[ICRA]BBB- (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)
3	**Non-fund based – Letter of credit#**	Short term	(500.00)	-	**[ICRA]A (Positive)/ [ICRA]A2+; withdrawn**	[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 – CC	Simple
Non-fund based – Letter of credit	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: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Term loan I**	Jun 2020	9.38%	Sep 2042	1000.00	[ICRA]A (Positive)
-	**Term loan II**	Sep 2019	12.15%	Sep 2036	217.00	[ICRA]A (Positive)
-	**Term loan III**	May 2021	10.25%	Sep 2036	200.00	[ICRA]A (Positive)
-	**Non-fund based - Letter of credit#**	-	-	-	(500.00)	[ICRA]A (Positive)/ [ICRA]A2+; withdrawn

Source: *Company data; #sublimit of term loan*

Annexure II: 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.

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.

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