

August 28, 2023

Chandrapur Waste Water Management Private Limited: Rating reaffirmed; rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	60.00	50.44	[ICRA]BBB-(Stable); reaffirmed
Total	60.00	50.44	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Chandrapur Waste Water Management Private Limited (CWWMPL) factors in the healthy financial position and track record of the sponsor, i.e., Vishvaraj Environment Private Limited (VEPL) in executing and operating drinking water and waste water treatment projects. CWWMPL has awarded the engineering, procurement and construction (EPC) contract for setting up a tertiary water treatment plant, along with allied infrastructure to VEPL on a fixed-price basis. It will also be entering fixed-price operations and maintenance (O&M) services contract for the facilities with VEPL, which provides comfort, given the latter's well-established track record in executing similar projects. ICRA notes that construction has been completed for the project, with commissioning being delayed due to the recent flood (owing to water released from Irai dam) in Chandrapur, Maharashtra. The management has confirmed there is no impact on the plant, machinery and equipment on account of floods in July 2023 and the machinery is in stable working condition. CWWMPL has requested for an extension in the scheduled commercial operations date (COD). However, approval from the project authority is awaited. Timely achievement of COD and stabilisation of operations remains a key monitorable. ICRA takes comfort from the full equity infusion by VEPL, receipt of three out of four grants from the counterparty - Maharashtra State Power Generation Co. Ltd. (MAHAGENCO) and the support, in the form of interest-free inter-corporate deposits (ICDs) by VEPL, to meet interest commitments of CWWMPL since May 2023.

The rating draws comfort from the agreement between CWWMPL and MAHAGENCO for supplying treated water from CWWMPL's treatment plant to MAHAGENCO's thermal power plant in Chandrapur for 25 years from commencement of operations with a take-or-pay arrangement, which provides long-term revenue visibility. The rating takes comfort from the projected healthy debt coverage indicators during the debt tenure, presence of structural features such as debt service reserve (DSR) equivalent to six months of debt servicing obligations (to be created from operational cash flows), long tail period (of ~12 years), presence of escrow and cash flow waterfall mechanism.

The ratings are, however, constrained by the delay in commissioning of the project from the earlier envisaged timelines, even though construction has been completed as of July 2023. Although a fixed-price EPC contract with VEPL mitigates this risk to an extent, the commissioning of the project and achievement of COD within the estimated costs and timelines would remain a key monitorable. The term loan repayment will start from February 2024, and the interim funding requirement, if any, will be timely supported by VEPL. The rating factors in the moderate counterparty credit risk, given CWWMPL's dependence on MAHAGENCO. That said, ICRA takes comfort from the fact that payments from MAHAGENCO for the sale of treated water are on a take-or-pay basis at pre-agreed rates, including annual escalations. Further, water supplied by CWWMPL will be a crucial input for MAHAGENCO for operating its thermal power plant. The project cash flows are exposed to O&M inflation and interest rate risk as any unforeseen increase in O&M cost and interest rate could impact the net cash flows, project coverage and return indicators. ICRA understands from the management that a fixed-price O&M contract would be awarded to VEPL, which mitigates the O&M-related risk to an extent.

Key rating drivers and their description

Credit strengths

Established track record of sponsor in drinking water and waste water treatment projects – VEPL has a healthy track record in implementation and operation of drinking and waste water projects. It is currently handling 27 drinking Water Treatment Plants with a total handling capacity of 228 crore litres per day and is operating 15 Sewage Treatment Plants (STPs) with a capacity of 53 crore litres per day. CWWMPL has awarded a fixed-price EPC contract to VEPL and will be entering fixed-price O&M services contract with VEPL, which provides comfort, given its strong track record of executing similar projects in the past. VEPL has an adequate liquidity position to meet any contingency (the committed equity requirement has been fully infused for its current Special Purpose Vehicles or SPVs) and with unencumbered cash, bank balance and liquid investments of Rs. 17.8 crore as on March 31, 2023, while its parent Premier Financial Services Limited (PFSL) has unencumbered cash balance of ~Rs. 250 crore as of July 2023. ICRA notes that VEPL has also given a corporate guarantee for long-term borrowings of CWWMPL till a limited period post COD.

Long-term revenue visibility due to 25-year contract with take-or-pay arrangement lends financial flexibility – CWWMPL has established a 25-year contract for supplying treated water to MAHAGENCO's power plant in Chandrapur. According to the take-or-pay contract, MAHAGENCO will pay a pre-specified fixed charge with annual escalation of 3% throughout the tenure of the contract, even in case of minimal offtake from MAHAGENCO. While the scheduled repayment tenure is until FY2037, the contract period is until FY2049, resulting in a long tail period of ~12 years to refinance its current debt at a lower cost or extend the tenure, if the need arises.

Once operational, project is expected to have a healthy coverage indicators – Once operational, CWWMPL is expected to maintain healthy debt coverage indicators during the debt tenure. This provides the SPV adequate cushion to withstand any adverse movements in interest rates and inflation. CWWMPL also benefits from the provision of DSRA equivalent to six months of debt servicing obligations (to be built from operational cash flows) as a part of its debt structure. It also enjoys credit support provided by other structural features of the debt including the presence of escrow, and cash flow waterfall mechanism.

Credit challenges

Risks related to timely commissioning of the project – The project was to be completed in August 2023. While the construction is completed as of July 2023, the commissioning is delayed by recent floods in Chandrapur (due to water release from Irai dam). The management has applied for extension of COD till February 2024 based on force majeure event. Based on discussion with the management, ICRA estimates the project to be commissioned by October 2023. The risk of timely commissioning is mitigated to an extent by the presence of fixed-price contract with VEPL, which has a strong track record of executing similar projects in the past and the support provided by VEPL in the form of ICDs for interest servicing since May 2023. Nonetheless, commissioning of the project and achievement of COD within estimated time and costs would be a key monitorable.

Counterparty credit risk – The rating factors in the moderate counterparty credit risk, given CWWMPL's dependence on MAHAGENCO for timely receipt of the final grant portions as well as the monthly payments for treated water, once the plant is operational. This risk is mitigated to an extent as payments from MAHAGENCO for the sale of treated water is on a take-or-pay basis at pre-agreed rates, including annual escalations. Further, the water from CWWMPL's tertiary plant will be a crucial input for the operations of MAHAGENCO's power plant. Due to this, the SPV is expected to be well placed to receive timely payments from MAHAGENCO.

Project cash flows and returns exposed to risks of O&M expenditure, inflation and interest rate risks – CWWMPL's cash flows are exposed to O&M inflation and interest rate risk, considering the floating interest rate of the project loan. ICRA understands from the management that a fixed-price O&M agreement is expected to be entered into with VEPL, which mitigates the risk of higher O&M cost to an extent.

Liquidity position: Adequate

The company has debt repayment obligations (P+I) of ~Rs. 5 crore in FY2024. With the pending receipt of last instalment of grant from MAHAGENCO (~Rs. 19.7 crore), timely financial support from the sponsor group remains important to meet any funding shortfall in the interim, till the project's operations stabilise.

Rating sensitivities

Positive factors – The rating could be upgraded if the project is commissioned within the expected timelines and budgeted costs and there is an established track record of timely payment of monthly bills.

Negative factors – Negative pressure on the rating could arise if the project commissioning is materially delayed leading to adverse impact on project cash flows, if there is a deterioration in the credit profile of the sponsor or weakening in linkages with the sponsor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Project Finance
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated on February 17, 2021, Chandrapur Waste Water Management Private Limited (CWWMPL), a SPV promoted by Vishvaraj Environmental Private Limited (VEPL) and Vedic Wastewater Management Private Limited (VWMPL) was formed to undertake below activities for MAHAGENCO on PPP DBFOT on Take-or-pay basis :

- ✓ Interception and diversion work at the two nallahs (refurbishment of existing, gated weir across Zarpat river, Chamarkundi nalla and an intake work at Azad Garden nalla)
- ✓ Rehabilitation of two existing STPs of 45 MLD (Pathanpura) and 25 MLD (Rahmat nagar)
- ✓ Set-up a Tertiary Treatment Plant (TTP) of 50 MLD net output capacity (the STP outflow will go into the inflow of TTP)
- ✓ Pumping Machinery and transmission pipeline – 9.1 Km (internally cement mortar lined metallic (M.S. or D.I.) pipe line acting as rising main), Conveying pipeline from TTP Pump house to Chandrapur Super Thermal Power Station (CSTPS) reservoir
- ✓ Operation and maintenance of both existing 45 and 25 MLD STP and its allied works and 50 MLD capacity TTP for 25 years
- ✓ Sale of tertiary treated water to CSTPS
- ✓ SCADA and Instrumentation.

CSTPS is a thermal power plant of MAHAGENCO and requires water for operations like cooling tower and ash handling model. The construction and operations period for the project is 2 years and 25 years, respectively. The concession agreement was signed on February 24, 2021 and the appointed date was August 23, 2021. The authority for the project is MAHAGENCO, while the local municipal body, i.e., Chandrapur Municipal Corporation (CMC) will provide local support, i.e., permissions, clearances, its sewage water, along with providing its existing Sewage Treatment Plants (STP). While MAHAGENCO is responsible for financing the project/O&M and payments to the SPV, the project is part-funded by CMC under the AMRUT scheme.

Key financial indicators: Not Applicable

Status of non-cooperation with previous CRA: Not applicable

Any other information:

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
1	Term loans	50.44	50.44	Aug 28, 2023 [ICRA]BBB-(Stable)	May 04,2022 [ICRA]BBB-(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Sep 2022	NA	FY2037	50.44	[ICRA]BBB-(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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