October 04, 2023

Lakadia Vadodara Transmission Project Limited: Provisional rating assigned for proposed term loan; rating reaffirmed for existing limit

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); reaffirmed
Proposed term loan	-	1,840.00	Provisional [ICRA]AA- (Stable); assigned
Total	**1,417.00**	**3,257.00**	

**Instrument details are provided in Annexure-I*

Rating in the absence of pending actions/ documents	[ICRA]A

Rationale

For the Provisional [ICRA]AA- (Stable) rating

The rating assigned to the proposed bank loan facility of Lakadia Vadodara Transmission Project Limited (LVTPL) factors in the assure offtake for its power transmission project by virtue of a long-term (35 years) transmission service agreement (TSA) with availability-linked payments. 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 (PGCIL)). 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. The availability linked payments and low payment risk provide high visibility on the company's revenues and cash flows. LVTPL commissioned the project in January 2023 and has reported a healthy operational performance with average line availability of 98.8% during the period from Jan '23 to Aug '23, above the normative requirement of 98.0%. Also, the collections for the project commenced in June '23. While the payments from Jan '23 to Mar '23 have not yet been received from the CTU owing to pending approval from the Central Electricity Regulatory Commission (CERC), the collections for the bills raised since Apr'23 are being realised in a timely manner.

The capital cost for the project increased from the appraised level of Rs. 2,024 crore to Rs. 2,355 crore, mainly owing to the increase in land compensation costs and higher interest during construction (IDC) due to delays in implementation. The delay was caused by the impact of Covid-19, delays in the acquisition of right of way (RoW) and a cyclone in Gujarat. This cost overrun is currently funded through additional contribution from the promoters and the capital creditors to the sponsor, Sterlite Power Transmission Limited (SPTL). The land compensation increased because of the revised guidelines notified by the Government of Gujarat dated December 31, 2021. The company has claimed 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. The receipt of approval for this additional tariff under change-in-law from the CERC remains a monitorable.

The company is refinancing its long-term debt to replace the existing term loan facility of Rs. 1,417 crore, with a new loan of Rs. 1,840 crore comprising Tranche-I of Rs. 1,700 crore and Tranche-II of Rs. 140 crore. The additional debt availed shall be mainly utilised towards funding the cost overrun and repayment of a portion of the subordinated debt of the promoters. The drawdown of Tranche-II debt under the refinancing is linked with the receipt of approval from the CERC for the additional tariff under change-in-law. The impact of the additional debt availed by the company is offset to a certain extent by the reduction in interest rate under the refinancing.

The terms of the proposed loan include a cashflow waterfall mechanism, restriction payment conditions and financial covenants. The proposed loan will have a tenure of 17.5 years with a bullet repayment of 47.6% of the debt in March 2041. Further, the terms of the proposed loan provide a put option to the lenders at the end of the third and fifth year from the date of first disbursement and every year after the fifth year. In addition, the lenders shall have the right to ask the company to repay the loan in case the credit rating falls below A. While this exposes the company to refinancing risk, comfort can be drawn from the long TSA tenure of 35 years and the high certainty of cash flows for a power transmission project. Going forward, the company's debt coverage metrics are expected to remain adequate, with the cumulative DSCR on the project debt estimated at 1.2x over the debt tenure. The promoter contribution for the project is in the form of equity and compulsory convertible debentures (CCDs). The promoter CCDs are subordinated to the external project debt.

The ratings continue to factor in the established track record of its parent, Sterlite Group, in implementing and operating power transmission projects. In India, the Group has completed 12 power transmission projects till date, with another six transmission projects under implementation. The commissioned power transmission projects have been operating at healthy line availability.

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. 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 the largely fixed tariff under the TSA.

The Stable outlook on the long-term rating of LVTPL factors in the high cash flow visibility for its transmission project, supported by the long-term TSA, high line availability and strong payment security.

For the [ICRA]A (Positive) rating

The rating factors in assure offtake for LVTPL's power transmission project by virtue of a long-term TSA with availability-linked payments and the successful completion of the project on January 28, 2023, thereby mitigating the execution and approval-related risks. Further, the project, being a part of the ISTS, is expected to benefit from favourable payment security under the pooling mechanism managed by the CTU. The availability-linked payments and low payment risk provide high visibility on revenues and cash flows for the company. LVTPL has reported a healthy operational performance with average line availability of 98.8% during the period from Jan '23 to Aug '23. Also, the collections for the project commenced in June '23.

The project has witnessed cost overruns, mainly owing to the increase in land compensation costs and higher interest during construction (IDC) due to delays in implementation. The delay was caused by the impact of Covid-19, delays in the acquisition of right of way (RoW) and the cyclone in Gujarat. This cost overrun is currently funded through additional contribution from the promoters and capital creditors to the sponsor, 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 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. The receipt of approval for this additional tariff under change-in-law from the CERC remains a monitorable.

While the debt coverage metrics remain comfortable based on the prevailing debt of Rs. 1,417 crore and interest rate of 9.9%, the company is expected to refinance the project debt shortly, wherein a top-up amount would 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 ratings continue to factor in the established track record of its parent, Sterlite Group, in implementing and operating power transmission projects.

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. 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.

Key rating drivers and their description

Credit strengths

Assured offtake under long-term TSA with availability-linked payments – The presence of a long-term TSA (35-years) with availability-linked tariff payments limits the demand and tariff risks for the transmission project of LVTPL. The company is eligible to receive the full quoted tariff under the TSA if the line availability is maintained at or above 98.0%. Also, the company would be eligible for receiving incentives for availability over the normative level.

Strong payment security from being part of ISTS pool – The project being a part of the ISTS network is expected to benefit from favourable payment security under the pooling mechanism managed by the CTU, a subsidiary of PGCIL. 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. Under this mechanism, the CTU collects monthly transmission charges from ISTS customers, which are distributed to ISTS licensees from the centrally collected pool.

Satisfactory operating performance with availability remaining above the normative level – The project was fully commissioned on January 28, 2023 and has reported satisfactory operating performance so far, with the average line availability of 98.8% during Jan '23 to Aug '23 remaining higher than the normative availability of 98.0%. Also, the collections for the project commenced in June '23, with the company realising the bills raised since Apr '23 in a timely manner. The payments related to Jan '23 to Mar '23 is awaited from the CTU owing to pending approval from the CERC.

Debt coverage metrics are expected to be adequate – The debt coverage metrics for the project are expected to be adequate, with the cumulative DSCR expected to remain at 1.2x based on the proposed debt size and interest rate and considering the additional tariff under change-in-law. The company is refinancing the existing term loan facility of Rs. 1,417 crore, with a new loan of Rs. 1,840 crore. The additional debt availed shall be mainly utilised towards funding the cost overrun and repayment of a portion of the subordinated debt of the promoters.

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 98.0% on a sustained basis will be a key rating monitorable. ICRA draws comfort from the reported average line availability of 98.8% since commissioning till Aug '23.

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. While there are cross-default linkages with the sponsor (SPTL) under the terms of the existing loan agreement, there is no such linkage under the proposed term loan. The proposed term loan will have a tenure of 17.5 years with a bullet repayment of 47.6% of the debt in March 2041. Further, the terms of the proposed loan provide a put option to the lenders at the end of third and fifth year from the date of first disbursement and every year after the fifth year. This exposes the company to refinancing risk. Nonetheless, comfort can be drawn from the long residual TSA tenure and the high certainty of cash flows for a power transmission project.

Liquidity position - Adequate

LVTPL's liquidity profile is expected to be adequate with the cash flow from operations expected to remain adequate in relation to the debt servicing obligations. Additionally, comfort is derived from the presence of debt service reserve (DSRA) equivalent to one quarter of debt servicing. ICRA expects the company to generate cash flow from operations of ~Rs. 52 crore in FY2024 and ~Rs. 78 crore in FY2025 against debt repayment obligation of Rs. 34.5 crore in FY2024 and Rs. 45.8 crore in FY2025. As on September 12, 2023, the company had free cash balances, including fixed deposits of Rs. 21.54 crore and DSRA balance of Rs 46.4 crore.

Rating sensitivities

For the Provisional [ICRA]AA- (Stable) rating

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 an upgrade in LVTPL's ratings.

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. Also, increase in indebtedness adversely impacting the debt coverage metrics could also trigger a downgrade.

For the [ICRA]A (Positive) rating

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 healthy liquidity profile could lead to an upgrade in LVTPL's rating.

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 ICRA's Policy on Assigning Provisional Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon execution of:

1. Execution of the loan agreement
2. Execution of the trust & retention account (TRA) agreement
3. Creation of DSRA

Validity of the provisional rating

In case the debt instrument/ borrowing facility to which a provisional rating has been assigned is subsequently issued, the provisional rating will have to be converted into a final rating within 90 days (validity period) from the date of issuance of the debt instrument/ date of availing the borrowing facilities. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final, in circumstances where the rated entity expressly indicates its intention to complete the pending actions/documents over the near term. In no circumstance shall the validity period be extended beyond 180 days from the date of issuance. For further details refer to ICRA's Policy on Provisional Ratings available at www.icra.in.

If neither the pending actions/documents nor the issuance is completed after one year of assignment of the provisional rating, ICRA will withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at www.icra.in.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/ documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon a review of the required actions/ documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/ documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at www.icra.in.

About the company

LVTPL was incorporated in 2019 as a special purpose vehicle to establish a 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

Audited	FY2022	FY2023
Operating Income (Rs. crore)	NM	0.0
PAT (Rs. crore)	NM	-42.4
OPBDITA/OI (%)	NM	-
PAT/OI (%)	NM	-
Total Outside Liabilities/Tangible Net Worth (times)	NM	40.1
Total Debt/OPBDITA (times)	NM	NM
Interest Coverage (times)	NM	NM

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

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
					October 4, 2023	July 24, 2023	July 05, 2022	June 18, 2021	May 04, 2020
1	**Term loan**	Long Term	1417.00	1417.00	**[ICRA]A (Positive)**	[ICRA]A (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)
2	**Non-fund based – Letter of credit#**	Short term	-	-	-	[ICRA]A (Positive)/ [ICRA]A2+; withdrawn	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Positive)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3
3	**Proposed term loan**	Long Term	1840.00	-	**Provisional [ICRA]AA- (Stable)**	-	-	-	-

#Sublimit of term loan

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund based – Term loan	Simple
Long term fund based – Proposed 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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Term loan I**	Jun 2020	-	Sep 2042	1000.00	[ICRA]A (Positive)
-	**Term loan II**	Sep 2019	-	Sep 2036	217.00	[ICRA]A (Positive)
-	**Term loan III**	May 2021	-	Sep 2036	200.00	[ICRA]A (Positive)
-	**Proposed term loan**	-	-	-	1840.00	Provisional [ICRA]AA- (Stable)

Source: *Company data*

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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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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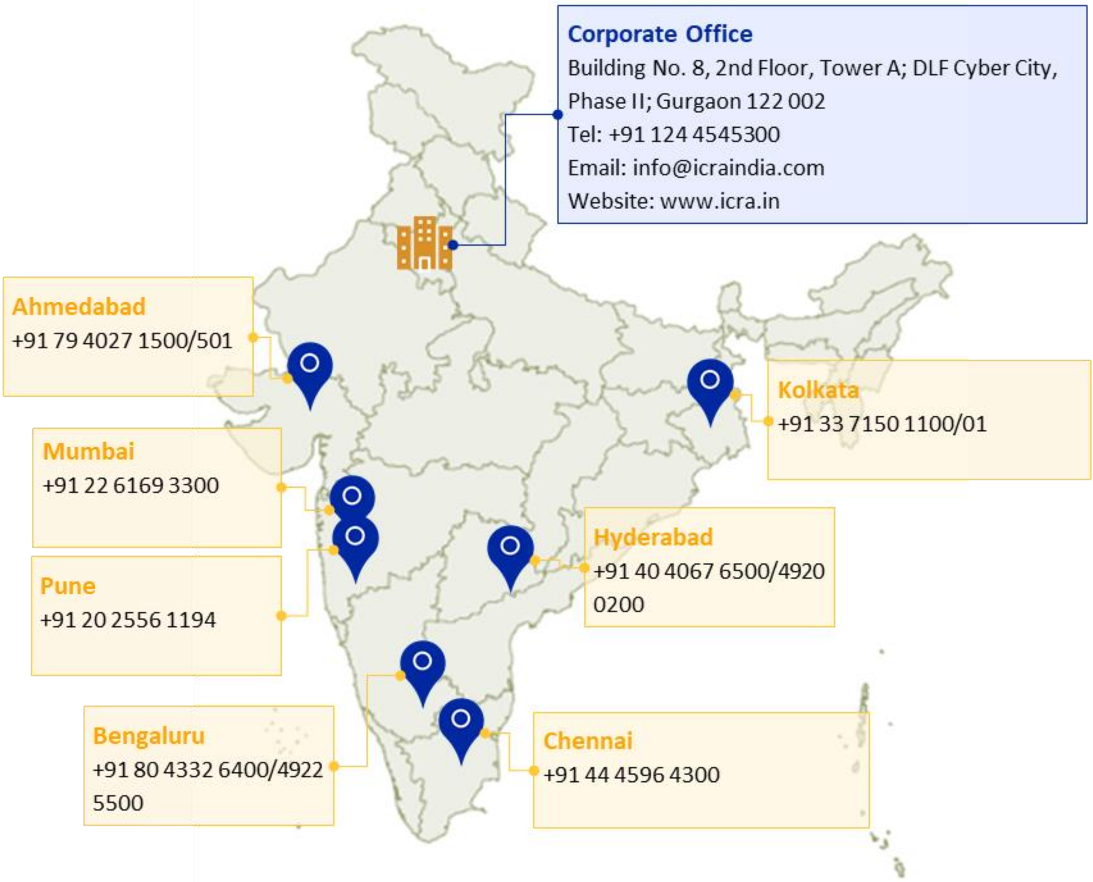

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