November 30, 2023

Chhattisgarh Hydro Power LLP (Formerly Chhattisgarh Hydro Power (P) Ltd.): Rating Reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Term loan	80.71	67.50	[ICRA]A (Stable); reaffirmed
Long term – Non-fund based	5.00	2.50	[ICRA]A (Stable); reaffirmed
Total	**85.71**	**70.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in the stable operations of the 24-MW Gullu hydroelectric project (HEP) developed by Chhattisgarh Hydro Power LLP (CHPLLP) in the state. While the generation was impacted in FY2023 on account of scattered rainfall, the reducing debt levels have ensured the debt service coverage ratio remains satisfactory. 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 further derives strength from the availability of a two-quarter debt service reserve account (DSRA) and other encumbered cash totalling Rs. 15 crore, which would adequately cover nine 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 a healthy debt service coverage ratio (DSCR) and strengthens CHPLLP's credit profile. SEML's liquidity position remains strong with consolidated cash and liquid investments of ~Rs. 1,080 crore as on September 30, 2023 and healthy expected cash accruals in FY2024.

ICRA expects parent Sarda Energy & Minerals Limited (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 Gullu project.

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 ongoing 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. While the execution of the Rehar project is progressing well, risks related to construction and offtake constrain the rating.

The Rehar project cost is budgeted at Rs. 12.8 crore per MW, while the Chhattisgarh State Electricity Regulatory Commission's (CSERC) normative capital cost for projects to be developed in FY2023 and FY2024 is Rs 8.8 crore per MW, resulting in a lower generic tariff of Rs 5.8 per unit for FY2024. If the PPA for the project is signed at prevailing tariff levels, the returns and debt coverage metrics will moderate. The equity for the development of the project is being infused in the form of unsecured promoter debt, cash equity and internal accruals of CHPLLP. While the servicing of this unsecured project debt is expected to remain subordinate to the project debt (financial closure to be achieved shortly), any change in this understanding can result in a moderation of the debt coverage indicators and will remain a key monitorable.

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 – 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 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%. However, the generation was subdued in FY2023 with PLF of 38% due to scattered rainfall and has remained flattish in H1 FY2024 as well due to delayed monsoon.

Limited offtake risks for Gullu hydroelectric project, backed 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 CSERC has adopted the Ministry of Power's advised trajectory for hydro purchase obligation which stands at 0.66% for FY2024, while the overall renewable purchase obligation (including solar and wind) is 27.08% for FY2024 against 24.61% for FY2023 which further mitigates the offtake risks for the Gullu HEP.

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. The LLP achieved a DSCR of 2.2 times in FY2023, supported by healthy generation levels and remunerative tariffs.

Liquidity buffer from DSRA strengthens credit profile – Attractive tariff levels and timely collections for Gullu support positive retained cash flows. CHPLLP's liquidity profile is also strengthened by the presence of two quarters of pre-default DSRA as well as additional encumbered cash of Rs. 5 crore kept as fixed deposit with the lender which is adequate for debt servicing of another three quarters.

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% in FY2021 and FY2022 with slight subdued generation in FY2023 due to scattered rainfall. 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.

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. This apart, it benefits from the Group's experience in the development and operation of other hydropower projects. The project cost of Rs. 160 crore incurred by the LLP till date is substantially funded through unsecured promoter debt of Rs. 96 crore and cash equity of Rs. 23 crore.

Credit challenges

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) is in progress 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 is Rs. 318 crore (Rs. 12.77 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 construction period although the debt servicing is expected to remain comfortable ,aided by the combined earnings from both the Gullu HEP and Rehar HEP with the Gull HEP debt getting paid off in FY2028.

Exposure to offtake risks in Rehar HEP – The capital cost for the Rehar-I HEP is likely to remain higher at ~Rs. 12.77 crore/MW against Rs. 8.9 crore/MW for Gullu HEP. This is substantially higher than the normative capital cost of Rs 8.8 crore per MW approved by the CSERC for small hydro projects to be developed in FY2023 and FY2024, resulting in a lower generic tariff of Rs 5.8 per unit for FY2024. If the PPA for the project is signed at prevailing tariff levels, the returns and debt coverage metrics will moderate for CHPLLP.

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[1] 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.

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.

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

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 in the last four years. However, with the Rehar-I SHP execution picking up, its free cash flows are likely to remain negative during the project construction period. CHPLLP's liquidity profile is also supported by the presence of a two quarter DSRA of Rs. 10 crore and additional encumbered cash of Rs. 5 crore with the lender.

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 if 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, or change in the 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)	FY2022	FY2023
Operating income (Rs. crore)	56.6	43.0
PAT (Rs. crore)	33.4	24.7
OPBDIT/OI (%)	89.9%	85.7%
PAT/OI (%)	59.1%	57.6%
Total outside liabilities/Tangible net worth (times)	0.9	1.2
Total debt/OPBDIT (times)	1.6	3.1
Interest coverage (times)	7.1	6.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Key financial indicators (SEML – Consolidated)

SEML (Consolidated)	FY2022	FY2023
Operating income (Rs. crore)	3914.0	4211.9
PAT (Rs. crore)	808.2	606.3
OPBDIT/OI (%)	34.6%	25.0%
PAT/OI (%)	20.6%	14.4%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDIT (times)	1.2	1.4
Interest coverage (times)	9.2	8.6

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 (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated	Amount outstanding as on September 30, 2023	Date & rating on	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
			(Rs. crore)	(Rs. crore)	30-Nov-23	30-Aug-22	2-Aug-21	2-Jul-21	21-Sep-20
1	Term loan	Long Term	67.50	67.26	**[ICRA]A (Stable)**	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	Non-fund based	Long Term	2.50	2.50	**[ICRA]A (Stable)**	[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)

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: [Click Here]

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	67.50	[ICRA]A(Stable)
NA	Non-fund based	-	-	-	2.50	[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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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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