February 27, 2024

Sasan Power Limited: Long-term rating downgraded to [ICRA]BB- (Negative) and short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	11,328.00	10,222.00	[ICRA]BB- (Negative); downgraded from [ICRA]BB+ (Negative)
Long term – Fund-based - Cash credit	567.00	567.00	[ICRA]BB- (Negative); downgraded from [ICRA]BB+ (Negative)
Long Term/Short term – Non-fund based limit	426.00	376.00	[ICRA]BB- (Negative); downgraded from [ICRA]BB+ (Negative) and [ICRA]A4; reaffirmed
Total	**12,321.00**	**11,165.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for Sasan Power Limited (SPL) factors in the refinancing risk associated with the repayment of the $150-million bullet repayment in December 2024, deterioration in the company's liquidity profile and debt coverage metrics in FY2023 due to the outage of Unit 1 (660 MW) and increase in input cost. Further, the cash inflows and debt servicing obligations are tightly matched over the next 2-3 years. Nonetheless, debt coverage is expected to improve from FY2027 when a major portion of the foreign currency borrowings would have been repaid. Further, the operating performance of its thermal power capacity continues to be healthy with the plant availability and plant load factor (PLF) remaining well above the normative level. The PLF recovered to 92.3% in 9M FY2024 from 85.80% in FY2023, when the performance was affected by the failure of a generator transformer in Unit 1. The company expects the loss of profits due to lower PLF along with the replacement cost of the transformer to be covered through insurance claims. The timely approval of the insurance claim and receipt of the proceeds remains important from a liquidity perspective.

ICRA continues to take comfort from the availability of long-term power purchase agreements (PPA) at cost-competitive tariff for the entire capacity with state distribution utilities (discoms). The ratings further take into account the company's superior merit order position in the power procurement mix of the offtaker utilities, which is also supported by the cost advantage from the access to captive coal mines.

The ratings are, however, constrained by the stretched liquidity position in the absence of a debt service reserve (DSRA) cover required as per the terms of the loan documents and the limited cushion available in the form of undrawn fund-based working capital limits. SPL has, however, accumulated ~Rs. 53 crore in the DSRA account as on December 31, 2023 which can be utilised for debt servicing. The debt service coverage ratio (DSCR) is expected to remain low in the near to medium term, given the competitively bid-based tariff structure in the PPA and the cost overruns witnessed for the project. The company's ability to sustain a high PLF level of over 90% and superior operating efficiencies and maintain the actual fuel and operating costs within the bid tariff level will remain critical from a credit perspective.

Further, SPL remains exposed to counterparty credit risks arising from the exposure to state discoms with modest financial profiles. However, this risk is offset by the competitive tariffs and the option available for third-party sale of power in case of default by the procurers (as allowed under the PPA).

The ratings consider the uncertainty over the timelines for the approval and subsequent implementation of the tariff compensation, both under change-in-law during construction and forex variations. While the company has received a favourable order on the forex variations from the Appellate Tribunal for Electricity (APTEL) recently, the timely completion of the hearing process and the issuance of the order by the Central Electricity Regulatory Commission (CERC) are important. Moreover, the risk of further appeals by the state discoms on this matter remains. Also, certain change-in-law items during construction allowed by the regulators are being contested by the company and the offtakers before APTEL and the Supreme Court. The company has received a favourable order for change-in-law during the operation period from the CERC.

The ratings are further constrained by exchange rate risks because of foreign currency debt, though the risk is partly mitigated through hedging for a part of the principal payments over the next five years. Also, the debt metrics for the company remain exposed to the adverse movements in interest rates, given the high leverage level and largely fixed tariffs.

The ratings also factor in the large capex requirement of ~Rs. 2,434 crore (proposed to be funded by debt-to-equity mix of 70:30) to install the flue gas desulphurisation (FGD) system to comply with the revised environmental norms. The CERC has approved the FGD capex. Further, the CERC, vide its order dated August 13, 2021, has laid down a mechanism to determine the compensation for FGD installation. Also, the Ministry of Power (MoP), vide a notification dated October 22, 2021, has notified Electricity (Timely Recovery of Costs due to Change in Law) Rules, 2021 to ensure the timely recovery of the costs due to change-in-law. While the tariff mechanism to recover the FGD capex is broadly in place and the cost incurred would be a pass-through under the tariff, the company will remain exposed to funding and execution risks for the timely completion of this capex. ICRA takes note of the two-year timeline extension provided by the Government of India to comply with the revised environmental norms. The revised timeline for SPL to comply with these norms is December 2026 against December 2024 earlier.

ICRA also takes note of the sizeable build-up of statutory liabilities towards the state government of Madhya Pradesh (MP) over the last three fiscals (Rs. 1,005 crore as on March 31, 2023). The ratings also remain constrained by the weak financial position and financial flexibility of the holding company, Reliance Power Limited (RPower).

The Negative outlook reflects the stretched liquidity position of the company, given the tightly matched cash flows, along with the absence of an adequate liquidity buffer.

Key rating drivers and their description

Credit strengths

Healthy operating performance of plant so far; sustenance remains critical – Since the commencement of all the units in March 2015, the company's plant availability factor (PAF) and PLF levels have remained healthy and above the normative levels. The PLF for 9M FY2024 stood at 92.3% and for FY2023 at 86% (against 94% in FY2022), while the plant availability was 91% in 9M FY2024 and 85% in FY2023 (against 93% in FY2022). The PLF was lower in FY2023 owing to the outage of one unit due to transformer failure, which resumed operations in May 2023. Given the tightly matched cash flows of the company with its debt servicing obligations, the ability to maintain a high PLF level of over 90% and other efficiency indicators (such as specific heat rate and auxiliary consumption) within the budgeted levels in a sustained manner is critical from a credit perspective. Additionally, the ability to keep mining and other operating cost overheads within budget remains important. The resolution of the generator transformer issue and the commencement of operations of this unit remain important in the near term.

Long-term PPAs with cost-competitive tariff with all procurers - SPL has entered into long-term (25-year) PPAs for its entire installed capacity with 14 power distribution companies across seven different states for a period of 25 years from the COD of the last unit, which limits the offtake risk. The average tariff realised by SPL is highly cost competitive at Rs. 1.45-1.52 per unit for the offtakers, which in turn ensures a superior merit order position for the company. The tariff is competitively bid based and is also supported by company's access to captive mine sources as well as non-applicability of clean energy cess.

Adequate coal availability from captive coal mines - The company's operations have been supported by adequate coal availability from the captive mine blocks of Moher and Moher Amlohri Extension allocated to it, which together have reserves of 575 million metric tonnes (MMT). The mining performance of both these captive coal blocks has remained healthy. The company has environmental clearance for 20 million metric tonnes per annum (MMTPA) of coal produced from these two captive blocks. While the production was earlier restricted to 16 MMTPA, the Ministry of Coal (MoC) has been relaxing the restriction on an annual basis and has allowed the production of sufficient coal, which has averaged ~18.5 MMTPA in the last three fiscals, ensuring adequate fuel security for the plant.

Credit challenges

Modest debt metrics and stretched liquidity position; absence of adequate DSRA balance - The company's liquidity position remains stretched in the absence of an adequate DSRA cover, modest cash balances and limited cushion available in the form of undrawn fund-based working capital limits. The buffer between the debt servicing obligations and the cash accruals remains limited, which has resulted in lack of funds to create the required DSRA. SPL has, however, accumulated ~ Rs. 53 crore in the DSRA account which can be utilised for debt servicing. The cash flows remain tightly matched in the absence of an adequate liquidity cushion and the timely collection of monthly bills is critical for the company's liquidity. Nonetheless, the collection efficiency has remained high over the last five fiscals, which provides some comfort. While the collections dipped during the second Covid wave in Q1 FY2022, they have improved thereafter to remain close to 91% in 9M FY2024.

Weak financial risk profile of parent/holding company - The financial profile of the parent/holding company, RPower, remains weak. Various options are being explored with the lenders, including asset monetisation plans. RPower has repaid a significant portion of the holdco debt in March 2023 through the use of surplus cash upstreamed from Rosa Power. The outstanding debt stands at ~Rs. 600 crore as on December 31, 2023, and the company is engaged with its lenders to settle this debt to make R-Power debt-free by March 31, 2024. The company is in advanced stages to monetise Rs. 170-180 crore from the sale of two under-implementation hydro projects to THDC India Limited and North Eastern Electric Power Corporation Limited. SPL has cross-default linkage with RPower in its loan facility agreement, though it is restricted to payment defaults by the obligors (SPL and RPower) in relation to SPL's credit/borrowings. Nonetheless, any event of default by RPower on its obligations to SPL's lenders could accelerate SPL's debt servicing obligations and will remain a credit concern. It is to be noted that in addition to the existing trust and retention account (TRA) mechanism, an agency for specialised monitoring (ASM) has been appointed by SPL's lenders to closely monitor the project cash flows.

Pending regulatory outcome over tariff compensation requests under change-in-law – The company has received a favourable order from the CERC for the additional cost arising because of the change-in-law during the operations period. The petitions for the impact of change-in-law during the construction period are pending before APTEL and the Supreme Court. For the petition related to the pass-through of cost variation arising from forex movements, APTEL has accepted the appeal filed by SPL against the CERC's initial order disallowing the petition and has remanded the matter to the CERC for consideration. However, the risk of further appeal against this order by the customers cannot be ruled out.

Counterparty credit risk - SPL remains exposed to counterparty credit risks, given the modest credit profile of some of the offtakers. The risk is partially mitigated by the payment security mechanism in the PPAs, the competitive tariffs and the option available for third-party sale of power in case of defaults by procurers (as allowed under the PPAs), particularly in view of the rising demand for electricity and high tariffs in the short-term market. The debtor build-up has been prominent from the MP discoms, which are the largest offtakers accounting for 40% of SPL's annual revenues. As on December 31, 2023, the company's receivables stood at Rs. 1,135 crore (as on March 31, 2023: Rs. 820 crore) with 47% (Rs. 531 crore) of these dues pending from the MP discoms. Nevertheless, these translate to 88 days of receivables in 9M FY2024 and are expected to be normalised going forward and remain in line with the long-term average, given the competitive tariff.

Refinancing risk associated with the bullet repayment in December 2024 - The external commercial borrowing from IIFC UK has a bullet payment of $150 million, due in December 2024. While the company is in discussions to refinance the foreign currency loan, timely refinancing of the loan remains important from a credit risk perspective.

Exposure to interest rate and foreign exchange rate risks - The operations of the company remain exposed to foreign exchange rate risks due to the large foreign currency debt, constituting 28% of the overall debt as on December 31, 2023. The risk has been mitigated to some extent by the hedging undertaken by the company for a part of the principal payment over the next five years. Further, the company also remains exposed to the adverse movement in interest rates which can impact the debt coverage metrics. While 50% of the foreign currency denominated loan carry a fixed interest rate, mitigating the interest rate variation risk to an extent, the interest rate on the balance foreign currency debt and rupee debt are floating and subject to periodic resets.

Sizeable unpaid statutory dues liabilities - Over the last three fiscals, there has been a sizeable build-up of statutory dues that have remained unpaid. As on March 31, 2023, this amount was Rs. 1,005 crore compared with Rs. 767 crore a on March 31, 2022. These dues pertain to Madhya Pradesh. Of the unpaid statutory dues, the MP state government has provided in-principle approval to defer the payment of some of the statutory dues pertaining to the royalty on coal, electricity duty, energy development cess, forest transit fee and contribution to district mineral foundation (DMF), amounting to Rs. 327 crore, for the April-December 2019 period, by four years.

Funding and execution risks for FGD capex – In order to comply with the revised environmental norms, the company is required to install an FGD system for all its six units. The cost involved is approximately Rs. 2,434 crore, as per the last appraised cost shared by the company, to be funded in a debt to-equity mix of 70:30. The company has received regulatory approval from the CERC on the capital cost. The tariff mechanism to recover the FGD capex is broadly in place as per the CERC's order dated August 13, 2021. Further, the MoP has notified Electricity (Timely Recovery of Costs due to Change in Law) Rules, 2021, to ensure timely and immediate recovery of the financial impact to the generation projects, vide its notification dated October 22, 2021. While the cost incurred is expected to be a pass-through under the tariff, the company will remain exposed to funding and execution risks for the timely completion of this capex within the budgeted cost. As on date, the debt funding tie-up as well as the equity infusion are pending. The extension of the timeline granted by the MoEF offers some comfort as the company now has time till December 2026 to install the required FGD system.

Liquidity position: Stretched

SPL's liquidity position remains stretched because of the limited buffer between the cash flow from operations and the debt servicing obligations, and the modest cash balances and undrawn working capital lines. The company is yet to create the required DSRA balance, as per the loan agreements. As on December 31, 2023, the company had a total liquidity of Rs. 199 crore, comprising free cash & liquid investments of Rs. 37 crore, restricted cash of Rs. 160 crore and undrawn fund-based working capital limits (cash credit) of Rs. 2 crore. The company's collection efficiency over the last five fiscals has remained high, supporting its liquidity. However, given the sizeable debt repayment obligations over the medium term, the company's ability to maintain a healthy PLF performance and receive timely payments from the discoms remains critical from a liquidity perspective.

Rating sensitivities

Positive factors – The outlook on the long-term rating can be revised to Stable, if the company is able to improve its liquidity position. Further, the rating could be upgraded if the company is able to achieve an improvement in its debt coverage metrics and creation of the stipulated DSRA cover. Favourable regulatory orders on the pending tariff compensation matters, and its subsequent implementation resulting in improved cash flows, would be positive triggers. Specific credit metric that may lead to an upgrade of SPL's rating include annual DSCR of above 1.10 times on a sustained basis.

Negative factors – Any deterioration in the operating parameters like plant availability, PLF and heat rate impacting the revenues and cash flows would be a negative trigger. Delays in payments from the counterparties, inability to improve the liquidity position, and/or failure to complete FGD capex within the scheduled timeline would be another key negative triggers. Further, inability to timely refinance the bullet repayment on the foreign currency loan would lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Power Thermal
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

SPL is a wholly-owned subsidiary of Reliance Power Limited and is involved in developing and operating a captive coal-based project with a capacity of 3,960 MW at Sasan, Madhya Pradesh. The project was won by Reliance Energy Limited (which was subsequently transferred to Reliance Power Limited) through competitive bidding. The project has been implemented in six units of 660 MW each based on the super-critical technology. SPL signed PPAs in August 2007 for the contracted capacity of 3,722 MW with 14 state utilities in seven states, namely Madhya Pradesh (lead procurer), Uttar Pradesh, National Capital Territory of Delhi, Punjab, Haryana, Rajasthan, and Uttaranchal. The levellised tariff for the project (which is competitive bid based) for a PPA period of 25 years is Rs. 1.19/unit. The project achieved COD in March 2015.

The project was allotted three captive coal mine blocks, viz. Moher, Moher Amlohri Extension and Chhatrasal, with estimated coal reserves of about 700 million metric tonnes with an average gross calorific value (GCV) of 4,700 kcal/kg. The Chhatrasal coal mine has been deallocated by the Ministry of Coal, Govt of India, vide gazette notification dated May 7, 2015. The company has filed a petition against the de-allocation in Delhi High Court, where the matter is at present sub-judice. The captive blocks of Moher and Moher Amlohri Extension, which together attribute to reserves of 575 MMT, are fully operational, with production capacity of 20 MTPA.

The project cost, including the capital cost of coal mine development, stood at Rs. 26,405 crore and was funded through debt of Rs. 18,185 crore and the remaining through equity infusion/promoter contribution of Rs. 8,220 crore.

Key financial indicators (audited)

	FY2022	FY2023	6M FY2024*
Operating income	4680.86	4270.37	2229.78
PAT	301.49	15.36	-86.57
OPBDIT/OI	49.55%	40.30%	39.80%
PAT/OI	6.44%	0.36%	-3.88%
Total outside liabilities/Tangible net worth (times)	1.87	1.83	1.83
Total debt/OPBDIT (times)	5.28	6.68	6.17
Interest coverage (times)	1.72	1.30	1.30

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; 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 (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 27, 2024	Jan 27, 2023	Oct 29, 2021	Jul 15, 2020
1	Term loans	Long term	10,222.00	10,222.00	[ICRA]BB- (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)
2	Cash credit	Long term	567.00	--	[ICRA]BB- (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)
3	Non-fund based limits^	Long term	-	--	-	-	-	[ICRA]BB+ (Negative)
4	Non-fund based limits^	Long term and short term	376.00	--	[ICRA]BB- (Negative)/ [ICRA]A4	[ICRA]BB+ (Negative)/ [ICRA]A4	[ICRA]BB+ (Negative)/ [ICRA]A4	[ICRA]BB+ (Negative)/ [ICRA]A4

^ Sublimit of term loans

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long term – Fund-based - Cash credit	Simple
Long term/Short term – Non-fund based limit	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term Fund-based – Term loan***	FY2010	NA	FY2036	10,222.00	**[ICRA]BB- (Negative)**
NA	**Long term – Fund based - Cash credit**	NA	NA	NA	567.00	**[ICRA]BB- (Negative)**
NA	**Long term/Short term – Non-fund based limit**	NA	NA	NA	376.00	**[ICRA]BB- (Negative)/ [ICRA]A4**

*Source: Company; *inclusive of foreign currency borrowings*

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

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

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 6939 6410
vikram.v@icraindia.com

Siddhartha Kaushik
+91 124 4545 323
siddhartha.kaushik@icraindia.com

Dhruv Consul
+91 124 4545 347
dhruv.consul@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches