March 05, 2024

GMR Energy Limited: Ratings upgraded to [ICRA]BB+ (Stable)/[ICRA]A4+ and removed from Issuer Not-Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term - Non-fund based facilities	610.00	129.12	[ICRA]BB+ (Stable)/ [ICRA]A4+; upgraded from [ICRA]D/[ICRA]D; ISSUER NOT-COOPERATING and removed from ISSUER NOT-COOPERATING category
Total	**610.00**	**129.12**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings of GMR Energy Limited (GEL) have been removed from the Issuer Not-Cooperating category owing to the company's cooperation in concluding the rating exercise. The rating upgrade factors in the repayment and closure of the term loan facilities of GEL in FY2023. There were delays in the debt servicing of these term loan facilities earlier.

The ratings factor in the extensive experience of the GMR Group in the energy sector and the revenue visibility for its 1,650-megawatt (MW) operational thermal power capacity and the 25-MW solar power capacity. The revenue visibility is supported by the availability of long-term and medium-term power purchase agreements (PPA) for ~93% of the capacity with various state distribution utilities (discoms).

Additionally, the company operates a 180-MW hydropower project as an 80:20 joint venture (JV) with Delhi International Airport Limited (DIAL), supplying power to DIAL and the discoms of Uttar Pradesh. Further, the ratings positively factor in the satisfactory operational performance of the thermal assets over the last five years, with availability above the normative level and a healthy plant load factor (PLF). Also, the fuel supply agreements (FSA) are sufficient to meet a major portion of the coal requirement for thermal power plants.

The ratings, are, however, constrained by the counterparty credit risks arising from the exposure of thermal capacities to the state discoms of Tamil Nadu, Bihar, Haryana, Odisha and Maharashtra, which have modest credit profiles. Also, the thermal entities have large dues in the form of regulatory receivables from the state discoms. Further, GEL's ratings are constrained by the relatively high leverage levels and moderate debt coverage metrics in the near to medium term at a consolidated level.

The ratings also factor in the exposure to volume and pricing risks in the short-term market for the capacities without the long-term/medium-term PPAs. While the company has benefited from the high tariffs in the short-term market in recent times, the sustainability of these tariff rates remains to be seen. Further, ICRA notes the lack of a fuel cost pass-through mechanism for power sales in the short-term market as the coal requirement for short-term sales is met through e-auctions. Also, ~84% of the company's long-term and medium-term PPAs have only a partial pass-through of fuel costs through the escalable component.

ICRA also notes that the thermal projects will have to incur additional capital expenditure (capex) to comply with the revised emission norms, increasing the debt levels. While such additional cost is expected to be a pass-through in tariff under the change-in-law clause of the long-term PPAs, the timely approval of such additional tariff remains to be seen. The Government has extended the timeline for compliance with these norms until December 2025.

Further, the company has two hydropower projects under development: one project of 300 MW in Uttarakhand and a second one of 900 MW in Nepal. While the company plans to advance on these projects after securing the required PPAs and an equity partner, any large funding requirement from GEL towards these projects would remain a rating sensitivity. The hydropower project in Nepal has availed a Rs. 93.75-crore loan from a bank in Nepal, wherein the debt servicing would require Group support, given that the project is in a very early stage of development.

The Stable outlook on the long-term rating for GEL reflects the visibility on the company's revenues offered by the presence of the long-term and medium-term PPAs for around 93% of the operational thermal capacity. Moreover, ICRA expects that the operational performance of the power plants will continue to be satisfactory in terms of plant availability and generation, along with a timely recovery of payments from the offtakers.

Key rating drivers and their description

Credit strengths

Extensive experience of the GMR Group in the energy sector - GMR Group is a major player in the infrastructure sector and has been developing projects in India and abroad in segments such as airports, energy and transportation. Over the years, the GMR group has successfully implemented multiple power projects and has a substantial experience in developing and operating power projects. GEL currently operates a thermal power capacity of 1,650 MW and a solar power capacity of 25 MW through wholly-owned subsidiaries, as well as a hydropower capacity of 180 MW through an 80:20 JV with DIAL.

Long-term and medium-term PPAs for ~93% of the operational capacity, providing revenue visibility - GEL's thermal subsidiaries, GMR Kamalanga Energy Limited (GKEL, 1050-MW) and GMR Warora Energy Limited (GWEL, 600-MW), have long-term/medium-term PPAs for ~93% of the net capacity. GKEL has long-term/medium-term PPAs with Haryana discoms for 300-MW, Bihar discoms for 260-MW, GRIDCO for 246 MW and with Tamil Nadu Generation and Distribution Corporation Ltd. (TANGEDCO) for 102-MW. GWEL has long-term/medium-term PPAs with Maharashtra State Electricity Distribution Company Limited (MSEDCL) for 200-MW, with TANGEDCO for 150-MW and with Haryana discoms for 150-MW (commencing from April 2024). The solar asset, GMR Gujarat Solar Private Limited (GGSPL, 25-MW), has a 25-year PPA with Gujarat discoms (GUVNL). These PPAs provide long-term revenue visibility for the company.

FSA availability sufficient to meet a major portion of the coal requirement for the thermal capacity - The thermal entities have FSAs with the subsidiaries of Coal India Limited (CIL) to procure domestic coal. GKEL has an FSA linkage for procuring 4.3 million metric tonnes per annum (MMTPA) of coal, which fulfils around 80% of the requirement at a PLF level of 85%. Meanwhile, GWEL has an FSA linkage for procuring 2.6 MMTPA of coal, fulfilling around 90% of the requirement of the plant at 85% PLF.

Credit challenges

Modest debt coverage metrics in the near to medium term at consolidated level - GEL's debt coverage metrics at the consolidated level are expected to remain modest with the debt service coverage ratio (DSCR) expected to remain less than 1.15x in the near to medium term owing to the high leverage and relatively higher interest rates. The capital structure is expected to remain leveraged with the external debt/OPBDITA above 4.0x over the next three years.

Counterparty credit risks - The counterparty credit risks remain high for GEL due to the exposure of the thermal entities to the state distribution utilities of Tamil Nadu, Bihar, Haryana, Odisha and Maharashtra, most of which have modest credit profiles. While the receivable period declined to 163 days as on March 31, 2023, from 237 days as on March 31, 2022, it remains relatively high. Also, a large portion of the dues are stuck in the form of regulatory receivables, whose recovery is under process. Notwithstanding this, the presence of letter of credit (LC) for one month's billing from the discoms as a payment security and the stringent provisions to make timely payments under the late payment surcharge (LPS) scheme notified by the

Ministry of Power, Government of India, mitigate the counterparty credit risks to some extent. Going forward, timely payments from the state discoms to the thermal entities will remain a key monitorable for GEL.

Uncertainty over the funding and execution of the under-development capacities - There are two under-development projects under GEL, GMR Upper Karnali Hydro Power Public Limited (GUKPL, 900-MW hydro) in Nepal and GMR (Badrinath) Hydro Power Generation Private Limited (GBHPL, Alaknanda Project, 300-MW hydro) in Uttarakhand, India. The Alaknanda project has been on hold for ~10 years due to a Supreme Court stay order on the construction of all such projects (24 power projects) in Uttarakhand. GEL has not incurred any cost for the construction of this project and there is no outstanding external debt. However, a bank guarantee of ~Rs. 18.8 crore has been issued by GEL to the state government for this project. GEL is not planning to incur any cost towards this project till the stay is vacated. Also, there has been no progress on the Upper Karnali project as well since its award in 2014. The Group has availed a debt of ~Rs. 93.75 crore (letter of comfort provided by GEL) for this project. The servicing of this debt would require support from the Group, given that the project is in a very early stage of development. The company proposes to progress on this project after securing the required PPA(s) and an equity/strategic partner.

Liquidity position: Stretched

GEL's liquidity position, at the standalone level, is stretched as the company does not have any operations of its own. At present, GEL has utilised non-fund based facilities of Rs. 129.1 crore. Of this, Rs. 18.8-crore bank guarantee (BG) has been issued for the Badrinath (Alaknanda) 300-MW hydropower project, and Rs. 110.3-crore BG is being utilised for the 1,370-MW coal-based thermal power plant in Chhattisgarh, which has been sold to Adani Power. The BG for the sold project will soon be transferred to the acquiring entity. GEL (at the standalone level) had cash and bank balances including encumbered balances in the form of margin money of Rs. 6.07 crore as on March 31, 2023.

Rating sensitivities

Positive factors - ICRA could upgrade GEL's ratings in case of a sustained improvement in the operating and financial performance of its power projects as well as timely payments from offtakers on a sustained basis, resulting in improved coverage metrics and liquidity position.

Negative factors - The ratings may be downgraded in case of significant delays in receiving payments from the offtakers, adversely impacting GEL's and its subsidiaries' liquidity profiles. Also, GEL's inability to secure remunerative tariffs in the short-term market relative to its cost structure, or a significant decline in plant availability below the normative level, adversely impacting its profitability and debt coverage metrics, could trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Thermal Rating Methodology for Solar Power
Parent/Group support	NA
Consolidation/Standalone	The rating is based on the consolidated financials of the entities mentioned in Annexure-II

About the company

GEL was held by GMR Group through GMR Power and Urban Infra Ltd. (GPUIL) and its subsidiaries with around 58% stake till October 2023. Along with GPUIL and its subsidiaries, GEL had a private equity partner in Temasek (through Claymore Investments (Mauritius)), which held a ~12% stake. Another strategic investor was Tenaga Nasional Berhad (through Power and Energy International Limited (Mauritius)), which held a ~29% stake. In November 2023, GPUIL acquired 105.11 crore equity shares, representing a 29.14% stake in GEL from Power and Energy International (Mauritius) Limited. Following the stake purchase, the shareholding of GMR Power and Urban Infra and its subsidiaries in GEL increased to 86.90% from 57.76%. Further, on February 14, 2024, GPUIL signed a binding agreement to acquire 42.04 crore equity shares, representing a 11.66% stake of GEL from Claymore Investments (Mauritius)**.** The transaction, once completed, will consolidate the existing stake of GPUIL and its subsidiaries in GEL to about 99%.

At present, GEL houses four operational power assets: GKEL (1050-MW thermal), GWEL (600-MW thermal), GGSPL (25-MW solar) and GMR Bajoli Holi Hydropower Private Limited (GBHHPL, 180-MW hydro). GKEL, GWEL and GGSPL are fully-owned subsidiaries of GEL, while GBHHPL is a JV between GEL and DIAL (Group company of GMR) under the group captive structure. GEL's holding in GBHHPL is 79.9%, with 20.1% held by DIAL.

Apart from the above operational plants, the Vemagiri gas power plant (300-MW) that commenced operations in 2006 is not operational at present due to gas shortage. Moreover, the plant is currently under preservation. Also, there are two under-development projects under GEL, GUKPL (900-MW hydro) in Nepal and GBHPL (Alaknanda Project, 300-MW hydro) in Uttarakhand, India, which are currently stalled.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	2,659.3	4,715.2
PAT	388.1	(25.3)
OPBDIT/OI	30.7%	29.2%
PAT/OI	14.6%	(0.5%)
Total outside liabilities/Tangible net worth (times)	21.1	30.2
Total debt/OPBDIT (times)	12.6	6.9
Interest coverage (times)	0.9	1.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

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 Mar 31,2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 05, 2024	Jul 18, 2023	May 31, 2022	-	Feb 26, 2021
1	Non fund-based-facilities	Long Term/Short Term	129.12	-	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]D/[ICRA]D; ISSUER NOT COOPERATING	[ICRA]B (Stable)/ [ICRA] A4; ISSUER NOT COOPERATING	-	[ICRA]B (Stable)/ [ICRA] A4; ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-fund based facilities	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	**Non-fund based facilities**	-	-	-	129.12	[ICRA]BB+ (Stable)/[ICRA]A4+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
GMR Energy limited	**Rated entity**	**Full Consolidation**
GMR (Badrinath) Hydro Power Generation Private Limited (GBHPL)	Subsidiary	Full Consolidation
GMR Bundelkhand Energy Private Limited (GBEPL)	Subsidiary	Full Consolidation
GMR Gujarat Solar Power Limited (GGSPPL)	Subsidiary	Full Consolidation
GMR Warora Energy Limited (GWEL)	Subsidiary	Full Consolidation
GMR Vemagiri Power Generation Limited	Subsidiary	Full Consolidation
GMR Kamlanga Energy Limited (GKEL)	Subsidiary	Full Consolidation
GMR Maharastra Energy Limited (GMEL)	Subsidiary	Full Consolidation
GMR Rajam Solar Power Private Limited (GRSPL)	Subsidiary	Full Consolidation
GMR Consulting Services Limited (GCSL)	Subsidiary	Full Consolidation
GMR Indo-Nepal Power Corridors Limited (GINPCL)	Subsidiary	Full Consolidation
GMR Upper Karnali Hydropower Limited (GUKPL)	Subsidiary	Full Consolidation
Karnali Transmission Company Private Limited (KTCPL)	Subsidiary	Full Consolidation
GMR Energy (Mauritius) Limited (GEML)	Subsidiary	Full Consolidation
GMR Lion Energy Limited (GLEL)	Subsidiary	Full Consolidation
GMR Bajoli Holi Hydropower Power Limited (GBHHPL)	Joint Venture	Equity Method
GMR Tenaga Operation Maintenance Private Limited (GTOM)	Joint Venture	Equity Method

Source: Company

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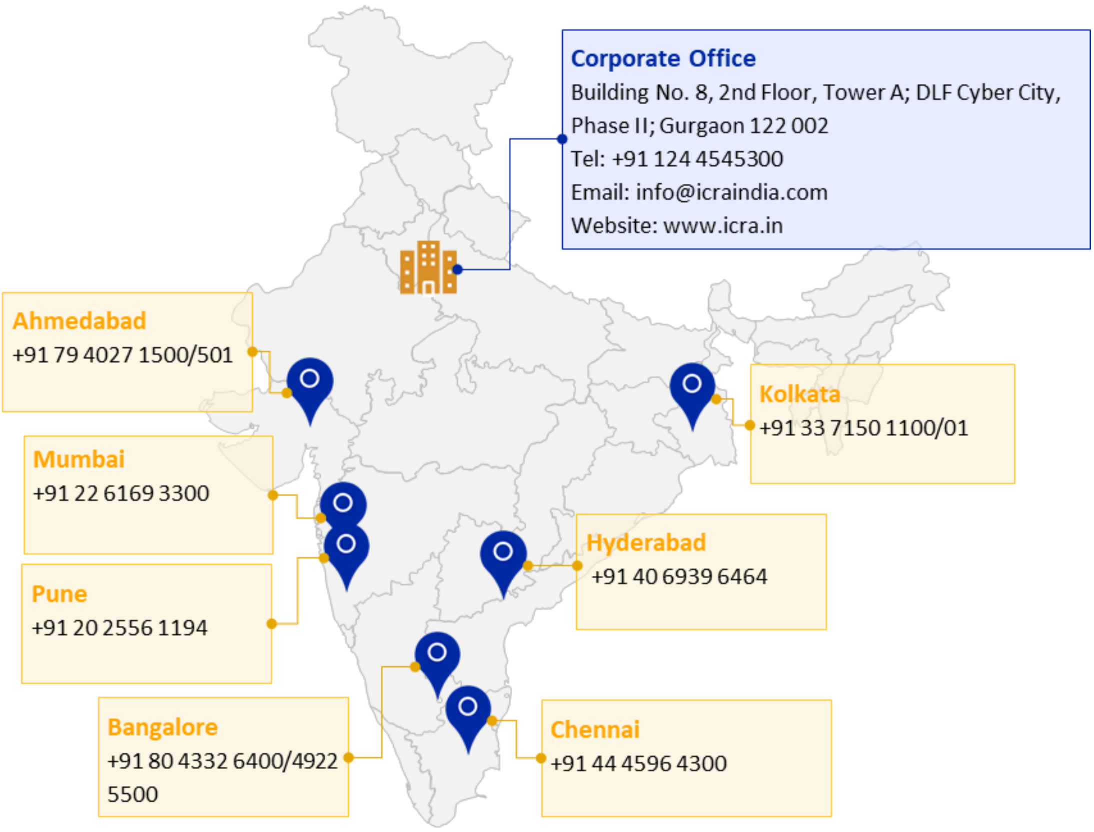

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