March 31, 2024

Fatehgarh IV Transmission Limited: [ICRA]A- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based – Term loan	176.00	[ICRA]A- (Stable); assigned
Long term - Unallocated	74.00	[ICRA]A- (Stable); assigned
Total	**250.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating on the bank facilities of Fatehgarh IV Transmission Limited (FTL-IV) takes into consideration the presence of a strong parent - Apraava Energy Private Limited (AEPL), which has an established track record of owning and operating renewable power, thermal power and power transmission assets in India with an aggregate operational generation capacity of 2.63 gigawatt (GW) and transmission lines of 494 kilometres (KMs). The rating also draws comfort from the healthy financial profile of the parent and the strong profile of the ultimate shareholders – CLP Holdings Limited {rated Moody's A2 (Stable); with 50% shareholding} and Caisse de dépôt et placement du Québec {CDPQ; rated Moody's Aaa (Stable); remaining 50% shareholding}.

FTL-IV is developing a pooling substation at Fatehgarh-4 along with a 21 KM transmission line between Fatehgarh-3 and Fatehgarh-4 substations, along with associated line bays in Rajasthan, under a build-own-operate-transfer (BOOT) model. The rating factors in the fixed price EPC contract awarded by the company, thereby eliminating the raw material price risk. The rating also favourably takes note of the fact that the company has achieved financial closure for Rs. 176 crore term loan for the project, with a provision of twelve months moratorium period post scheduled commercial operations date (CoD) of February 2025 and a door-to-door tenure of 19.5 years.

Upon commissioning, the company would benefit from an assured off-take and stable cash inflows in the form of fixed monthly charges as per the 35-year transmission service agreement (TSA), provided the line availability is maintained above the normative level of 98%. Further, the project being a part of the Inter-State 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; a subsidiary of the Power Grid Corporation of India Limited) during the operating period.

The rating is, however, constrained by the project's implementation risks, given the early stage of construction, pending right of way for the line and certain pending approvals. While the company has acquired 100% of the land required for the substation, the right of way for the transmission line is pending. The rating factors in the risks related to delays in receiving the approvals and right of way. However, the non-applicability of forest approval and environment clearance for the project limit the approval risks. The timely acquisition of the pending right of way and approvals without any major delays would be important.

Post commissioning, the company's profitability would be exposed to fluctuations in operations and maintenance (O&M) expenses, although the AEPL's experience in the power transmission business should ensure adequate resource allocation and cost-efficient execution of the O&M activity. The rating considers the exposure of the company's debt coverage metrics to interest rate movement, due to the high share of debt funding in the project cost.

The stable outlook reflects ICRA's expectation that the project would progress as per the company's expected timelines on the back of the AEPL Group's established track record.

Key rating drivers and their description

Credit strengths

Strong parentage; established track record of Apraava Group in operating power transmission projects - The rating draws comfort from the strong parentage of FTL-IV, a wholly-owned subsidiary of AEPL. AEPL has an established track record of owning and operating renewable power, thermal power and power transmission assets in India with an aggregate operational generation capacity of 2.63 GW and transmission lines of 494 KMs, its healthy financial profile and the strong profile of the ultimate shareholders – CLP Holdings Limited {rated Moody's A2 (Stable); with 50% shareholding} and Caisse de dépôt et placement du Québec {CDPQ; rated Moody's Aaa (Stable); remaining 50% shareholding}. ICRA draws comfort from the superior financial flexibility derived by AEPL from the presence of strong shareholders and the high commitment from the shareholders to support its growth requirements. AEPL, which has also signed sponsor support undertaking for FTL-IV, is expected to provide funding support to FTL-IV in case of any requirement.

Assured off-take under long-term TSA; strong payment security – Upon commissioning, the company will enjoy assured offtake and stable cash inflows in the form of fixed monthly charges, provided the line availability is maintained above 98% under the TSA. The project will also benefit from the diversified counterparty risk and favourable payment security under the pooling mechanism once commissioned. Under this mechanism, the Central Transmission Utility of India Limited (CTU) collects monthly transmission charges from ISTS customers, which are distributed to all the ISTS licensees from the centrally collected pool.

Financial closure achieved for debt funding – The company has achieved financial closure for debt funding of Rs. 176 crore, which has a door-to-door tenure of 19.5 years, including construction period of 1.5 years and a moratorium of twelve months post scheduled CoD. Further, the promoters have infused Rs. 68.15 crore as on March 18, 2024, out of their total commitment of Rs. 171.8 crore in the project cost and are expected to have adequate resources to fund the balance equity in a timely manner. Further, AEPL is expected to support FTL-IV to fund the cost overruns, if any.

Credit challenges

Implementation risks associated with typical power transmission project – The project is currently in the initial stages of implementation, as the construction work has commenced recently. While the company has acquired 100% of the land required for the substation, the right of way for the transmission line is pending. The project is exposed to risks related to delays in receiving approvals and right of way. However, the non-applicability of forest approval, environment clearance and river/railway line crossings for this project limit the approval risks. Moreover, given the transmission line length of the project is only 21 KMs, the project is exposed to moderate right of way risks. The timely receipt of required approvals and right of way along with the construction progress in line with scheduled timeline of February 2025, remains important from the credit perspective.

Moderate operations and maintenance risk – Following the commissioning of the project, the company's profitability would remain exposed to variations in O&M expenses and line availability. However, AEPL's experience in the power transmission business should ensure adequate resource allocation and cost-efficient execution of the O&M activity.

Interest rate risk – The project is being funded by debt-to-equity funding mix of 51:49, with debt having floating interest rate linked to 3-month Treasury Bill rate. The debt-to-equity can go up in the future (post CoD) as the permitted indebtedness clause in the debt terms allows for additional debt post CoD and signing of contract for additional bay income, subject to certain conditions. Thus, the company's debt coverage would be exposed to interest rate movement after commissioning, considering the project's largely fixed transmission revenue upon commissioning.

Liquidity position: Adequate

The company's liquidity position is expected to remain adequate, given the availability of requisite equity funding for the project and as the financial closure is expected to be achieved by March 31, 2024. Also, there is an adequate buffer between the scheduled commissioning and debt repayment commencement dates.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company progresses towards commissioning the project without any major time and cost overruns.

Negative factors – Pressure on the rating could emerge in case of any significant delays in project implementation, or sizeable cost overruns. Deterioration in the credit profile of its parent, AEPL, including by the way of further dilution of shareholding by CLP Holdings Limited may also trigger a rating downgrade. Further, any adverse change in linkages between AEPL and FTL-IV can lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Power Transmission
Parent/Group support	Parent: AEPL The assigned rating for FTL-IV factors in the implicit support from the parent, AEPL.
Consolidation/Standalone	Standalone

About the company

FTL-IV, a subsidiary of AEPL, is the project SPV for an ISTS project in Rajasthan, which involves the construction of pooling station at Fatehgarh-IV, a 400 kV transmission line and two 400 kV line bays. The project is part of an evacuation scheme for 20 GW of renewable power from renewable energy zones in Rajasthan. The project was awarded through tariff-based competitive bidding by PFC Consulting Limited (PCL; bid process coordinator for power transmission projects appointed by Government of India), wherein AEPL emerged as a winning bidder with a quoted levelised tariff of Rs. 24.867 crore/annum. The project is being implemented on a build-own-operate-transfer (BOOT) basis, with a TSA tenue of 35 years upon commissioning. The budgeted cost of the project is Rs. 347.8 crore, funded through debt and equity of 51:49. The debt-to-equity can go up in the future (post CoD) as the permitted indebtedness clause in the debt terms allows for additional debt post CoD and signing of contract for additional bay income, subject to certain conditions.

Key financial indicators - Not applicable as the company's operations are yet to be commenced; the project under the company is under-construction.

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 18, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 31, 2024	-	-	-
1	**Fund-based – Term loan**	Long term	176.00	0.00	**[ICRA]A- (Stable)**	-	-	-
2	**Unallocated**	Long term	74.00	-	**[ICRA]A- (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based – Term loan	Simple
Long term - Unallocated	Not applicable

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	Feb 6, 2024	-	Mar-2043	176.00	[ICRA]A- (Stable)
NA	Unallocated	NA	NA	NA	74.00	[ICRA]A- (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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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.

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