August 16, 2024

Kudgi Transmission Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture (NCD) programme	1,248.00	1,248.00	[ICRA]AAA (Stable); reaffirmed
Non-convertible debenture (NCD) programme	45.00	-	[ICRA]AAA (Stable); reaffirmed and withdrawn
Total	**1,293.00**	**1,248.00**	

Instrument details are provided in Annexure-I

Rationale

The rating assigned to the Rs. 45.0-crore non-convertible debenture (NCD) programme (ISIN - INE945S07090) of Kudgi Transmission Limited (KTL) has been reaffirmed and withdrawn, as these debentures have been redeemed in full and there are no dues outstanding against them.

The rating reaffirmation considers the stable operating performance of the power transmission project under KTL, with line availability remaining over 99% in FY2024, leading to a stable revenue stream, including incentives for higher-than-normative availability (98.0%) and strong liquidity. The rating continues to derive strength from the operational nature of the project and a long-term (35-year) transmission service agreement (TSA) with availability-linked tariff payments.

The rating further favourably factors in the low counterparty credit risk due to the strong payment security mechanism for the underlying inter-state power transmission asset of KTL. The Central Transmission Utility (CTU) is responsible for collecting the transmission charges from the beneficiary users and disbursing the same to inter-state transmission licensees. The CTU function is managed by the Central Transmission Utility of India Limited (CTUIL), a 100% subsidiary of Power Grid Corporation of India Limited (PGCIL). The collection efficiency remained healthy at 102% in FY2024.

The rating also takes support from the comfortable debt coverage metrics of the project and the structural features of NCDs including a debt service reserve and a cash trap mechanism.

However, KTL is exposed to operations and maintenance (O&M) related risks, including the increase in cost, inadequate maintenance resulting in lower line availability and potential deductions from transmission charges by the CTU. Nonetheless, the execution track record of the EPC contractor (i.e., Larsen & Toubro Limited, or L&T), the relatively low complexity in O&M activities, the stable performance so far and the fixed-price (including disincentive for lower line availability) O&M contracts for FY2025 mitigate this risk to an extent. Going forward, the rating would remain sensitive to KTL's ability to maintain the operating costs within the budgeted level and keep the line availability above the target levels.

ICRA takes note of the divestment by Larsen & Toubro Limited (L&T) and Canada Pension Plan Investment Board (CPPIB) of their stake in L&T Infrastructure Development Projects Limited (L&T IDPL), the parent of KTL, to a portfolio company of Infrastructure Yield Plus II, an infrastructure fund managed by Edelweiss Alternatives. ICRA has considered this as a credit neutral event for KTL, due to the standalone rating approach followed and the structural features of the NCDs. However, the adequacy of liquidity maintained post takeover by the new sponsor will be a key rating monitorable for KTL.

The Stable outlook on the rating indicates ICRA's expectations that KTL will continue to benefit from the stable nature of its cash flows, with healthy line availability and timely payments.

Key features of the NCD programme

- Debt service reserve account (DSRA) equivalent to six months' debt servicing. This is expected to be increased to 12 months, post takeover by a new sponsor
- Cash trap mechanism in case of debt service coverage ratio falling below 1.1 times
- Structured payment mechanism designed to ensure timely payment of the rated NCDs
- If the rating falls to or below AA-, the debenture trustee is entitled to ask the issuer for redemption of NCDs within 180 days
- The issuer has a call option on the NCDs at the end of 10 years (call option 2), 15 years (call option 3) and 20 years (call option 4) from the issuance date. In case the issuer does not exercise the call option 2, the coupon rate on the NCDs shall increase by 50 bps

Key rating drivers and their description

Credit strengths

Operational transmission project with stable revenue visibility – KTL's power transmission project has been operational since September 2016 and has a track record of stable revenues. As per the TSA, KTL will receive fixed transmission charges of Rs. 196.29 crore per annum during the TSA period, subject to the maintenance of a minimum line availability of 98%, which will render revenue stability. Over the past seven years, the company has shown a healthy track record of line availability (except for force majeure events) of more than 99%, leading to incentives in addition to fixed charges.

Strong payment security for inter-state transmission assets - The transmission project under KTL is a part of the inter-state transmission grid, which enjoys strong payment security because of the pooling benefit at the national level. The CTU is responsible for raising bills and collecting payments from the consumers of the transmission system and distributing the payments among various inter-state transmission licensees.

Strong liquidity position, comfortable debt coverage metrics and support from structural features in NCDs – ICRA's rating derives strength from the structural features of the NCD like presence of an escrow mechanism, a debt service reserve account (equivalent to 50% of annual principal and interest obligations), cash trap triggers if the DSCR falls below 1.1 times, and a payment mechanism designed to ensure timely payments to investors. Further, the liquidity position of the company is strong, with its cash, bank balance, and liquid investments of Rs. 342.90 crore as on June 30, 2024. Moreover, the company's debt coverage metrics remain comfortable with healthy buffer between cash flows from operations and debt servicing obligations.

Credit challenges

Moderate operations and maintenance risks – KTL's cash flows are linked to the project's line availability, which would depend on the quality of the asset and timely O&M. However, the project's healthy overall performance thus far, and the fact that the transmission asset is constructed by an experienced contractor — Larsen & Toubro Limited (rated [ICRA]A1+) — mitigate the risk to an extent. Although O&M and other expenses form a small portion of the revenues, increase in such expenses could deteriorate the cash flows from operations as the inflows are fixed in nature. ICRA notes that KTL has signed a fixed-price (including disincentive for lower line availability) O&M contracts for the next three years, which provides some comfort.

Liquidity position: Strong

The liquidity of KTL is strong, reflected in its cash, bank balance, and liquid investments of Rs. 342.90 crore as on June 30, 2024, and projected net cash flows from operations of over Rs. 200 crore against a repayment obligation of ~Rs. 160 crore each in FY2025 and FY2026. The company has no capital expenditure requirement. Besides, returns from liquid funds maintained by the company are expected to provide cushion to the cash flows.

Rating sensitivities

Positive factors – Not Applicable.

Negative factors – Pressure on KTL's rating could arise if lower-than-targeted line availability or increased expenses result in a deterioration of the ICRA-projected cumulative DSCR to lower than 1.20 times. In addition, elongation in the payment cycle of transmission charges from the CTU to over 135 days, on a sustained basis, or reduction in KTL's liquidity below Rs. 170 crore plus accrued debt servicing could exert pressure on its rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power Transmission Policy on withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Kudgi Transmission Limited (KTL) is a 100% subsidiary of Infrastructure Yield Plus (through its various schemes) along with EPIC Concesiones Private Limited (EPIC). The project involved the construction of 400/765 kV double circuit (D/C) quad lines of 482 km in Karnataka on a build, own, operate and maintain (BOOM) basis to evacuate power from the Kudgi thermal power plant of NTPC Ltd. The project achieved commercial operations date (COD) in September 2016. KTL transmits power to the discoms of the five southern states (Andhra Pradesh, Telangana, Karnataka, Kerala and Tamil Nadu) at the quoted annual transmission charges of Rs. 196.29 crore, subject to the terms specified in the TSA.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	196.0	188.7
PAT	77.7	82.9
OPBDIT/OI	90.9%	88.9%
PAT/OI	39.6%	43.9%
Total outside liabilities/Tangible net worth (times)	2.3	4.2
Total debt/OPBDIT (times)	7.5	9.6
Interest coverage (times)	1.4	1.4

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amounts 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 (FY2025)		Chronology of rating history for the past 3 years							
	Type	Amount Rated (Rs Crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
NCD	Long Term	1,248.0	16-AUG-2024	[ICRA]AAA (Stable)	18-AUG-2023	[ICRA]AAA (Stable)	19-AUG-2022	[ICRA]AAA (Stable)	20-AUG-2021	[ICRA]AAA (Stable)
			-	-	-	-	27-DEC-2022	[ICRA]AAA (Stable)	-	-
NCD	Long Term	45.0	16-AUG-2024	[ICRA]AAA (Stable); Withdrawn	18-AUG-2023	[ICRA]AAA (Stable)	19-AUG-2022	[ICRA]AAA (Stable)	20-AUG-2021	[ICRA]AAA (Stable)
			-	-	-	-	27-DEC-2022	[ICRA]AAA (Stable)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible debenture (NCD) programme	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
INE945S07090	NCD-2 -Series G	31-Mar-17	8.80%	25-Apr-24	45	[ICRA]AAA (Stable); Withdrawn
INE945S07108	NCD-2- Series H	31-Mar-17	8.80%	25-Apr-25	48	[ICRA]AAA (Stable)
INE945S07116	NCD-2- Series I	31-Mar-17	8.80%	25-Apr-26	52	[ICRA]AAA (Stable)
INE945S07124	NCD-2- Series J	31-Mar-17	8.80%	25-Apr-27	55	[ICRA]AAA (Stable)
INE945S07132	NCD-2- Series K	31-Mar-17	9.14%	25-Apr-28	59	[ICRA]AAA (Stable)
INE945S07140	NCD-2- Series L	31-Mar-17	9.14%	25-Apr-29	63	[ICRA]AAA (Stable)
INE945S07157	NCD-2- Series M	31-Mar-17	9.14%	25-Apr-30	67	[ICRA]AAA (Stable)
INE945S07165	NCD-2- Series N	31-Mar-17	9.14%	25-Apr-31	72	[ICRA]AAA (Stable)
INE945S07173	NCD-2- Series O	31-Mar-17	9.14%	25-Apr-32	75	[ICRA]AAA (Stable)
INE945S07181	NCD-2- Series P	31-Mar-17	9.50%	25-Apr-33	80	[ICRA]AAA (Stable)
INE945S07199	NCD-2- Series Q	31-Mar-17	9.50%	25-Apr-34	87	[ICRA]AAA (Stable)
INE945S07207	NCD-2- Series R	31-Mar-17	9.50%	25-Apr-35	93	[ICRA]AAA (Stable)
INE945S07215	NCD-2- Series S	31-Mar-17	9.50%	25-Apr-36	101	[ICRA]AAA (Stable)
INE945S07223	NCD-2- Series T	31-Mar-17	9.50%	25-Apr-37	106	[ICRA]AAA (Stable)
INE945S07231	NCD-2- Series U	31-Mar-17	9.50%	25-Apr-38	90	[ICRA]AAA (Stable)
INE945S07322	NCD-2- Series V	31-Mar-17	9.50%	25-Apr-39	96	[ICRA]AAA (Stable)
INE945S07330	NCD-2- Series W	31-Mar-17	9.50%	25-Apr-40	104	[ICRA]AAA (Stable)

Source: Company

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.

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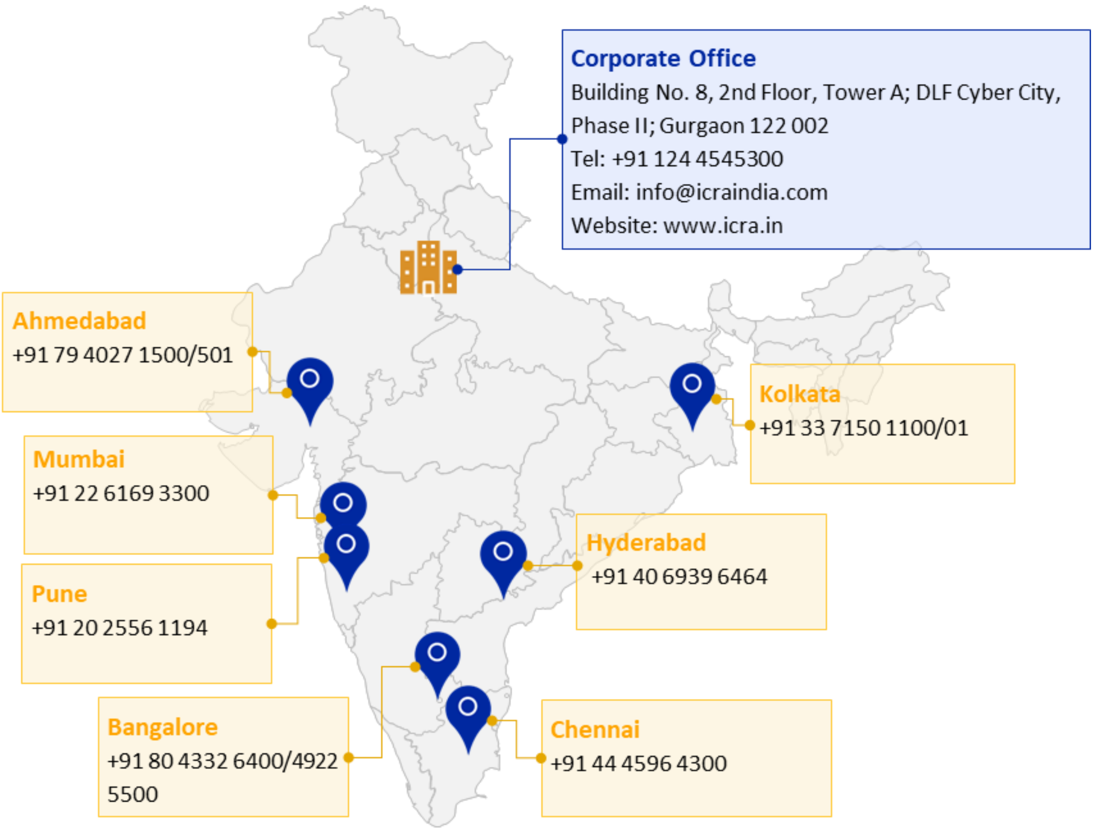

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