September 16, 2024

Sandhya Hydro Power Projects Balargha Private Limited: Rating downgraded to [ICRA]BB+; rating watch revised

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	83.1	83.1	[ICRA]BB+ downgraded from [ICRA]BBB-; rating on watch with negative implications, revised from rating watch with developing implications
Total	**83.1**	**83.1**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has downgraded the rating of Sandhya Hydro Power Projects Balargha Private Limited (SHPPBPL) and has revised the watch to one with negative implications. The rating downgrade takes into account the deterioration in the company's liquidity and debt servicing ability because of another shutdown of its 9-MW hydropower project in Kullu, Himachal Pradesh, due to the recent incident of water logging in the powerhouse on July 30, 2024. The revision to rating watch with negative implications factors in the limited liquidity buffer and the uncertainty over the resumption of operations and cost of restoration of the plant. The extent of the damage to the plant is being evaluated.

ICRA notes that the plant had earlier resumed operations at the end of April 2024 post a shutdown in July 2023 on account of floods in the region due to incessant rains. The company had started operations in April 2024 after completing critical restoration work, while the civil work (protection works & others) was expected to continue till the end of June 2024. The lender had granted a moratorium on the principal repayment for a period of 12 months. Though the debt service reserve account (DSRA) has been exhausted, the company was servicing the interest amount through cash on hand, promoter infusion and collection from debtors. ICRA understands that the promoters remain committed and have sufficient sources to support the company to meet its debt service obligations and restoration costs in a timely manner, should the need arise.

Power from the project is supplied under long-term PPAs with customers in the healthcare, hospitality and telecom sectors in Delhi. The presence of reputed customers with strong credit profiles and the timely payments are positives for the company. Also, ICRA draws comfort from the competitive tariffs offered by the company, which are at a discount to the tariff offered by the distribution utilities in Delhi. ICRA notes that none of the company's PPAs has been cancelled/terminated and, hence, the power flow shall commence once the project starts generating energy.

The project economics are expected to improve after the implementation of the 132-kV alternative evacuation arrangement, with expected savings in transmission losses and transmission and wheeling charges. The implementation of the alternative 132-kV evacuation arrangement will lower such charges, going forward, and also improve the available energy for export.

Further, the rating takes into consideration the experienced management team and the technical strengths available to SHPPBPL through its ultimate parent, Continuum Energy Pte. Limited.

The rating, however, remains constrained by the exposure of the project's cash flows to hydrological risks in the absence of a deemed generation clause under the PPAs. Further, the tariff realisation remains vulnerable to the upward revision in open access charges, imposition of additional charges and the availability of power from cheaper alternatives, especially given the weak exit clause in the PPAs. In addition, the timely receipt of regulatory and other requisite approvals under the group captive route remains critical from a credit perspective. Moreover, the company's coverage metrics remain exposed to the interest rate movement, given the largely fixed tariffs under the PPA.

Key rating drivers and their description

Credit strengths

Experienced management team; technical strength by virtue of being part of Continuum Energy Pte Ltd, Singapore – The company is a subsidiary of Continuum Energy Pte Limited (Singapore) and, thus, derives managerial and technical strength from being a part of the Continuum Group. Continuum Energy, along with its subsidiaries, holds a 74% stake in the company. The Group has a significant presence in the renewable space, through another holding company Continuum Green Energy Ltd, Singapore, with operational capacities of ~2.3 GW.

Presence of long-term PPAs with diversified customer profile, including Bharti Airtel - SHPPBPL had signed a long-term power purchase agreement with Bharti Airtel Limited in March 2021 under the group captive route. This has enabled the company to diversify its customer portfolio with ~47% exposure to the healthcare sector, followed by 32% to telecom (entirely Bharti Airtel) and 21% to hospitality. The dependence on the hospitality segment has come down significantly from the initial years. The offtaker entities together have a 26% shareholding in the company with a weighted average tariff of ~Rs. 5.56/Kwh.

Timely realisation of payments from consumers with comfortable credit profiles – The exposure of SHPPBPL's cash flows to counterparty risk is low due to the strong credit profiles of the offtakers. Comfort can be drawn from the fact that the payments from the offtakers have been timely with weekly collections from the counterparties, except Airtel. Airtel makes the payments at the end of the month.

Credit challenges

Plant shutdown due to adverse impact of floods in July 2024; limited liquidity buffer – The company's liquidity levels have reduced because of another shutdown of its hydropower plant due to water logging in the powerhouse on July 30, 2024. There is uncertainty over the expected time of resumption of operations and the cost of restoration of the plant as the extent of the damage is being evaluated. Though the DSRA has been exhausted, the company was servicing the interest amount through cash on hand, promoter infusion and collection from debtors. The company has a limited liquidity buffer of Rs. 5.93 crore in the form of cash and bank balance as on August 31, 2024, against an interest cost of ~Rs. 0.5 crore per month and repayment obligation of ~Rs. 2.5 crore in FY2025 (12 months' moratorium granted for principal repayment by lender ending in October 2024). ICRA understands that the promoters remain committed and have sufficient sources to support the company to meet its debt service obligations and restoration costs in a timely manner, should the need arise.

Project tariffs vulnerable to changes in open access charges and availability of power from cheaper alternatives; weak exit clause under PPAs – While the landed cost of power based on the contracted PPA tariffs for the customers is likely to provide significant savings compared to the grid tariffs in New Delhi, any increase in open access charges or availability of power at cheaper rates from alternative sources could put pressure on the tariffs. The tariff viability remains a crucial factor as the lock-in period for most of the customers is expected to expire by March 2025. The PPAs can be terminated with a 90-day notice, post the completion of the lock-in.

Operations vulnerable to hydrological risks – SHPPBPL's operations remain exposed to hydrological risks as the cash flows are directly linked to the exported power. Further, ICRA has taken note of the grid failures in the existing 33KV line and the expected commencement of NHPC's 800-MW Parbati II project which would reduce the water availability, resulting in lower generation/incidence of unscheduled interchange charges, thus impacting its overall debt protection metrics. The instances of grid failures are expected to improve with the commissioning of the alternative evacuation arrangement and will remain a key rating monitorable, going forward.

Timely receipt/continuation of regulatory and open access approvals remains crucial - SHPPBPL sells power through the short-term open access route, as part of which it must take regular approvals for the sale of power. The customers are also required to obtain timely approvals to procure power under the group captive route. The timely receipt of the open access approvals remains crucial for the company's overall revenue profile.

Debt coverage metrics exposed to interest rate movement – The company's coverage metrics remain exposed to the interest rate movement, given the largely fixed tariffs under the PPAs and the relatively high leverage.

Liquidity position: Stretched

The liquidity position remains stretched on account of the limited liquidity buffer with DSRA being exhausted by the company. Moreover, the plant is not generating cash flows after the shutdown in July 2024. The debt servicing is expected to be met through the available cash balances and support from the parent. The lenders earlier granted moratorium on the principal repayment for 12 months, which will end in October 2024. The company has cash/bank balance of Rs. 5.93 crore as on August 31, 2024. Further, ICRA understands that the promoters remain committed and have sufficient sources to support the company to meet its debt service obligations and restoration costs in a timely manner, should the need arise.

Rating sensitivities

Positive factors – The rating could be removed from watch with negative implications, after the plant resumes operations and demonstrates a healthy generation performance, thereby leading to an improvement in the liquidity position.

Negative factors – SHPPBPL's rating could be under pressure if the project's restoration is significantly delayed and/or there is a further moderation in the company's liquidity position due to delay in fund infusion from the promoters.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of SHPPBPL

About the company

SHPPBPL, incorporated in 2010, operates a run-of-the-river 9-MW +10% continuous overload small hydropower project on the river Parbati (a tributary of Beas) in Kullu, Himachal Pradesh. The current promoters acquired the project from a local stakeholder in Himachal Pradesh in 2010 at an initial capacity of 2 MW. The capacity was increased to 5 MW after approval from Himachal Pradesh Energy Development Agency (HIMURJA). Further, after obtaining the water flow details of the location, the capacity was increased to 9 MW +10% continuous overflow. The company signed an implementation agreement (IA) with the Government of Himachal Pradesh (GoHP) in December 2010 for carrying out the project on build, own, operate & transfer (BOOT) basis for a period of 40 years. While the project began its commercial operations in January 2018, the power sale to customers under the open access route began in April 2018.

Key financial indicators (audited)

SHPPBPL	FY2023	FY2024
Operating income	28.2	7.7
PAT	-0.8	-5.4
OPBDIT/OI	53.9%	11.5%
PAT/OI	-2.9%	-69.2%
Total outside liabilities/Tangible net worth (times)	4.1	5.4
Total debt/OPBDIT (times)	7.8	142.1
Interest coverage (times)	1.3	0.1

Source: Company, ICRA Research; 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

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs crore)	Sep 16, 2024	Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	83.1	[ICRA]BB+; rating watch with negative implications	Nov 23, 2023	[ICRA]BBB-; rating watch with developing implications	Feb 28, 2023	[ICRA]BBB (Stable)	Nov 09, 2021	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	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	**Term loan**	FY2023	NA	FY2041	75.0	[ICRA]BB+; rating watch with negative implications
NA	**Term loan – Proposed**	NA	NA	NA	8.1	[ICRA]BB+; rating watch with negative implications

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.

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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