ICRA

October 29, 2024

# Talwandi Sabo Power Limited: Ratings assigned

## Summary of rating action

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|
| **Long term/Short term fund-based – Working capital facilities loan** | 750.00 | [ICRA]A+ Rating Watch with Developing Implications/[ICRA]A1 Rating Watch with Developing Implications; assigned |
| **Long term/Short term non-fund based – Working capital facilities loan** | 650.00 | [ICRA]A+ Rating Watch with Developing Implications/[ICRA]A1 Rating Watch with Developing Implications; assigned |
| **Total** | **1,400.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The assigned ratings factor in the strong parentage of Talwandi Sabo Power Limited (TSPL) as it is a wholly-owned subsidiary of Vedanta Limited (VDL; rated [CRA]AA rating watch with developing implications/[ICRA]A1+ rating watch with implications) and the operational status of its coal-based power plant with low offtake risks due to the long-term power purchase agreement (PPA) with Punjab State Power Corporation Limited (PSPCL) for its entire power generation capacity of 1,980 MW. The ratings also factor in the two part tariff structure under the PPA with availability-linked fixed charges, the fuel cost pass-through arrangement subject to meeting the operating efficiency norms under the PPA and the modest fuel-supply risk because of the long-term fuel supply agreements (FSA) with the subsidiaries of Coal India Limited (CIL).

ICRA derives comfort from TSPL's adequate operating efficiency with the plant availability factor (PAF) at 82% in FY2023 and FY2024 against the normative availability of 80% under the PPA. TSPL is, however, exposed to counterparty credit risk, given the modest financial position of PSPCL. However, the company's track record in receiving timely payments from the discom in the recent past provides comfort. This apart, TSPL is not able to fully recover its capacity charges due to a dispute over its mega power project status and the related benefits, which is pending before the Supreme Court. Also, there are pending dues owing to other disputes related to disagreements over availability. The timely resolution and realisation of these pending dues remains a key monitorable, going forward.

Further, TSPL's financial risk profile is characterised by a leveraged capital structure and under-recovery in capacity charges owing to the dispute over its mega power project status, which is resulting in modest debt coverage ratios. The debt coverage metrics also remain exposed to the movement in interest rates.

ICRA notes that the company may have to incur a capital expenditure of up to Rs. 1,500 crore to install flu gas-desulphurisation (FGD), which will be partly funded through debt. Any non-commensurate increase in revenues in the form of increased capacity charge under change-in-law would negatively impact the project returns and debt coverage metrics.

The ratings assigned are on watch with developing implications owing to the ongoing demerger of Vedanta Limited's (VDL) aluminium, oil and gas, power, base metal (zinc international and copper business) and iron and steel businesses into separate standalone listed entities, which is expected to be concluded by December 2024. ICRA will continue to monitor the development of the demerger process and the timelines involved and will take appropriate action, as required.

## Key rating drivers and their description

### Credit strengths

**Strong parentage and track record of financial support –** TSPL's strong parentage as a wholly-owned subsidiary of Vedanta Limited is a source of comfort for its rating. The company has a demonstrated track record of funding support from VDL in the past to meet its short-term funding mismatches. The importance of TSPL to VDL is further established by the corporate guarantee provided by VDL for the outstanding term loans.

**Long-term PPA with availability-based tariff structure and fuel cost pass-through –** TSPL has signed a long-term (25 years) PPA for its power generation capacity with PSPCL with fixed charges as quoted under the PPA and pass-through of fuel cost. The presence of the long-term PPA mitigates the offtake risk. Further, variable energy charge recovery is based on a quoted heat rate, which essentially means that the fuel cost is a pass-through, subject to a specified heat rate, thus insulating the company from the fluctuations in coal prices. Full fixed capacity charges are payable by PSPCL to TSPL at the normative PAF of 80%, irrespective of any offtake. The company has been maintaining PAF levels of above 80% in the recent fiscals.

**Presence of FSA mitigates fuel supply risk** – The company has signed FSAs for long-term coal linkage with the fully-owned subsidiaries of Coal India Ltd - South Eastern Coalfields Ltd (for 5.44 MTPA of G10–G12 grade coal) and Northern Coalfields Limited (for 0.7 MTPA). The Punjab State Electricity Regulatory Commission (PSERC) has also allowed the procurement of coal from alternative sources (domestic and imported) in case of a shortfall in coal supplied under the FSAs. The price of coal from such alternative sources shall also be a pass-through. Thus, the fuel supply risk is mitigated to a large extent.

### Credit challenges

**Counterparty credit risk associated with exposure to PSPCL** - TSPL remains exposed to counterparty credit risk, given the modest financial profile of PSPCL. Nonetheless, there has been a demonstrated track record of PSPCL making payments on time and at times before the due date, in the recent fiscals.

**Under-recovery of capacity charges due to disputed receivables -** Of the ~Rs. 2,167-crore receivables outstanding as on March 31, 2024 (increased from ~Rs. 2,288 crore as on March 31, 2023), ~Rs. 1,620 crore is stuck in a dispute with PSPCL. Majority of these dues is related to the ongoing dispute with PSPCL for the mega power status benefits. As a result, TSPL has not been able to fully recover its capacity charges over the years. The dispute is pending for hearing before the Supreme Court. The timely resolution of this dispute and realisation of the pending dues remains important for the company.

**Modest debt coverage metrics -** The financial profile of TSPL is characterised by a leveraged capital structure, with total debt to OPBDITA of 6.0 times in FY2024. This, along with the under-recovery in capacity charges, has resulted in modest debt coverage metrics for the company. However, ICRA takes comfort from the fact that TSPL has been able to refinance its debt in the past on account of its strong linkages and support from VDL. Moreover, the debt levels have come down to Rs. 6,425 crore as on March 31, 2024 from Rs. 6,789 crore as on March 31, 2023. ICRA notes that the company may have to incur capital expenditure of up to Rs. 1,500 crore to install FGD, which will be partly funded through debt. Any non-commensurate increase in revenues in the form of increased capacity charge would negatively impact the project returns.

## Liquidity position: Adequate

TSPL's liquidity is expected to remain adequate based on the availability cash balances, cash flow from operations, undrawn working capital lines and the support available from VDL. The company had cash and bank balances of ~Rs. 200 crore as on March 31, 2024 and is expected to generate cash flow from operations of ~Rs. 900-Rs. 950 crore in FY2025. The company has sanctioned fund-based limits of Rs. 750 crore and non-fund-based limits of Rs. 650 crore, along with a one-way interchangeability to non-fund-based limits. Its average working capital utilisation was more than 90% for the six months ended

September 2024 as a percentage of its drawing power. With principal plus interest payment obligations of ~Rs. 1,290 crore in FY2025, it remains dependent on support from the parent or refinancing of debt to meet the obligations. Nonetheless, comfort is drawn from demonstrated track record of funding from the VDL in the past to meet the short-term funding mismatches. ICRA also notes that timely resolution of the ongoing dispute on mega power benefits and realisation of the pending dues in case of favorable outcome would positively impact the liquidity profile of the company.

## Rating sensitivities

**Positive factors –** ICRA could upgrade TSPL's ratings if there is an improvement in the company's earnings and debt protection metrics on a sustained basis. Further, an improvement in the credit profile of the parent can be a positive trigger for TSPL.

**Negative factors –** Pressure on the ratings could arise if there are prolonged delays in the realisation of payments from PSPCL, or the actual PAF is lower than the normative PAF of 80% that would pull down the revenue realisation and consequently the profitability, impacting the company's liquidity position. Further, weakening of linkages with the parent (VDL) or weakening of the credit profile of the parent would also be the negative triggers.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Power - Thermal |
| **Parent/Group support** | Parent: **Vedanta Limited**<br>ICRA factors in the likelihood and the willingness of TSPL's parent, Vedanta Limited, extending financial support to it, if required |
| **Consolidation/Standalone** | Standalone |

## About the company

Talwandi Sabo Power Limited (TSPL) was incorporated as an SPV by Punjab State Electricity Board (PSEB) to construct a 1,980-MW (3×660) thermal power plant at Banawala village, Mansa-Talwandi Sabo road, in the Mansa district of Punjab. Vedanta Limited (Sterlite Energy Limited at that time) was selected as the developer of the project, based on the tariff-based competitive bidding process (Case-2) on BOO basis for the supply of 100% power to the Punjab State Electricity Board (PSEB) for 25 years from the COD. The power purchase agreement and other related agreements were signed between TSPL and PSEB on September 1, 2008, and the ownership of Talwandi Sabo Power Limited was transferred to Vedanta Limited on that date. The three units of 660 MW each were commissioned in July 2014, November 2015 and August 2016.

### Key financial indicators (audited)

| Standalone | FY2023 | FY2024 |
|---|---|---|
| **Operating income** | 5,800.6 | 5,303.7 |
| **PAT** | -70.3 | 602.2 |
| **OPBDIT/OI** | 18.8% | 20.2% |
| **PAT/OI** | -1.2% | 11.4% |
| **Total outside liabilities/Tangible net worth (times)** | 2.7 | 1.8 |
| **Total debt/OPBDIT (times)** | 6.2 | 6.0 |
| **Interest coverage (times)** | 1.5 | 1.6 |

*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) | Oct 29, 2024 | Date | Rating | Date | Rating | Date | Rating |
| **Fund-based – Working capital facilities loan** | **Long term/Short term** | 750.00 | [ICRA]A+ Rating Watch with Developing Implications/[ICRA]A1 Rating Watch with Developing Implications | | | | | | |
| **Non-fund-based – Working capital facilities loan** | **Long term/Short term** | 650.00 | [ICRA]A+ Rating Watch with Developing Implications/[ICRA]A1 Rating Watch with Developing Implications | | | | | | |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long term/Short term fund-based – Working capital facilities loan** | Simple |
| **Long term/Short term non-fund based – Working capital facilities loan** | 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** | **Fund-based – Working capital facilities loan** | NA | NA | NA | 750.00 | [ICRA]A+ Rating Watch with Developing Implications/[ICRA]A1 Rating Watch with Developing Implications |
| **NA** | **Non-fund based – Working capital facilities loan** | NA | NA | NA | 650.00 | [ICRA]A+ Rating Watch with Developing Implications/[ICRA]A1 Rating Watch with Developing Implications |

*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

## ANALYST CONTACTS

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

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

**Sumit Jhunjhunwala**
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

**Devanshu Gupta**
+91 124 4545 321
devanshu.gupta@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