November 26, 2024 (Revised)

Chhattisgarh Hydro Power LLP: Rating reaffirmed/assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-cash credit-fund based	0.00	5.00	[ICRA]A (Stable); Assigned
Long term-term loan-fund based	67.50	287.20	[ICRA]A (Stable); Reaffirmed/ Assigned for enhanced amount
Long term-others-non fund based	2.50	10.00	[ICRA]A (Stable); Reaffirmed/ Assigned for enhanced amount
Total	**70.0**	**302.2**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in the stable operations of the 24-MW Gullu hydroelectric project (HEP) developed by Chhattisgarh Hydro Power LLP (CHPLLP) in the state. While the generation was impacted in FY2023 and FY2024 on account of low rainfall, early trends indicate that it is expected to improve in FY2025 driven by better monsoons as reflected in the plant load factor (PLF) of 52.6% in H1 FY2025 against 42.86% in H1 FY2024. ICRA notes that the company has achieved critical milestones in the execution of the 24.9 MW Rehar hydroelectric project, and there is a reasonable line of sight of its commissioning towards the end of the current fiscal. The total capital cost for the project is Rs 322.58 crores with debt equity ratio of 70:30, of which 98% have already been spent as of August 2024. CHPLLP is also expected to receive a 15% capital subsidy from the State Government of Chhattisgarh over a period of 10 years, which if materialised, would remain a credit positive. The promoter contribution has been fully infused and debt funding is in place, mitigating funding risks. However, while the execution risk is largely mitigated for the Rehar project, the project is awaiting signing of power purchase agreement (PPA), exposing the project to offtake and tariff risks. Also, the leverage level for the firm is expected to remain elevated in FY2025, considering the debt availed for the Rehar project. Therefore, the timely signing of the PPA at a remunerative tariff, and stabilisation of operations remains important for the company and remains a key monitorable from the credit perspective. Nonetheless, ICRA expects the debt coverage and leverage metrics to remain comfortable from next fiscal following accruals to start from Rehar and the debt availed for the Gullu project getting gradually repaid by FY2028.

The rating continues to consider the favourable regulatory environment (exemption from scheduling norms and high feed-in tariffs for small hydro projects in Chhattisgarh). The rating also reflects the limited offtake risks for the Gullu hydroelectric project, supported by a 35-year long-term power purchase agreement (PPA) with Chhattisgarh State Power Distribution Company Limited (CSPDCL) at a remunerative fixed feed-in tariff of Rs. 5.21/unit, which leads to healthy business returns. ICRA observes that the Gullu project has a two-quarter debt service reserve account (DSRA), which can help tide over temporary cash flow timing mismatches in the event of receivables build up. However, ICRA observes that the payment track record from CSPDCL has remained timely (average collection period of 60 days), and the company has additional Rs. 5 crore working capital limits, which remains undrawn, thereby providing additional comfort to the liquidity profile.

ICRA expects parent Sarda Energy & Minerals Limited (SEML) to be willing to extend financial support to CHPLLP, should there be a need, given the strategic importance that CHPLLP holds for SEML, for meeting its diversification objectives. The entity has received funding support from the Sarda Group in the past for completing the Gullu and Rehar projects.

The rating is, however, tempered by CHPLLP's exposure to hydrology risks, given that the revenues and profits are directly linked to generation level, which in turn remains exposed to water availability and rainfall. In addition, the entity remains exposed to customer concentration risks and the credit profile of the sole customer, CSPDCL, whose financial profile is constrained by losses owing to inadequate tariffs in relation to the cost of supply. Nonetheless, the payment track record for the off taker has been timely so far.

Given its corporate status as an LLP, CHPLLP inherently suffers from the potential risk of capital leakage due to withdrawal by the partners, which could adversely impact its capital structure and leverage metrics in future. The Stable outlook on the rating reflects ICRA's opinion that CHPLLP will be able to operate the Gullu hydroelectric project at a satisfactory PLF and expected commissioning of the Rehar small hydro project by March 2025 along with timely payments from CSPDCL will lead to adequate cash flows to service its scheduled debt repayments.

Key rating drivers and their description

Credit strengths

Satisfactory PLF level and attractive fixed feed-in tariff for the Gullu project leading to comfortable debt coverage metrics so far – The 24-MW small hydropower project at Gullu has been able to generate healthy cash flows since its commissioning, supported by satisfactory PLF level and timely payments from the customer. The company achieve a PLF of 50.5% in FY2021 and 50.4% in FY2022, which is on a par with its P-90 PLF of 50.1%. While the generation was subdued in FY2023 and FY2024 with PLF of 38% and 34.1% due to scattered rainfall, the PLF is expected to improve in FY2025 backed by improved monsoon rainfall and PLF of 52.6% in H1 FY25 against PLF of 42.6% in H1FY24. The tariff for the 24-MW operational hydroelectric project at Gullu has been fixed at an attractive level of Rs. 5.21/unit for the entire term of the PPA. Therefore, despite the dip in PLF in FY2024, the company achieved comfortable DSCR at 1.43 times in FY2024.

Limited offtake risks for Gullu hydroelectric project, backed by long-term PPA – CHPLLP has signed a 35-year long-term PPA with CSPDCL, which covers the entire economic life of the project, at a fixed feed-in tariff of Rs. 5.21/unit. Moreover, ICRA notes that Chhattisgarh State electricity regulatory commission (CSERC) has adopted the Ministry of Power's advised trajectory for hydro purchase obligation which stands at 1.08% for FY2025, while the overall renewable purchase obligation (including solar and wind) is 29.91% for FY2025 against 27.08% for FY2024 which further mitigates the offtake risks for the Gullu HEP.

Timely collections and healthy liquidity buffer strengthens credit profile – Attractive tariff levels and timely collections for Gullu support positive retained cash flows. CHPLLP's liquidity profile is also strengthened by the presence of two quarters of DSRA as well as additional free cash of Rs 1.1 crores as of August 2024. In addition, the company has a Rs. 5 crore unutilised cash credit facility to tide over any cash flow timing differences.

Exemption from day-ahead scheduling to plug revenue leakage – As the CSERC waived the scheduling requirement for renewable energy projects in December 2019, the LLP has been able to continuously achieve a PLF higher than the design PLF of 50% in FY2021 and FY2022 with slight subdued generation in FY2023 and FY2024 due to scattered rainfall. Given the variability in rainfall and the challenges associated with forecasting generation in a run-of-the-river hydroelectric project, CHPLLP's actual generation remained higher than the scheduled generation during the earlier years.

Demonstrated funding support from Sarda Group – CHPLLP's partners include SEML (which has a profit-sharing ratio of 72%) and Sarda Energy Limited (which is a wholly-owned subsidiary of SEML and has a profit-sharing ratio of 28%). ICRA notes that CHPLLP has received funding support from the Sarda Group in the past for completing the operational project at Gullu. This apart, it benefits from the Group's experience in the development and operation of other hydropower projects. The gross investment of Rs. 314 crores incurred by the company for the Rehar-I project till August 2024 is funded through unsecured promoter debt of Rs. 41 crore and equity of Rs. 121 crores, internal accruals of Rs 17 crores and remaining Rs 112 crores through bank debt.

Construction risk largely mitigated for Rehar project- Rehar project has been largely completed and trail runs are ongoing for electromechanical components and plant is expected to get operational by march/April 2025. Erection of all the equipment, i.e., Turbine, Generator and BOP (Electrical and Mechanical) of Unit 1, 2 & 3 has been completed. Dry commissioning of Unit-1, 2 & 3 is completed. Wet commissioning of Unit-1, 2, 3 under progress. All the erection, testing and commissioning of hydro mechanical work completed. The erection & stringing of all 132 towers for the transmission line is complete.

Credit challenges

Exposure to offtake and tariff risks for Rehar-I HEP given the absence of PPA – The PPA for the Rehar-I HEP is pending and is expected to be signed closer to the commissioning date. Further, the capital cost for the Rehar-I HEP is higher at ~Rs. 12.96 crore/MW against Rs. 8.9 crore/MW for Gullu HEP. This is also higher than the normative capital cost of Rs 8.8 crore per MW approved by the CSERC for small hydro projects to be commissioned in FY2025, resulting in a generic tariff of Rs 5.97 per unit. Although as per the latest draft tariff order of CSERC dated Nov 5, 2024, the benchmark capital cost is being proposed to be escalated by 14% to Rs 10.06 crores per MW, which should result in more attractive generic tariff, but the final notification in this regard is awaited, which, along with the signing of PPA remains key monitorable for the borrower. If the PPA for the project is signed at prevailing tariff levels, the returns and debt coverage metrics is likely to moderate for CHPLLP than historical levels.

Exposure to hydrology risks – CHPLLP's PPA with CSPDCL is based on a single part feed-in tariff, and consequently, the entire hydrology risk is borne by the seller. Further, the PPA provides for penalty[1] payable by the seller to the off taker in case the generation in any fiscal falls below the minimum guaranteed supply, which is PLF of 30%. Consequently, in years of poor hydrology, when the PLF is lower than 30%, CHPLLP remains exposed to lower revenues and potentially faces the risk of liquidated damages for a shortfall in the minimum guaranteed supply.

Exposure to customer concentration risks; Weak financial profile of the off taker –CHPLLP will have two operational small hydropower project from next fiscal, supplying power to a single off taker. This exposes it to customer concentration risks. Moreover, the entity's small scale of operations remains a constraint. **Moreover,** the weak financial profile of CSPDCL exposes CHPLLP to the risk of potential delays in receiving payments in future. However, ICRA notes that payments from CSPDCL have been received within 60-90 days so far, which, in turn has supported its healthy free cash flow generation.

Risk of capital withdrawal by partners – In the past, CHPLLP has been utilising a part of the surplus funds in extending advances to SEML and repaying unsecured loans from the partners. Given its corporate status as an LLP, the entity inherently suffers from the risk of capital leakage due to withdrawal by the partners, which could adversely impact its capital structure and leverage metrics in future. Also, bankers do not have any restriction with respect to withdrawal of unsecured loans/promoter capital as far as the DSCR levels and other ratios do not get impacted.

Liquidity position: Adequate

CHPLLP's liquidity is adequate, with the entity expected to generate positive cash flows from operations between Rs. 23-37 crore in FY2025/FY2026, which can adequately cover its scheduled debt service obligations during this period. CHPLLP's liquidity profile is also supported by the presence of a two quarter DSRA of Rs. 10 crores. However, ICRA notes that it does not meet ICRA's criteria of pre-default DSRA. The project cost for the Rehar-I SHP is fully funded through equity and project debt and the project is expected to be commissioned by March/April 2025. As of August 2024, company has free cash and cash equivalents of Rs 1.1 crores and DSRA of Rs 10.43 crores (2 quarters of principal and interest repayments). In addition, the company had unutilised cash credit limits of Rs. 5 crore which can help tide over any temporary cash flow timing mismatches.

Rating sensitivities

Positive factors - ICRA could upgrade CHPLLP's rating if it is able to demonstrate healthy generation levels for Gullu operational SHP and achieve operational stability of the upcoming Rehar-I SHP within the budgeted time and costs, along with signing of PPA at attractive tariffs.. Also, the rating of CHPLPP would remain sensitive to the credit profile of parent, SEML.

Negative factors - Pressure on CHPLLP's rating could arise if its PLF levels for the hydro power assets fall below 30% on a sustained basis, leading to liquidated damages from the customer and moderation in debt coverage metrics. The rating may also be downgraded if there is a significant deterioration in the collection efficiency adversely impacting the liquidity profile of the company. Further, the rating may be under pressure if CHPLLP is not able to tie up PPA at a remunerative tariff for Rehar-I SHP. Other factors that could exert downward pressure on the ratings include deterioration in the credit profile of the parent, SEML, or weakening in the linkages with SEML, or change in the support philosophy of the parent towards CHPLLP.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent Company: Sarda Energy & Minerals Limited (SEML) ICRA expects CHPLLP's controlling partner, SEML, to be willing to extend financial support to CHPLLP, should there be a need, given the strategic importance that CHPLLP holds for SEML for meeting its diversification objectives. ICRA also expects SEML to be willing to extend financial support to CHPLLP out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

CHPLLP (formerly Chhattisgarh Hydro Power Pvt. Ltd) was incorporated on May 24, 2005 as a private limited company. It was converted into an LLP on September 17, 2010. The partners of CHPLLP include SEML (72% profit share) and Sarda Energy Limited (28% profit share). CHPLLP has commissioned a 2x12-MW Gullu small hydropower plant in the Jashpur district of Chhattisgarh. The plant has entered into a long-term PPA with CSPDCL for a tenure of 35 years at an attractive feed-in tariff of Rs. 5.21/unit. It is constructing another 3X8.3-MW small hydroelectric project (Rehar-I) on the Rehar river in the Surajpur district of Chhattisgarh.

Key financial indicators (CHPLLP-Standalone)

	FY2023	FY2024
Operating income	43.0	38.9
PAT	24.7	19.5
OPBDIT/OI (%)	85.7%	82.8%
PAT/OI (%)	57.6%	50.1%
Total outside liabilities/Tangible net worth (times)	1.2	0.9
Total debt/OPBDIT (times)	3.1	5.3
Interest coverage (times)	6.4	4.9

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. Crore.

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Key financial indicators (SEML – Consolidated)

	FY2023	FY2024
Operating income	4211.9	3868.1
PAT	606.3	508.6
OPBDIT/OI (%)	25.0%	20.5%
PAT/OI (%)	14.4%	13.1%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total debt/OPBDIT (times)	1.4	1.7
Interest coverage (times)	8.6	6.2

Source: Company, ICRA Research; All ratios are 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

<table>
<tr><th rowspan="3">Instrument</th><th colspan="3">Current (FY2025)</th><th colspan="8">Chronology of rating history for the past 3 years</th></tr>
<tr><th colspan="3"></th><th colspan="2">FY2025</th><th colspan="2">FY2024</th><th colspan="2">FY2023</th><th colspan="2">FY2022</th></tr>
<tr><th>Type</th><th>Amount Rated (Rs Crore)</th><th>Nov 26, 2024</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th></tr>
<tr><td>Long term-cash credit-fund based</td><td>Long Term</td><td>5.00</td><td>[ICRA]A (Stable)</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">Long term-term loan-fund based</td><td rowspan="2">Long Term</td><td rowspan="2">287.20</td><td rowspan="2">[ICRA]A (Stable)</td><td rowspan="2">-</td><td rowspan="2">-</td><td rowspan="2">30-NOV-2023</td><td rowspan="2">[ICRA]A (Stable)</td><td rowspan="2">30-AUG-2022</td><td rowspan="2">[ICRA]A (Stable)</td><td>02-Aug-2021</td><td>[ICRA]A- (Stable)</td></tr>
<tr><td>02-JUL-2021</td><td>[ICRA]A- (Stable)</td></tr>
<tr><td rowspan="2">Long term-others-non fund based</td><td rowspan="2">Long Term</td><td rowspan="2">10.00</td><td rowspan="2">[ICRA]A (Stable)</td><td rowspan="2">-</td><td rowspan="2">-</td><td rowspan="2">30-NOV-2023</td><td rowspan="2">[ICRA]A (Stable)</td><td rowspan="2">30-AUG-2022</td><td rowspan="2">[ICRA]A (Stable)</td><td>02-Aug-2021</td><td>[ICRA]A- (Stable)</td></tr>
<tr><td>02-JUL-2021</td><td>[ICRA]A- (Stable)</td></tr>
<tr><td rowspan="2">Issuer rating</td><td rowspan="2">Long Term</td><td rowspan="2">-</td><td rowspan="2">-</td><td rowspan="2">-</td><td rowspan="2">-</td><td rowspan="2">-</td><td rowspan="2">-</td><td rowspan="2">-</td><td rowspan="2">-</td><td>02-Aug-2021</td><td>[ICRA]A- (Stable) – withdrawn</td></tr>
<tr><td>02-JUL-2021</td><td>[ICRA]A- (Stable) – Notice of withdrawal</td></tr>
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Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term- Cash Credit	Simple
Long Term- Term loan	Simple
Long term- Non fund based	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/Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	28-02-2024	9.6%	-	5.0	[ICRA] A (Stable)
NA	**Term Loan**	Sep 2017	8.9%	FY 2028	287.2	[ICRA] A (Stable)
NA	**Non-fund based**	-	-	-	10.00	[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

Corrigendum

Documented dated November 26, 2024 is corrected with revisions as detailed below:-

Revision: Rating of 2-Aug-2021 added in rating history

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