

December 27, 2024

Sasan Power Limited: Ratings placed on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	10,222.00	10,222.00	[ICRA]BB-; placed on rating watch with developing implications
Long term – Fund-based - Cash credit	567.00	567.00	[ICRA]BB-; placed on rating watch with developing implications
Long Term/Short term – Non-fund based limit	376.00	376.00	[ICRA]BB-/ [ICRA]A4; placed on rating watch with developing implications
Total	11,165.00	11,165.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has placed the ratings of Sasan Power Limited (SPL/the company) on watch with developing implications given the refinancing risk associated with the repayment of the \$150-million bullet payment due on December 31, 2024. The company is currently in the process of raising debt in Rosa Power Supply company Limited (subsidiary of Reliance Power Limited) towards funding support to Reliance Power Limited (RPL) for general corporate purposes including for payment of IIFCL (UK) loan in SPL having bullet repayment of \$150-million due on December 31, 2024. ICRA would continue to monitor the developments related to the transaction and would resolve the watch post completion of debt repayment due on December 31, 2024.

Further, the company's cash inflows and debt servicing obligations are tightly matched over the next 2-3 years. Nonetheless, the debt coverage is expected to improve from FY2027 when a major portion of the foreign currency borrowings would have been repaid. Further, the operating performance of its thermal power capacity continues to be healthy with the plant availability and plant load factor (PLF) remaining well above the normative levels. The PLF improved to above 90% in FY2024 and H1FY2025 compared to 85.80% in FY2023 after the replacement of the generation transformer in May 2023.

ICRA continues to take comfort from the availability of long-term power purchase agreements (PPA) at a cost-competitive tariff for the entire capacity with the state distribution utilities (discoms). The ratings further take into account the company's superior merit order position in the power procurement mix of the offtaker utilities, which is also supported by the cost advantage from the access to captive coal mines.

The ratings are, however, constrained by the stretched liquidity position in the absence of a debt service reserve (DSRA) cover required as per the terms of the loan documents and the limited cushion available in the form of undrawn fund-based working capital limits. SPL has, however, accumulated ~Rs. 85 crore in the DSRA account as on December 11, 2024 which can be utilised for debt servicing. The debt service coverage ratio (DSCR) is expected to remain low in the near to medium term, given the competitively bid-based tariff structure in the PPA and the cost overruns witnessed for the project. The company's ability to sustain a high PLF level of over 90% and superior operating efficiencies and maintain the actual fuel and operating costs within the bid tariff level will remain critical from a credit perspective.

Further, SPL remains exposed to counterparty credit risks arising from the exposure to state discoms with modest financial profiles. However, this risk is offset by the competitive tariffs and the option available for third-party sale of power in case of default by the procurers (as allowed under the PPA).

The ratings consider the uncertainty over the timelines for the approval and subsequent implementation of the tariff compensation, both under change-in-law during construction and forex variations. The ratings are further constrained by exchange rate risks because of foreign currency debt, though the risk is partly mitigated through hedging for a part of the

principal payments. Also, the company's debt metrics remain exposed to the adverse movements in interest rates, given the high leverage level and largely fixed tariffs.

The ratings also factor in the large capex requirement of ~Rs. 2,434 crore (proposed to be funded by debt-to-equity mix of 70:30) to install the flue gas desulphurisation (FGD) system to comply with the revised environmental norms. The Central Electricity Regulatory Commission (CERC) has approved the FGD capex. Further, the CERC, vide its order dated August 13, 2021, has laid down a mechanism to determine the compensation for FGD installation. Also, the Ministry of Power (MoP), vide a notification dated October 22, 2021, has notified Electricity (Timely Recovery of Costs due to Change in Law) Rules, 2021 to ensure the timely recovery of the costs due to change-in-law. While the tariff mechanism to recover the FGD capex is broadly in place and the cost incurred would be a pass-through under the tariff, the company will remain exposed to funding and execution risks for the timely completion of this capex. ICRA takes note of the two-year timeline extension provided by the Government of India to comply with the revised environmental norms. The revised timeline for SPL to comply with these norms is December 2026 against December 2024 earlier.

ICRA also takes note of the sizeable build-up of statutory liabilities towards the state government of Madhya Pradesh (MP) over the last three fiscals. The ratings also remain constrained by the weak financial position and financial flexibility of the holding company, Reliance Power Limited (RPower).

Key rating drivers and their description

Credit strengths

Healthy operating performance of plant so far; sustenance remains critical – The company's plant availability factor (PAF) and PLF levels have remained healthy and above the normative levels since the commencement of all the units in March 2015. The PLF for H1 FY2025 stood at 91.06% and for FY2024 at 91.61% (against 85.80% in FY2023). The PLF was lower in FY2023 owing to the outage of one unit due to transformer failure, which resumed operations in May 2023. Given the tightly matched cash flows of the company with its debt servicing obligations, the ability to maintain a high PLF level of over 90% and other efficiency indicators (such as specific heat rate and auxiliary consumption) within the budgeted levels in a sustained manner will be critical from a credit perspective. Additionally, the ability to keep mining and other operating cost overheads within budget remains important.

Long-term PPAs with cost-competitive tariff with all procurers - SPL has entered into long-term (25-year) PPAs for its entire installed capacity with 14 power distribution companies across seven different states for a period of 25 years from the COD of the last unit, which limits the offtake risk. The average tariff realised by SPL is highly cost competitive at Rs. 1.45-1.52 per unit for the offtakers, which in turn ensures a superior merit order position for the company. The tariff is competitively bid based and is also supported by the company's access to captive mine sources as well as the non-applicability of clean energy cess.

Adequate coal availability from captive coal mines - The company's operations have been supported by adequate coal availability from the captive mine blocks of Moher and Moher Amlohri Extension allocated to it, which together have reserves of 575 million metric tonnes (MMT). The mining performance of both these captive coal blocks has remained healthy. The company has environmental clearance for 20 million metric tonnes per annum (MMTPA) of coal produced from these two captive blocks. While the production was earlier restricted to 16 MMTPA, the Ministry of Coal (MoC) has been relaxing the restriction on an annual basis and has allowed the production of sufficient coal, ensuring adequate fuel security for the plant.

Credit challenges

Refinancing risk associated with bullet repayment in December 2024 - The external commercial borrowing from IIFCL UK has a bullet payment of \$150 million, due on December 31, 2024. The company is currently in the process of raising debt in Rosa Power Supply company Limited (subsidiary of RPL) towards funding support to RPL for general corporate purposes including for payment of IIFCL (UK) loan in SPL having bullet repayment of \$150-million due on December 31, 2024. ICRA would continue

to monitor the developments related to the transaction and would resolve the watch post completion of debt repayment due on December 31, 2024.

Modest debt metrics and stretched liquidity position- The company's liquidity position remains stretched in the absence of adequate DSRA cover, modest cash balances and limited cushion available in the form of undrawn fund-based working capital limits. The buffer between the debt servicing obligations and the cash accruals remains limited, which has resulted in lack of funds to create the required DSRA. SPL has, however, accumulated ~ Rs. 85 crore in the DSRA account as on December 11, 2024 which can be utilised for debt servicing. The cash flows remain tightly matched in the absence of an adequate liquidity cushion and the timely collection of monthly bills is critical for the company's liquidity. Nonetheless, the collection efficiency has remained high (~95-100%) over the last five fiscals, which provides some comfort.

Pending regulatory outcome over tariff compensation requests under change-in-law – The company has received a favourable order from the CERC for the additional cost arising because of the change-in-law during the operations period. The petitions for the impact of change-in-law during the construction period are pending before APTEL and the Supreme Court. For the petition related to the pass-through of cost variation arising from forex movements, APTEL has accepted the appeal filed by SPL against the CERC's initial order disallowing the petition and has remanded the matter to the CERC for consideration. However, the risk of further appeal against this order by the customers cannot be ruled out.

Counterparty credit risk - SPL remains exposed to counterparty credit risks, given the modest credit profile of some of the offtakers. The risk is partially mitigated by the payment security mechanism in the PPAs, the competitive tariffs and the option available for third-party sale of power in case of defaults by the procurers (as allowed under the PPAs), particularly in view of the rising demand for electricity and high tariffs in the short-term market. SPL's merit order remains favourable as it is one of the lowest cost producers of power. This not only ensures a healthy offtake but also offers payment preference over other relatively high-cost producers of power.

Exposure to interest rate and foreign exchange rate risks - The operations of the company remain exposed to foreign exchange rate risks due to the large foreign currency debt, constituting 26% of the overall debt as on September 30, 2024. The risk has been mitigated to some extent by the hedging undertaken by the company for a part of the principal payment over the next five years. Further, the company also remains exposed to the adverse movement in interest rates which can impact the debt coverage metrics. While 50% of the foreign currency denominated loan carry a fixed interest rate, mitigating the interest rate variation risk to an extent, the interest rate on the balance foreign currency debt and rupee debt are floating and subject to periodic resets.

Sizeable unpaid statutory dues liabilities - Over the last three fiscals, there has been a sizeable build-up of statutory dues that have remained unpaid. As on March 31, 2024, this amount was Rs. 1,397 crore compared with Rs. 1,004 crore as on March 31, 2023. These dues pertain to Madhya Pradesh. Of the unpaid statutory dues, the MP state government has provided in-principle approval to defer the payment of some of the statutory dues related to the royalty on coal, electricity duty, energy development cess, forest transit fee and contribution to district mineral foundation (DMF), amounting to Rs. 327 crore, for the April-December 2019 period, by four years.

Funding and execution risks for FGD capex – In order to comply with the revised environmental norms, the company is required to install an FGD system for all its six units. The cost involved is approximately Rs. 2,434 crore, as per the last appraised cost shared by the company, to be funded in a debt to-equity mix of 70:30. The company has received regulatory approval from the CERC on the capital cost. The tariff mechanism to recover the FGD capex is broadly in place as per the CERC's order dated August 13, 2021. Further, the MoP has notified Electricity (Timely Recovery of Costs due to Change in Law) Rules, 2021, to ensure timely and immediate recovery of the financial impact to the generation projects, vide its notification dated October 22, 2021. While the cost incurred is expected to be a pass-through under the tariff, the company will remain exposed to funding and execution risks for the timely completion of this capex within the budgeted cost. As on date, the debt funding tie-up and the equity infusion are pending. The extension of the timeline granted by the MoEF offers some comfort as the company now has time till December 2026 to install the required FGD system.

Liquidity position: Stretched

SPL's liquidity position remains stretched with bullet payment of \$150 million due on December 31, 2024 and limited buffer between the cash flow from operations and the debt servicing obligations. The company is currently in the process of raising debt in Rosa Power Supply company Limited (subsidiary of RPL) towards funding support to RPL for general corporate purposes including for payment of IIFCL (UK) loan in SPL having bullet repayment of \$150-million due on December 31, 2024. Timely payment of the loan remains important from a credit risk perspective. Further, the company is yet to create the required DSRA balance, as per the loan agreements. As on December 10, 2024, the company had a total liquidity of Rs. 454 crore, comprising free cash & liquid investments of Rs. 45 crore, restricted cash of Rs. 206 crore and undrawn fund-based working capital limits (cash credit) of Rs. 203 crores. However, given the sizeable debt repayment obligations over the near term, the company's ability to maintain a healthy PLF performance and receive timely payments from the discoms remains critical from a liquidity perspective.

Rating sensitivities

Positive factors – The rating could be revised if the company is able to timely refinance the bullet repayment on the foreign currency loan, leading to an improvement in its debt coverage metrics and liquidity position.

Negative factors – Inability to timely refinance the bullet repayment on the foreign currency loan would lead to a downgrade. Further, any deterioration in the operating parameters like plant availability, PLF and heat rate impacting the revenues and cash flows would be a negative trigger. Delays in payments from the counterparties, inability to improve the liquidity position, and/or failure to complete the FGD capex within the scheduled timeline would be the key negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power Thermal
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

SPL is a wholly-owned subsidiary of Reliance Power Limited and operates a captive coal-based project with a capacity of 3,960 MW at Sasan, Madhya Pradesh. The project was won by Reliance Energy Limited (which was subsequently transferred to Reliance Power Limited) through competitive bidding. The project has been implemented in six units of 660 MW each based on the super-critical technology. SPL signed PPAs in August 2007 for the contracted capacity of 3,722 MW with 14 state utilities in seven states, namely Madhya Pradesh (lead procurer), Uttar Pradesh, the National Capital Territory of Delhi, Punjab, Haryana, Rajasthan, and Uttaranchal. The levelised tariff for the project (which is competitive bid based) for a PPA period of 25 years is Rs. 1.19/unit. The project achieved COD in March 2015.

The project was allotted three captive coal mine blocks, viz. Moher, Moher Amlohri Extension and Chhatrasal, with estimated coal reserves of about 700 million metric tonnes. The Chhatrasal coal mine has been deallocated by the Ministry of Coal, Govt of India, vide a gazette notification dated May 7, 2015. The company has filed a petition against the de-allocation in Delhi High Court, where the matter is at present sub-judice. The captive blocks of Moher and Moher Amlohri Extension, which together attribute to reserves of 575 MMT, are fully operational, with a production capacity of 20 MTPA.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	4,403.7	4,655.5
PAT	15.4	-178.3
OPBDIT/OI	67.3%	66.2%
PAT/OI	0.3%	-3.8%
Total outside liabilities/Tangible net worth (times)	1.8	1.8
Total debt/OPBDIT (times)	3.9	3.4
Interest coverage (times)	2.2	2.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

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	FY2025		FY2024		FY2023		FY2022	
		Amount rated (Rs. crore)	Dec 27, 2024	Date	Rating	Date	Rating	Date	Rating
Long term/Short term – Others – Non-fund based	Long term/Short term	376.00	[ICRA]BB-; rating watch with developing implications / [ICRA]A4; rating watch with developing implications	27-FEB-2024	[ICRA]BB-(Negative)/ [ICRA]A4	27-JAN-2023	[ICRA]BB+(Negative)/ [ICRA]A4	29-OCT-2021	[ICRA]BB+(Negative)/ [ICRA]A4
Long term - Cash credit – Fund-based	Long term	567.00	[ICRA]BB-; rating watch with developing implications	27-FEB-2024	[ICRA]BB-(Negative)	27-JAN-2023	[ICRA]BB+(Negative)	29-OCT-2021	[ICRA]BB+(Negative)
Long term - Term loan – Fund-based	Long term	10222.00	[ICRA]BB-; rating watch with developing implications	27-FEB-2024	[ICRA]BB-(Negative)	27-JAN-2023	[ICRA]BB+(Negative)	29-OCT-2021	[ICRA]BB+(Negative)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long term – Fund-based - Cash credit	Simple
Long term/Short term – Non-fund based limit	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	Long-term fund-based – Term loan*	FY2010	NA	FY2036	10,222.00	[ICRA]BB-; rating watch with developing implications
NA	Long term – Fund based - Cash credit	NA	NA	NA	567.00	[ICRA]BB-; rating watch with developing implications
NA	Long term/Short term – Non-fund based limit	NA	NA	NA	376.00	[ICRA]BB-; rating watch with developing implications / [ICRA]A4; rating watch with developing implications

Source: Company; *inclusive of foreign currency borrowings

[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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