

July 23, 2021

Odisha Generation Phase-II Transmission Limited: Ratings reaffirmed and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	540.36	540.36	[ICRA]AAA (Stable); reaffirmed and withdrawn
Cash Credit	40.00	40.00	[ICRA]AAA (Stable); reaffirmed and withdrawn
Non-fund-based-limit	(8.00)	(8.00)	[ICRA]A1+; reaffirmed and withdrawn
Total	580.36	580.36	

*Instrument details are provided in Annexure-1

Rationale

ICRA has reaffirmed the rating for the Rs.580.36 crore bank facilities of Odisha Generation Phase-II Transmission Limited (OGPTL) at [ICRA]AAA (Stable)/ [ICRA]A1+. It has simultaneously withdrawn the same at the request of the company, based on the no dues certificates provided by its lenders, in accordance with ICRA's policy on Withdrawal and Suspension of Credit Rating.

The reaffirmation in ratings continue to favourably reflect the stability in revenue profile, driven by presence of 35-year transmission service agreement (TSA) with the beneficiary users and the healthy operating performance of the transmission asset under OGPTL, with the average line availability remaining above 99% since commissioning as against the normative level of 98% stipulated in the TSA. The rating further favourably factors in the low counterparty credit risk due to the significant diversification and strong payment security mechanism for the underlying inter-state power transmission assets of IndiGrid. 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 has been recently carved out from Power Grid Corporation of India Limited (PGCIL) to its 100% subsidiary, Central Transmission Utility of India Limited, which is likely to become a wholly owned company of the Government of India in the near term. Further, OGPTL being part of the IndiGrid benefits from the pooling of cashflows of the 15 power assets under the InvIT. The rating is also supported by the healthy financial risk profile of OGPTL and the Trust, as evident from the strong debt coverage indicators. Further, the rating draws comfort from the structural features of the debt programme of IndiGrid and its subsidiaries, including the presence of a debt service reserve account (DSRA) equivalent to one quarter debt servicing, cash trap triggers in case of debt service coverage ratio falling below 1.11x and the structured payment mechanism designed to ensure timely payment of the rated NCDs, as per the terms of the transaction.

On July 14, 2021, IndiGrid completed the acquisition of 100% stake in two solar assets—FRV Andhra Pradesh Solar Farm-I Private Limited (FRV-I) & FRV India Solar Park II – Private Limited (FRV-II)—from FRV Solar Holdings XI B.V. at an enterprise value of Rs. 660 crore. Both the companies operate 50 MW (AC) solar power plant each in Ananthapuramu Solar Park and have entered into a power purchase agreement (PPA) with Solar Energy Corporation of India (SECI; [ICRA]AA+ (Positive)/[ICRA]A1+) for 25 years at a tariff rate of Rs. 4.43 per unit. Also, the projects are eligible for viability gap funding (VGF) of Rs. 0.445 crore per MW. FRV-I was commissioned in July 2018 and FRV-II was commissioned in January 2019. The operating performance of both the solar assets has remained satisfactory since commissioning, with the average PLF remaining in line with the P90 generation estimate. Further, the payments from SECI have remained timely. This acquisition was entirely funded through debt at IndiGrid level.

Further, IndiGrid completed the acquisition of NER II Transmission Limited (NER-II) (74% in March 2021 and the remaining 26% in June 2021), at a value of Rs. 4625 crore. NER-II is an inter-state transmission project with a TSA tenure of 35 years in Tripura, Assam and Arunachal Pradesh and comprises two substation elements and four transmission line elements. The project achieved full commissioning in March 2021. The acquisition was funded through a mix of debt funding at IndiGrid and the proceeds from the rights issuance. IndiGrid raised Rs 1283.6 crore via rights issue in April 2021.

Moreover, in January 2021, IndiGrid completed the acquisition of 74% stake in another inter-state transmission asset, Parbati Koldam Transmission Company Limited (PKTCL-II) at an enterprise value of Rs. 900 crore inclusive of cash and cash reserves and normalised tariff receivables. PKTCL, a joint venture between Reliance Infrastructure Limited (74%) and Power Grid Corporation of India Limited (PGCIL), operates ~458 circuit KM of inter-state transmission lines across Himachal Pradesh and Punjab. With all these acquisitions, the Asset under Management (AUM) of the Trust increased to ~Rs. 21,200¹ crore, consisting of 15 diversified transmission projects (12 inter-state transmission assets, one inter-state transmission asset and two solar assets) comprising 40 transmission lines of 7570 cKM and 11 sub-stations of 13,550 MVA across 19 states/ UT. The consolidated net debt to AUM of the Trust is at ~57% post the acquisition of FRV-I and FRV-II, well below the regulatory cap of 70%. Also, the share of solar assets in the overall AUM stands at 3.1%.

Additionally, IndiGrid has signed a framework agreement to acquire one additional asset (Khargone Transmission Limited) at an estimated cost of Rs 1375 crore. As this acquisition is expected to be funded through debt, the same is expected to increase the Trust's net debt/AUM to ~59.5%. Further, ICRA will continue to monitor the impact on the asset quality as and when the proposed acquisitions are completed. Going forward, ICRA expects the net debt/ AUM ratio of IndiGrid to be maintained at about 65% on a sustained basis, so as to ensure adequate buffer against the regulatory cap. While an increase in the leveraging level is expected to moderate the debt coverage metrics of the Trust, the business risk profile of the proposed inter-state transmission assets is expected to remain low, supported by stability and certainty of cash flows over the TSA tenure of 35 years, with availability-linked revenues and low counterparty credit risk. However, the diversification into solar power projects will change IndiGrid's business risk profile, given that the revenues of such assets remain exposed to power generation, which in turn is sensitive to the weather conditions, module quality and O&M practices, along with the risks associated with the counter-party credit. Hence, the share of the solar assets and the fundamental quality of such assets in IndiGrid's portfolio will remain as a key rating sensitivity.

Further, ICRA takes note of the refinancing risk for the various debt programmes of the Trust and its subsidiaries. As on June 30, 2021, the consolidated debt of IndiGrid stood at Rs 12863.45 crore, with majority of the debt having bullet repayments. At the Trust level, Rs. 1600 crore is due for refinancing in FY2023, Rs. 925 crore in FY2024, Rs. 800 crore in FY2025, Rs. 550 crore in FY2026, Rs. 500 crore in FY2028, Rs. 1006.8 crore in FY2029 and Rs 1053.5 crore in FY2032. Also, 90% of the NCDs issued by BDTCL is payable on the scheduled maturity date in April 2022. While this exposes the trust to refinancing risk, high certainty of cash flows for the inter-state power transmission projects, adequate tail period (average residue TSA tenure is ~31 years for all transmission assets except ENICL and JKTPL, wherein it is ~13-14 years, with a provision for further extension and average residual PPA tenure of ~22.75 years for solar assets), and long useful life of the assets are some of the factors that act as strong risk mitigants. Also, as a proactive measure to reduce the FY2023 maturity, the trust has prepaid the Rs 200 crore MLD via exercising the call option. Further, ICRA takes note of the increase in the share of amortising loans in the overall debt mix of IndiGrid in the recent past, with the loans raised from banks in Q4 FY2021 having repayment over a 10 to 16 year period. This would moderate the refinancing risk for the trust to a certain extent. These loans were utilised to refinance the debt at SPV level and to fund the acquisitions. ICRA will continue to monitor the Trust's ability to ensure timely refinancing of the maturing debt facilities. Also, the Trust remains exposed to interest rate risk. ICRA will continue to monitor the Trust's ability to ensure timely refinancing of the maturing debt facilities. Additionally, any lapse in operation and maintenance (O&M) may impact the line availability performance of transmission assets and generation of solar assets. Also, variability in O&M expenses might impact the profitability of the transmission and solar assets. However, the experience of the Trust's project manager in power

¹Valuation as per the independent valuation report as on March 31, 2021 plus the acquisition value of the solar assets

transmission business and presence of an experienced O&M contractor for the solar assets should ensure adequate resource allocation and cost-efficient execution of the O&M activity.

The stable outlook assigned by ICRA factors in stability of the cash flows for OGPTL supported by availability linked payments, healthy operating performance, and strong payment security mechanism for the inter-state transmission assets.

Key rating drivers and their description

Credit strengths

Pooling benefit from being part of the India Grid Trust – OGPTL being part of the IndiGrid benefits from the pooling of cashflows of the 12 transmission and 2 solar assets under the InvIT. IndiGrid benefits from the diversity in the assets profile with 14 diversified power projects comprising 40 transmission lines of 7570 cKM and 11 sub-stations of 13,550 MVA across 19 states/ UT.

Availability linked payments under the long-term TSAs for OGPTL - OGPTL, along with other transmission SPVs under IndiGrid have low revenue risk, with availability linked payments under the TSAs signed with the customers. Also, the tariff agreed in the TSAs remains fixed. The average residual tenure of the TSA for OGPTL is ~33 years, providing revenue visibility over the long-term.

Stable performance of power transmission assets - The line availability for the transmission asset under OGPTL remains healthy at more than 99%. Also, the performance of the other assets under IndiGrid remains healthy. Stable operating performance translates into healthy cash flows in the form of monthly tariff as well as incentives.

Strong payment security for inter-state transmission assets; presence of strong counterparty for proposed solar assets - All the transmission projects (except JKTPL) are part of the interstate transmission grid, which enjoys strong payment security; the CTU is responsible for raising bills and collecting payments from the transmission system consumers. The CTU function has been recently carved out from PGCIL to its 100% subsidiary namely, Central Transmission Utility of India Limited, which is likely to become a wholly owned company of the Government of India in the near term. Also, the collection track record of JKTPL from Haryana discoms remains satisfactory. With respect to solar assets, comfort can be derived from the presence of SECI as the off-taker, with demonstrated track record of timely collections.

Healthy debt coverage metrics - The financial risk profile of IndiGrid remains healthy, as evident from net debt/AUM of ~56.9% post-acquisition of solar assets and robust debt service coverage metrics. The net debt to AUM ratio is likely to increase further to 59.5% post the acquisition of the last framework asset, KTL. Nonetheless, the debt coverage metrics are expected to be comfortable. Going forward, ICRA expects the net debt/ AUM ratio of the Trust to be maintained at about 65% on a sustained basis, to ensure adequate buffer against the regulatory cap.

Structural features such as DSRA, cash trap triggers and payment mechanism – The debt raised by IndiGrid and its subsidiaries have structural features such as DSRA (equivalent to one quarter debt servicing), cash trap triggers and payment mechanism, which are designed to ensure timely payment to the investors.

Credit challenges

Moderate operations and maintenance (O&M) risk - As the cash flows of all transmission projects, and consequently OGPTL and IndiGrid, are closely linked to the line availability, any lapse in O&M may impact the line availability performance. However, steady performance in all the commissioned projects and adequate resource availability by virtue of the large power transmission asset portfolio mitigate the risk to a large extent.

Acquisition of solar power assets increases the revenue variability risk; nonetheless, share of solar assets is low at 3.1% - The acquisition of solar power assets has increased the revenue variability risk for IndiGrid, given that the revenues for solar power assets remain exposed to the generation and in turn to the weather conditions, module quality and O&M practices.

However, comfort can be drawn from the satisfactory generation performance since commissioning of the solar assets being acquired, sourcing of modules from tier-I suppliers and presence of an experienced O&M contractor. Also, the share of solar power assets remains low at 3.1% and majority of IndiGrid’s portfolio constitutes inter-state transmission assets.

Debt refinancing risk as most debt has bullet repayments; however, comfort is derived from the long tail period of the TSAs and certainty of cash flows - As on June 30, 2021, the consolidated debt of IndiGrid stood at Rs 12863.45 crore, with majority of the debt having bullet repayments. At the Trust level, Rs. 1600 crore is due for refinancing in FY2023, Rs. 925 crore in FY2024, Rs. 800 crore in FY2025, Rs. 550 crore in FY2026, Rs. 500 crore in FY2028, Rs. 1006.8 crore in FY2029 and Rs 1053.5 crore in FY2032. Also, 90% of the NCDs issued by BDTCL is payable on the scheduled maturity date in April 2022. This exposes the trust to debt refinancing risk. However, high certainty of cash flows in power transmission projects, adequate tail period and long useful life of the assets are some of the factors that act as strong risk mitigants. Also, as a proactive measure to reduce the FY2023 maturity, the trust has prepaid the Rs 200 crore MLD via exercising the call option. Further, ICRA takes note of the increase in the share of amortising loans in the overall debt mix of IndiGrid in the recent past, with the loans raised from banks in Q4 FY2021 having repayment over a 10 to 16 year period. This would moderate the refinancing risk for the trust to a certain extent. These loans were utilised to refinance the debt at SPV level and to fund the acquisitions. ICRA will continue to monitor the Trust’s ability to ensure timely refinancing of the maturing debt facilities.

Liquidity position: Strong

The liquidity position of OGPTL is supported by healthy operating performance that ensures stable revenue generation and the timely collection of transmission charges under the pooling mechanism of the CTU. In addition, the presence of three months DSRA for the debt facilities provides additional comfort.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – Not applicable as the rating is being withdrawn

Analytical approach

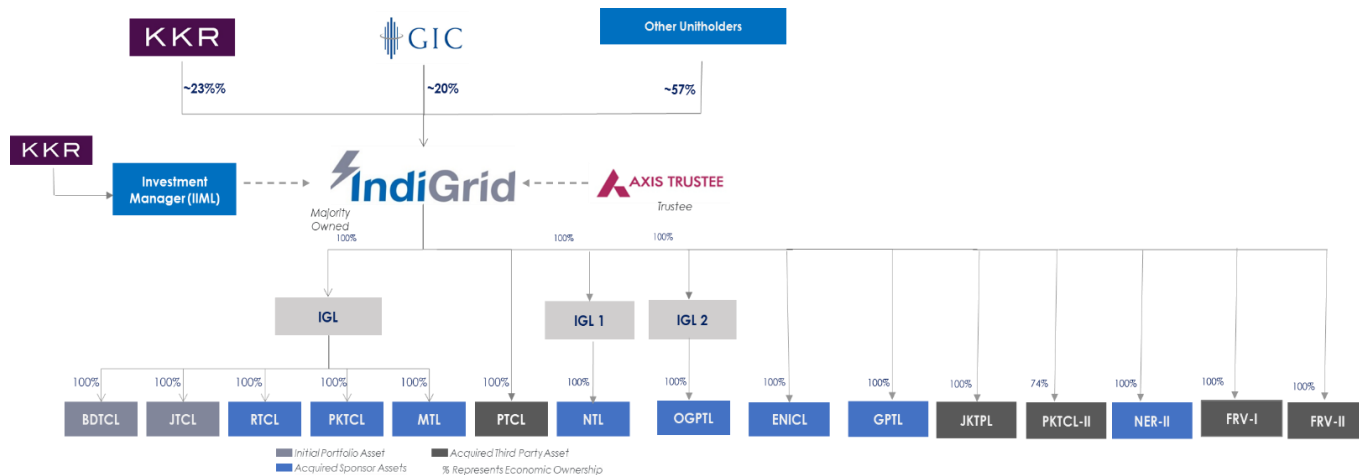
Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Power Transmission Companies Impact of Parent or Group Support on an Issuer’s Credit Rating Policy on Withdrawal of Credit Ratings
Parent/Group Support	Parent Company: India Grid Trust OGPTL, being part of the IndiGrid, is expected to be supported by the pooling benefit, wherein the surplus cashflows from the other SPVs of the Trust can be used to service the external debt of OGPTL, if required.
Consolidation/Standalone	Standalone

InvIT Structure

SEBI has introduced infrastructure investment trust (InvIT) regulations for infrastructure projects keeping in mind the huge infrastructure needs of India. InvIT is a mechanism that enables infrastructure developers to monetise their assets by pooling multiple assets under a single entity (which would be a Trust structure). The key features of InvITs are—mandatory distribution of 90% of net distributable cash flows (NDCF) to the unit investors, leverage cap of 70% on the net asset value and a cap on exposure to under construction assets for publicly placed InvITs. The sponsor of the InvIT shall be responsible for setting up

the Trust and appointing the trustee. The sponsor shall hold minimum 15% of the units issued by the InvIT with a lock-in period of three years from the date of issuance of units.

India Grid Trust Profile



Source: IndiGrid

India Grid Trust was set up on October 21, 2016, as an irrevocable trust pursuant to the trust deed under the provisions of the Indian Trusts Act, 1882 and registered with Securities and Exchange Board of India's as an InvIT on November 28, 2016, under Regulation 3(1) of the InvIT Regulations. India Grid Trust is a two-tier InvIT. The Trust holds 100% equity in Sterlite Grid 1 Limited (SGL1), which houses two power transmission subsidiaries – BDTCL and Jabalpur Transmission Company Limited (JTCL). In Q4FY2018, IndiGrid acquired three more power transmission SPVs - RAPP Transmission Company Limited (RTCL), Purulia and Kharagpur Transmission Company Limited (PKTCL) and Maheshwaram Transmission Company Limited (MTL). Subsequently, in Q2FY2019, IndiGrid acquired a third-party asset—Patran Transmission Company Limited (PTCL). The Trust acquired two more assets NRSS XXIX Transmission Limited (NRSS) and Odisha Generation Phase-II Transmission Limited (OGPTL) in Q1FY2020. Further, in Q4FY2020, the Trust acquired one more asset, ENICL. Also, the Trust completed the acquisition of GPTL in August 2020 from Sterlite Power Grid Ventures Limited (SPGVL; now merged with Sterlite Power Transmission Limited (SPTL)). Further, the Trust acquired an intra-state asset, JKTPL in September 2020 and an inter-state asset, PKTCL-II in January 2021. Also, in March 2021, IndiGrid acquired 76% stake in NER II Transmission Limited (NER-II) and the balance 24% stake was acquired in April 2021. Lately, in July 2021, the trust has acquired 100% in two solar assets, FRV-I and FRV-II.

IndiGrid has assets under management worth over Rs 21,000 crore post FRV-I and FRV-II acquisition, consisting of 14 diversified power projects comprising 40 transmission lines of 7570 cKM and 11 sub-stations of 13,550 MVA across 19 states/ UT. All the transmission projects have been implemented on a BOOM basis and have TSAs in place for 35² years. IndiGrid's net debt/AUM is at ~57% post-acquisition of FRV-I and FRV-II. Esoteric II Pte. Ltd., an affiliate of KKR, is a sponsor for IndiGrid, along with STPL. KKR had invested INR 1,084 crore in IndiGrid in May 2019 and currently owns an approximate 23% stake in the platform. Separately, KKR also owns a 74% stake in Indigrid Investment Managers Limited (IIML), the investment manager of IndiGrid. Axis Trustee Services Limited is the trustee.

Company Profile: Odisha Generation Phase-II Transmission Limited

OGPTL is a power transmission project, comprising of a 608-ckm 765-kilovolt double-circuit line from Jharsuguda to Raipur, and a 103-ckm 400-kilovolt double-circuit OPGC-Jharsuguda line. The project was implemented on a BOOM basis and has a TSA in place for 35 years. The project was completely commissioned in April 2019 and has been operating at healthy average line availability of ~99.9%.

² Except ENICL and JKTPL, which has a 25-year TSA period

Key financial indicators (audited)

OGPTL (Standalone)	FY2020	FY2021
Operating Income (Rs. crore)	162.7	173.6
PAT (Rs. crore)	57.6	-7.9
OPBDIT/OI (%)	95.2%	94.8%
PAT/OI (%)	35.4%	-4.6%
Total Outside Liabilities/Tangible Net Worth (times)	10.00	10.40
Total Debt/OPBDIT (times)	7.4	6.7
Interest Coverage (times)	1.2	1.2
IndiGrid (Consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	1242.7	1676.9
PAT (Rs. crore)	505.7	334.4
OPBDIT/OI (%)	92.0%	90.7%
PAT/OI (%)	40.7%	19.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	3.1
Total Debt/OPBDIT (times)	5.6	9.6
Interest Coverage (times)	2.8	2.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company data, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
						Jul 23, 2021	Mar 18, 2021		
1	Term Loan	Long-term	540.36	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
2	Cash Credit	Long-term	40.00	-	[ICRA]AAA (Stable); withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
3	Non-fund based	Short-term	(8.00)	-	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term loan	Simple
Cash Credit	Simple
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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan	Jun 18, 2019	8.90%	Jun 30, 2031*	540.36	[ICRA]AAA (Stable); withdrawn
-	Cash credit	Jun 18, 2019	-	-	40.00	[ICRA]AAA (Stable); withdrawn
-	Non-fund-based	Jun 18, 2019	-	-	(8.00)	[ICRA]A1+; withdrawn

Source: Company; Debt has been prepaid by the company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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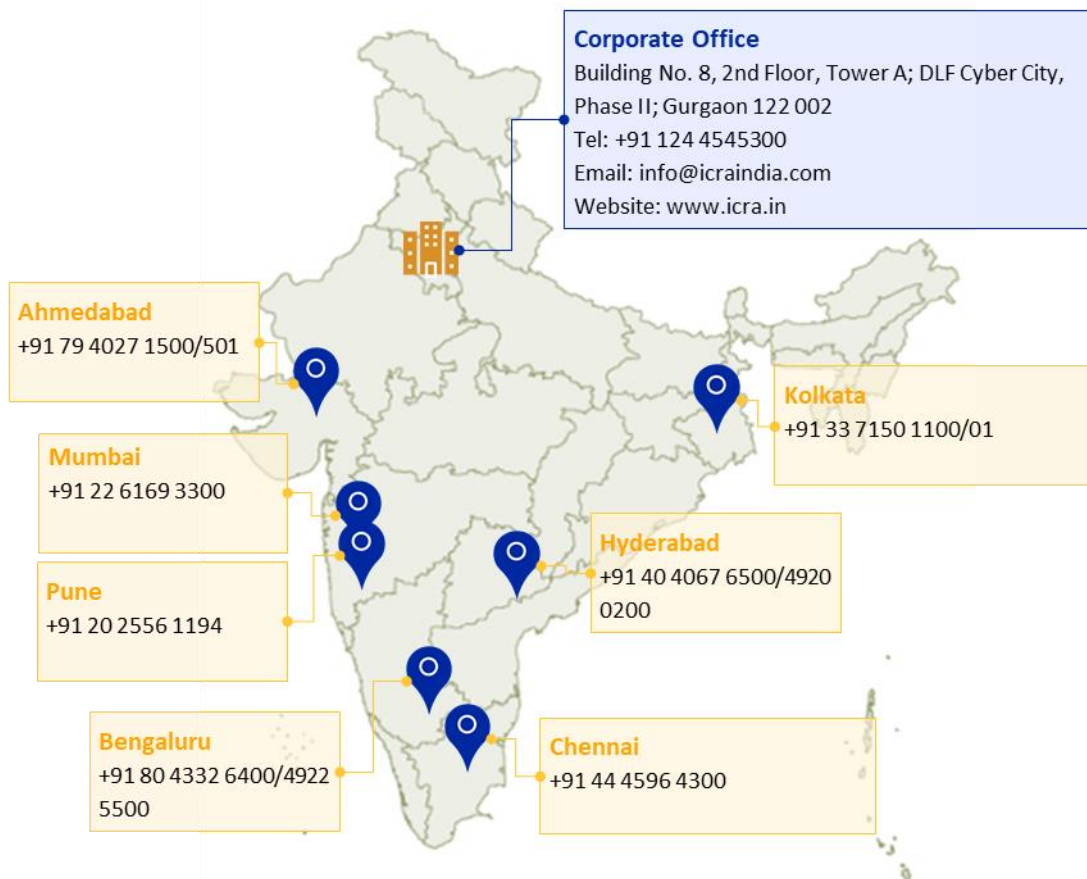
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