October 29, 2021

Sasan Power Limited: Ratings reaffirmed; rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	19282.00	12195.00	[ICRA]BB+ (Negative); reaffirmed
Fund-based Working Capital	567.50	567.00	[ICRA]BB+ (Negative); reaffirmed
Non-fund Based Limits (Sublimit of Term Loans	(10000.00)	(0.00)	-
Non-fund Based Limits	300.00	526.00	[ICRA]BB+ (Negative) / [ICRA]A4; reaffirmed
Total	**20149.50**	**13288.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in Sasan Power Limited's (SPL) healthy operating track record since its commercial operations date (COD) with the entire capacity tied up through long-term power purchase agreement (PPA) at cost-competitive tariff. The rating further takes into account the company's superior merit order position in the power procurement mix of the off-taker utilities, which is also supported by the cost advantages offered by the access to captive coal mines. The debt service coverage metrics on a cumulative basis is expected to remain modest, assuming a PLF level of 95% because of the competitively bid-based tariff structure in the PPA. The company's ability to sustain such a PLF level, superior operating efficiencies as well as its ability to maintain the actual costs within the bid level remain critical from a credit perspective.

The rating, however, is constrained by the stretched liquidity position in the absence of a DSRA cover required as per the terms of the loan documents and limited cushion available in the form of undrawn fund-based working capital limits. The rating also remains constrained by the weak financial position and financial flexibility of the holding company, Reliance Power Limited (R-Power), as well as the promoter group. The rating considers the uncertainty over the timelines for the approval and subsequent implementation of tariff compensation, both under change in law during construction and forex variations. The company has received a favourable order for cost items because of the change in law during the operations period from the Central Electricity Regulatory Commission (CERC). While CERC has approved certain cost items of change in law during construction period, the matter is pending in Appellate Tribunal for Electricity (APTEL) / honourable Supreme Court. The rating is further constrained by exchange rate risks due to high foreign currency debt, though the risk is partly mitigated through the hedging of 37% of principal payments over the next 6 years. Further, SPL remains exposed to interest rate and counterparty credit risks, though the counterparty risk is significantly offset by the payment security mechanism implemented in the PPAs, the competitive nature of tariffs and the option available for third-party sale of power in case of default by procurers (as allowed under the PPA).

The rating also factors the large capex of ~Rs 2,434 crore (proposed to be funded by debt-to-equity mix of 70:30) towards the installation of Flue Gas Desulphurisation (FGD) system to comply with the revised environmental norms. The regulatory approval for FGD capex from CERC has been received by the company. Further, CERC vide its order dated August 13, 2021 has laid down a mechanism to determine the compensation on account of FGD installation. Also, the Ministry of Power (MoP), vide notification dated October 22, 2021, 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 project. While the tariff mechanism for recovery of 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 the funding and execution risks for timely completion of this capex. The Ministry of Environment and Forest

(MoEF), vide its notification dated March 31, 2021, has revised the timeline for coal-based thermal power projects to implement the FGD systems to comply with the revised emission norms. The revised timeline for SPL is now December 2024, which offers some comfort with respect to FGD implementation. 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 (Rs 634 crore as on March 31,2021).

The Negative outlook reflects the stretched liquidity position of the company given the tightly matched cashflows in the absence of the adequate buffer of a DSRA balance.

Key rating drivers and their description

Credit strengths

Healthy operating performance of plant so far; sustenance remains critical – Since the commencement of all the units in March 2015, the company's plant availability factor (PAF) and PLF levels have remained healthy and above the normative levels. The PLF for FY2021 stood at 96.25% (P.Y[1].- 96%), which was the highest achieved by SPL since the commencement of operations, while plant availability was 94% (P.Y. -93%). Nonetheless, sustenance of the strong operating performance remains important, given the nature of the competitively-bid tariff with a higher mix of energy charge component. The company's ability to maintain high PLF level at 93-95% and other efficiency indicators (such as specific heat rate and auxiliary consumption) within the budgeted levels in a sustained manner is critical from the credit perspective. Additionally, containing mining and other operating cost overheads within the budgeted levels also remains critical for generating adequate profits given the high debt servicing requirements and modest debt coverage metrics.

Long-term PPA with cost-competitive tariff with all procurers - SPL has entered into long-term (25-year) power purchase agreements (PPA) 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 the company stands highly cost competitive at Rs 1.45-1.52 per unit for the off-takers, which in turn ensures a superior merit order position for the company. The tariff is competitively bid based and is also supported by company's access to captive mine sources as well as 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 attribute to total reserves of 575 million metric tonnes (MMT). The mining performance at both these captive coal blocks has remained healthy. The company has environmental clearance for 20 million metric tonnes per annum (MMTPA) of coal production from these two captive coal mine blocks. While the production was earlier restricted to 16 MMTPA, the Ministry of Coal (MoC) has been relaxing the restriction on annual basis and has allowed production of sufficient coal, which has averaged ~18.65 MMTPA in the last two fiscals, ensuring adequate fuel security for the plant.

Credit challenges

Stretched liquidity position, absence of adequate DSRA balance - The company's liquidity position remains stretched in the absence of a 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 for the company remains limited which has resulted in lack of funding for the creation of a debt service reserve account (DSRA) till date. The cash flows remain tightly matched in the absence of adequate liquidity cushion and timely collections of monthly bills remain critical for the company's liquidity. Nonetheless, the strong average collection efficiency of above 97% over the last four fiscals provides some comfort.

[1] P.Y. – Previous year

Weak financial risk profile of parent/holding company - The financial profile of the parent/holding company, R-Power, remains weak. On July 6, 2019, all the six lenders of R-Power signed an inter-creditor agreement (ICA), on the basis of which a standstill was achieved for 180 days. The resolution plan for R-Power is yet to be finalised by the ICA. Recently, R-Power entered into a settlement agreement with its largest lender, Yes Bank, under which it has been granted a standstill for term loans and NCDs till December 26, 2021. R-Power is also in discussions with the remaining lenders for debt resolution settlement. SPL has cross-default linkage with R-Power in its loan facility agreement, though it is restricted to payment defaults by the obligors (SPL and R-Power) in relation to SPL's credit/borrowings. Nonetheless, occurrence of any event of default by R-Power on its obligations to SPL lenders, could result in acceleration of SPL's debt servicing obligations by lenders, and will remain a credit concern. It is to be noted that in addition to the existing trust and retention account (TRA) mechanism, an Agency for Specialized Monitoring (ASM) has also been appointed by the lenders of SPL which closely monitors the project cash flows.

Regulatory uncertainty over tariff compensation requests to CERC – The company has received a favourable order for cost items because of the change in law during the operations period from the Central Electricity Regulatory Commission (CERC). While CERC has approved certain cost items of change in law during construction period, the matter is pending in Appellate Tribunal for Electricity (APTEL) / honourable Supreme Court. SPL has filed a computation petition in the CERC for the relief granted by APTEL and the outcome is awaited. Further, with regard to the petition related to forex variation, APTEL had remanded the matter to CERC in light of the judgement in 'Energy Watchdog' matter and consequently, SPL had filed a petition in CERC u/s 79(1)(b) of the Electricity Act (Use of Special Powers vested with Central Commission). CERC vide order dated January 25, 2021, held that there was no ground for exercising the general regulatory powers of the Commission u/s 79(1)(b) of the EA. The company has filed an appeal against the CERC order in APTEL.

Counterparty credit risk - SPL continues to be exposed to counterparty credit risks given the weak credit profile of some of the off-takers. The risk is partially mitigated by the payment security mechanism as per the PPAs, the competitive nature of tariffs and the option available for third-party sale of power in case of defaults by procurers (as allowed under the PPAs), particularly in view of the continuing power deficit status in some of the procuring states. The company's collections were impacted in April and May 2021 because of the lockdown restrictions amid the 2^{nd} wave of Covid-19 infections. Nonetheless, with the easing of lockdown restrictions, the company's collections in the subsequent months have improved. The payment delays have been prominent from MP discoms, which is the largest off-taker accounting for 37.50% of SPL's annual revenues. As on September 30, 2021, the company's receivables stood at Rs 1,055 crore (as on March 31,2021: Rs 822 crore) with 70% (Rs 704 crore) of these dues from MP discoms.

Exposure to interest rate and foreign exchange rate risks - The operations of the company remain exposed to foreign exchange rate risks due to high foreign currency debt. The risk has been mitigated to some extent by the hedging undertaken by the company to the extent of 37% of the principal payment over the next 6 years. Further, the company also remains exposed to adverse movement in interest rates which can impact the debt coverage metrics. As on March 31,2021, the company's total debt (including working capital borrowings) stood at Rs 13,139 crore, of which Rs ,3981 crore was foreign currency denominated debt. Around 50% of the foreign currency denominated loan carries fixed interest rate, mitigating the interest rate variation risk to an extent and the rest is linked to the 6-month Libor. The interest rate on INR-denominated loan is linked to the MCLR 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, 2021, this amount stood at Rs 634 crore compared to Rs 106 crore a on March 31, 2018. These dues pertain to the state of Madhya Pradesh**.** Of the unpaid statutory dues, the MP state government has provided in-principle approval to deferment of payment of some of the statutory dues pertaining 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, though the final approval is still awaited.

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, to be funded by a debt-to-equity mix of 70:30. The company has received regulatory approval from the CERC on the capital cost. The tariff mechanism for recovery of the FGD capex is broadly in place as per CERC's order dated August 13, 2021. Further, the MoP has notified Electricity (Timely Recovery of Costs due to Change in Law) Rules, 2021, 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 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 as well as equity infusion are pending. The extension of the timeline granted by the MoEF offers some comfort as the company now has time till December 2024 to install the required FGD system.

Liquidity position: Stretched

SPL's liquidity is stretched because of the modest cash balances and the absence of DSRA at present. As on September 30, 2021, the company had free cash & liquid investments of Rs 32 crore, restricted cash of Rs 88 crore and undrawn cash credit limits of Rs 11 crore. The average utilisation of cash credit limits remained high at 88% of the sanctioned limits in the 17-month period ended August 2021. The company's collection efficiency over the last four fiscals has remained strong at above 97% of the billed amount which has supported its liquidity. However, given the sizeable repayment obligations towards principal and interest on term loans, the sustenance of the company's healthy PLF performance and timely collection of payments from discoms remain critical from the liquidity perspective.

Rating sensitivities

Positive factors – Improvement in the liquidity position and creation of a stipulated DSRA cover could lead to a rating upgrade. Favourable regulatory order issued on the pending tariff compensation matters, including change in law and its subsequent implementation (i.e. without any litigation by counterparties) resulting in improved cash flows, and timely completion of FGD capex and subsequent change-in-law tariff implementation by the off-takers would be positive triggers. Specific credit metric that may lead to an upgrade of SPL's rating include annual DSCR of above 1.10 times on a sustained basis.

Negative factors – Any deterioration in the operating parameters like plant availability, PLF and heat rate impacting the revenues and cash flows would be a negative trigger. Further, delays in payments from the counterparties, inability to improve the liquidity position, and/or failure to complete FGD capex within the scheduled timeline would be other key negative triggers.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

SPL is a wholly-owned subsidiary of Reliance Power Limited and is involved in developing and operating 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 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, National Capital Territory of Delhi, Punjab, Haryana, Rajasthan, and Uttaranchal. Levellised tariff for the project (which is competitive bid based) for a PPA period of 25 years is Rs. 1.19/unit. The project COD was achieved 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 with an estimated average gross calorific value (GCV) of 4,700 Kcal/Kg. The Chhatrasal coal mine has been de-allocated by the Ministry of Coal, Govt of India, vide 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 mine blocks of Moher and Moher Amlohri Extension, which together attribute to total reserves of 575 MMT, are fully operational, with production capacity of 20 MTPA.

The project cost, including the capital cost of coal mine development, stood at Rs. 26,405 crore and was funded through debt of Rs. 18,185 crore and the remaining has been funded through equity infusion/promoter contribution of Rs 8,220 crore.

Key financial indicators (audited)

Parameter	FY2020 (Audited)	FY2021 (Audited)
Operating Income (Rs. crore)	4561.59	4787.46
PAT (Rs. crore)	-93.12	-380.41
OPBDIT/OI (%)	52.97%	51.85%
PAT/OI (%)	-2.04%	-7.95%
Total Outside Liabilities/Tangible Net Worth (times)	1.99	2.00
Total Debt/OPBDIT (times)	5.84	5.27
Interest Coverage (times)	1.64	1.79

**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

SN	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					29-October-2021	15-Jul-2020	24-June-2019	6-April-2018
1	Term Loans	Long Term	12195	12195	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB(Stable)
2	Cash Credit	Long Term	567	-	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB(Stable)
3	Non-fund Based Limits^	Long Term	-	-	-	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB (Stable)
4	Non-fund Based Limits	Long Term/Short Term	526	-	[ICRA]BB+ (Negative)/ [ICRA]A4	[ICRA]BB+ (Negative)/ [ICRA]A4	[ICRA]BB+ (Negative)/ [ICRA]A4	[ICRA]BBB(Stable)/ [ICRA]A3+

** As on September 30,2021; ^ Sublimit of Term Loans*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term, Fund based, Term loans	Simple
Long term, Fund based, Cash credit	Simple
Long/Short term, Non-Fund based limits	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
NA	Long term, Fund based, Term loans*	FY2010		FY2036	12195	[ICRA]BB+ (Negative)
NA	Long term, Fund based, Cash credit				567	[ICRA]BB+ (Negative)
NA	Long/Short term, Non-Fund based limits				526	[ICRA]BB+ (Negative) / [ICRA]A4

Source: *Company; *inclusive of foreign currency borrowings*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not applicable	Not applicable	Not applicable

Source: *Company*

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

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

Vikram V
+91 40 4067 6518
vikram.v@icraindia.com

Tushar Bharambe
+91 22 6169 3347
tushar.bharambe@icraindia.com

RELATIONSHIP CONTACT

L Sivakumar
+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

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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