

May 04, 2022

Chandrapur Waste Water Management Private Limited: Rating Assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	60.00	[ICRA]BBB-(Stable); Assigned
Total	60.00	

*Instrument details are provided in Annexure-1

Rationale

The rating assigned to Chandrapur Waste Water Management Private Limited's (CWWMPL) reflects healthy financial position and track record of sponsor i.e. Vishvaraj Environment Private Limited (VEPL) in executing and operating drinking water and waste water treatment projects. CWWMPL has awarded fixed-price EPC contract for setting up of tertiary water treatment plant along with allied infrastructure as well as fixed price O&M services contract for the facilities to VEPL, which provides comfort, given its experience of executing similar projects in the past. VEPL and its parent Premier Financial Services Limited (PFSL) have healthy liquidity position to meet the committed equity requirement and contingency with free cash, bank balance and liquid investments of Rs. 28.2 crore in VEPL as of March 31, 2022 and ~Rs 330 crore in PFSL as of Dec-2021. The rating also draws comfort from the agreement between CWWMPL and Maharashtra State Power Generation Co. Ltd. (MAHAGENCO) for supplying treated water from CWWMPL's treatment plant to MAHAGENCO's power plant in Chandrapur, Maharashtra for a period of 25 years from commencement of operations with a take-or-pay arrangement, which provides long-term revenue visibility. The rating also takes comfort from the projected healthy debt coverage indicators during the debt tenure, presence of structural features such as debt service reserve (DSR) equivalent to six months of debt servicing obligations, presence of escrow, and cash flow waterfall mechanism. The rating also takes comfort from the long tail period (of over ~11 years) that lends flexibility to refinance current debt.

The ratings are, however, constrained due to the under-implementation stage of the project; however, healthy progress achieved thus far (over ~70% of the construction has been completed as on March 2022 and the management expect the project to be completed ahead of the schedule), and fixed-price agreement with VEPL mitigates the execution risk to an extent. Nevertheless, commissioning of the project in a timely manner and within the budgeted costs would remain important from the credit perspective. The rating also factors in the counterparty credit risk associated with the project. The authority for the project is Maharashtra State Power Generation Co. Ltd. (MAHAGENCO). The local municipal body, i.e. Chandrapur Municipal Corporation (CMC) will provide local support i.e., permissions, clearances, its sewage water, along with providing its existing Sewage Treatment Plants (STP). While MAHAGENCO is responsible for financing the project/O&M and payments to the SPV, the project is part-funded by CMC under the AMRUT scheme. Timely payment of construction grant would be important to keep the project execution on track. Further, timely receipt of payments from MAHAGENCO post commissioning of the project would be important for timely debt repayments. In this regard, ICRA has noted that the water from the tertiary plant will be used by MAHAGENCO and will be a crucial input for the operations its power plant making it strategically important. The project cashflows are also exposed to O&M inflation and interest rate risk. While the inflows will also increase annually at a fixed escalation of 3% p.a., higher than expected increase in O&M cost and interest rate could impact the net cash flows and project coverage and return indicators. ICRA has taken comfort from the fixed cost O&M agreement with VEPL which mitigates the risk of higher O&M cost to an extent.

Key rating drivers and their description

Credit strengths

Established track record of sponsor in water and waste water treatment project and its healthy financial profile – The sponsor's (i.e. Vishvaraj Environment Private Limited (VEPL)) business profile is characterised by a decade of experience in implementation (EPC) and operation (O&M) of Water and Waste Water Infrastructure Projects that includes drinking water treatment plants (WTP) and sewage treatment plants (STP). VEPL in the past has handled O&M projects which covered 2700 running km water distribution networks and 3,25,000 house service connections. VEPL is currently handling 27 drinking water treatment plants (WTPs) with total handling capacity of 2280 MLD and is operating 15 Sewage treatment plants (STP) with a capacity of 530 MLD. The SPV has awarded a fixed-price EPC contract and fixed price O&M services contract to VEPL, which provides comfort, given its strong track record of executing similar projects in the past. VEPL and its parent Premier Financial Services Limited (PFSL) have healthy liquidity position to meet the committed equity requirement and contingency with free cash, bank balance and liquid investments of Rs. 28.2 crore in VEPL as of March 31, 2022 and ~Rs 330 crore in PFSL as of Dec-2021.

Healthy coverage indicators and presence of structural features – Once operational, CWWMPL is expected to maintain healthy debt coverage indicators during the debt tenure. This provides the SPV adequate cushion to withstand the adverse movement in bank rates and inflation to a major extent. It benefits from the various reserves created as part of the debt structure viz. DSR equivalent to six months of debt servicing obligations. It also enjoys credit support provided by other structural features of the debt, including the presence of escrow, and cash flow waterfall mechanism.

Long-term revenue visibility due to 25-year contract with take-or-pay arrangement lends financial flexibility – CWWMPL has established a 25-year contract for supplying treated water to MAHAGENCO's power plant in Chandrapur, Maharashtra. According to the contract, MAHAGENCO will pay a pre-specified fixed charge with annual escalation of 3% from second year onwards till the tenure of the contract, even in case of minimal offtake from MAHAGENCO. Once operational, the take-or-pay arrangement mitigates revenue risk to a large extent. While the scheduled repayment tenure is until FY2037, the contract period is until FY2049. The company has a tail period of over 11 years to refinance its current debt at a lower cost or a longer tenure or raise additional debt to fund its capital requirements or expansion plans.

Credit challenges

Counterparty credit risk – The authority for the project is Maharashtra State Power Generation Co. Ltd. (MAHAGENCO). The local municipal body, i.e. Chandrapur Municipal Corporation (CMC) will provide local support i.e., permissions, clearances, its sewage water, along with providing its existing Sewage Treatment Plants (STP). While MAHAGENCO is responsible for financing the project/O&M and payments to the SPV, the project is indirectly funded by CMC under AMRUT scheme. The funds received by CMC under the Amrut scheme will be subsequently transferred to MAHAGENCO, which will help in part-financing the project. Timely payment of construction grant would be important to complete the project on time. Further, timely receipt of revenue billed to MAHAGENCO post commissioning of project would be important for timely debt repayments. In this regard, ICRA has noted that the water from the tertiary plant will be used by MAHAGENCO and will be a crucial input for the operations its power plant making it strategically important which along with the fact that the cost of water is only a fraction of the overall cash flows of MAHAGENCO. Due to this, it is expected that the SPV will be well placed to receive the payments from MAHAGENCO on a regular basis without any significant delay.

Execution risk related to project under construction – The project received the appointed date on August 23, 2021 and is under implementation stage which exposes it to project execution risks including risks of delays and cost overruns. However, ICRA has noted that over ~70% of the construction has been completed as on March 2022 and the management expect the project to be completed ahead of the schedule. The risk is also mitigated to an extent, given that the SPV has awarded a fixed-price fixed time EPC contract to VEPL, which provides comfort, given its strong track record of executing similar projects in the

past. Nevertheless, commissioning of the project in a timely manner and within the budgeted costs would remain important from the credit perspective.

Once operational, project returns exposed to O&M inflation and interest rate - CWWMPL cash flows are also exposed to O&M inflation and interest rate risk, considering the floating interest rates of the project loan. ICRA has taken comfort from the fixed cost O&M agreement with VEPL which mitigates the risk of higher O&M cost to an extent.

Liquidity position: Adequate

The total estimated project cost of Rs. 160.9 crore is planned to be funded by MAHAGENCO grant of Rs. 78.9 crores, external debt of Rs. 57.4 crores and equity of Rs. 24.6 crores. Comfort is derived from the corporate guarantee provided by the sponsor towards cost overrun during the construction phase. Further DSR equivalent to six months of debt servicing obligations will be created and is part of project cost itself.

Rating sensitivities

Positive factors – The rating could be upgraded if the project is completed within the expected timelines and budgeted costs and there is an established track record of timely payment of monthly bills or if there is an improvement in the credit profile of the sponsor.

Negative factors – Negative pressure on rating could arise if the project progress is delayed, leading to significant time and cost overruns, or if there is a deterioration in the credit profile of the sponsor, or if delays in receipt of grant or equity infusion results in increased funding risks for the project.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent/Group Company: Vishwaraj Environment Private Limited (VEPL) The rating assigned to CWWMPL factors in the likelihood of its ultimate parent, VEPL, extending financial support to it because of close business linkages between them. ICRA also expects VEPL to be willing to extend financial support to CWWMPL out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company

Incorporated on February 17, 2021, Chandrapur Waste Water Management Private Limited (CWWMPL), a SPV promoted by Vishwaraj Environmental Private Limited (VEPL) & Vedic Wastewater Management Private Limited (VWMPL) was formed to undertake below activities for MAHAGENCO on PPP DBFOT on Take-or-pay basis:

- ✓ Interception and diversion work at the two nallahs (refurbishment of existing, gated weir across Zarpat river, Chamarkundi nalla & an intake work at Azad Garden nalla,)
- ✓ Rehabilitation of two existing STPs of 45 MLD (Pathanpura) and 25 MLD (Rahmat nagar)
- ✓ Set-up a Tertiary Treatment Plant (TTP) of 50 MLD net output capacity (the STP outflow will go in to inflow of TTP)
- ✓ Pumping Machinery and transmission pipeline – 9.1 Km (internally cement mortar lined metallic (M.S. or D.I.) pipe line acting as rising main), Conveying pipeline from TTP Pump house to Chandrapur Super Thermal Power Station (CSTPS) reservoir

- ✓ Operation and maintenance of both existing 45 & 25 MLD STP and its allied works and 50 MLD capacity TTP for 25 years
- ✓ Sale of tertiary treated water to CSTPS

Chandrapur Super Thermal Power Station (CSTPS) is thermal power plant of MAHAGENCO and requires water for operations like cooling tower and ash handling model. The construction and operations period for the project undertaken by CWWMP is 2 years and 25 years, respectively. The concession agreement was signed on February 24, 2021 and appointed date is August 23, 2021.

Key financial indicators (audited): Not Applicable

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 04, 2022	-	-	-
1	Term Loan	Long-term	60.0*	-	[ICRA]BBB-(Stable)	-	-	-

*amount is yet to be sanctioned

Complexity level of the rated instrument

Instrument	Complexity
Term Loan	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	Term Loan	Yet to be sanctioned	-	-	60.0*	[ICRA]BBB- (Stable)

Source: Company *amount is yet to be sanctioned

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

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