July 07, 2023

SEIL ENERGY INDIA LIMITED: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper (CP)	2,500.00	2,500.00	[ICRA]A1+; reaffirmed
Total	**2,500.00**	**2,500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating for SEIL Energy India Limited (SEIL) (previously Sembcorp Energy India Limited) factors in the revenue visibility for the 2,640-MW thermal power capacity (comprising two projects of 1,320 MW each), supported by the availability of long-term and medium-term power purchase agreements (PPA) for ~86%[1] of the project capacity. The rating positively factors in the operationalisation of the 625-MW PPA with the state distribution companies (discoms) of Andhra Pradesh (AP) from February 2023 onwards. This apart, the company has long-term PPAs for 200 MW with PTC India Limited, 500 MW with erstwhile united AP discoms (now shared between Telangana and AP discoms), 570 MW with Telangana discoms and 250 MW with Bangladesh Power Development Board (BPDB). Also, the company has a PPA with Gujarat discoms for 100 MW, valid till July 2023. The timely renewal of the PPA signed with Telangana discoms, which is due for expiry in February 2024, remains a key sensitivity.

The rating also factors in the improved financial risk profile of the company, marked by a reduction in debt levels over the last two fiscals and recovery of past dues from the discoms of Telangana and AP through monthly instalments since August 2022 under the late payment surcharge (LPS) scheme notified by the Ministry of Power, Government of India. The reduced debt, satisfactory operating efficiencies and cost-competitive operations are expected to lead to healthy credit metrics for the company, with the cumulative debt service coverage ratio (DSCR) expected to remain above 1.4x over the debt tenure. The rating also factors in SEIL's comfortable liquidity position, supported by healthy cash flows from operations and presence of free cash balances and undrawn working capital limits.

Further, the rating continues to factor in the linkages with Sembcorp Industries Limited (SCI). The credit profile of SCI draws comfort from its diversified asset profile and strong parentage with a 49% shareholding by Temasek Holdings (Private) Limited, rated Moody's Aaa (Stable). While SCI sold the 100% stake held by its subsidiary, Sembcorp Utilities Pte Limited (SUPL), in SEIL to Tanweer Infrastructure SAOC (TIS) in January 2023, the Sembcorp Group continues to manage the assets under SEIL through a technical service agreement (TSA). Also, the corporate guarantee extended by SUPL to the debt availed by SEIL continues even after this stake sale. Moreover, the sale consideration of Rs. 11,734 crore along with interest will be paid by TIS to SUPL over a 15 year period (extendable by another 9 years) through upstreaming of the surplus cash flows generated by SEIL. TIS is owned by a consortium (the Tanweer Consortium), led by Oman Investment Corporation S.A.O.C. (OIC), the Ministry of Defence Pension Fund, Oman (MODPF) and Dar Investment SPC (Dar Investment).

The rating is, however, constrained by the counterparty credit risks arising from the exposure to the state discoms of Telangana and AP, which have relatively modest financial profiles. While the company is realising the past dues through instalments and is receiving payments of the current bills from these discoms in a regular manner, the sustainability of the timely payments for the ongoing bills remains to be seen. However, this is offset by the delays in the payments from Bangladesh due to the prevailing economic stress in the country caused by the slowdown in their exports, mainly from the textile sector. For the sales in the short-term market, the company is receiving payments in a timely manner. Further, the rating is constrained by the

[1] Including the 570 MW Telangana PPA, which is expiring in February 2024 and balance PPAs with residual tenure of more than 12 months.

exposure to volume and pricing risks in the short-term (ST) market for the capacity without long-term or medium-term PPAs. While this risk has moderated with the signing of new PPAs in the recent past, this could increase post February 2024, in case of non-renewal of the PPA with Telangana discoms.

ICRA also takes note of SEIL's dependence on imported coal to meet a part of its fuel requirement and the consequent exposure to the volatility in international coal prices and foreign exchange risks. This is mitigated to some extent by the medium/long-term fuel supply agreements (FSA) with imported coal suppliers with part of the supply at fixed rates, hedging of foreign exchange for these contracts, fuel cost pass-through clause under the Telangana 570-MW PPA for domestic and imported coal and for domestic coal under the AP 625-MW PPA. This apart, the presence of escalable component for energy charges in other long-term PPAs mitigates the price risk to an extent. Additionally, for Project-2, the procurement of domestic coal under the FSA signed with a subsidiary of Coal India Limited (CIL) is expected to increase from this fiscal owing to the operationalisation of the 625-MW AP PPA from February 2023. Project-1 continues to meet majority of its fuel requirement through domestic coal under the FSA with a subsidiary of CIL; however, the dependence on imported coal could increase post February 2024 if the PPA with Telangana discoms is not renewed.

Further, ICRA notes that SEIL's thermal power projects will have to incur additional capital expenditure to comply with the revised emission norms by December 2026, which shall be funded through a mix of debt and equity/internal accruals. The timeline for complying with the norms has been extended from December 2024 earlier. While the long-term PPAs with the state discoms allow for recovery of such cost through change-in-law, there is uncertainty in recovery of such additional cost for the balance capacity.

Key rating drivers and their description

Credit strengths

Strong linkage with Sembcorp Group - SEIL is managed by SCI which is 49.5% owned by Temasek Holdings (Private) Limited (rated Aaa (Stable) by Moody's). While SCI sold SUPL's 100% stake in SEIL to Tanweer Consortium in January 2023, the Sembcorp Group continues to manage the asset under a TSA and the corporate guarantee provided by SUPL for the debt availed by SEIL (for ~95% of the current bank debt) continues even after this transaction.

Long-term and medium-term PPAs for ~86% of operational capacity - SEIL's revenues and profitability are supported by the availability of long-term and medium term PPAs for 2,145-MW net capacity with a two-part tariff structure. The current capacity under the long-term/medium-term PPAs stands at ~86% of the total capacity. However, ICRA notes that the timely renewal of the PPA signed with the Telangana discoms for 570 MW, which is due for expiry in February 2024, remains a key sensitivity.

Satisfactory operational track record of thermal assets - The performance of SEIL's thermal power projects remains satisfactory with the average plant availability factor (PAF) remaining around 90% for both the projects combined over the last five fiscals. The PAF for Project-1 remained at 91% in FY2023, which is the at the same level as FY2022, while the PAF for Project-2 improved slightly to 91% in FY2023 from 89% in FY2021. Further, SEIL has been able to achieve healthy PLF levels over the years, supported by the competitive cost of generation, led by satisfactory operating efficiencies in terms of station heat rate and auxiliary consumption, and the strategic location of the plant for procuring imported coal.

Healthy credit metrics and comfortable liquidity position - The company's long-term debt has reduced to a large extent over the last two years, driven by repayment of promoter debt in FY2022 and prepayment of some part of the long-term debt under a refinancing exercise undertaken in FY2023, apart from the regular scheduled debt repayments. The long-term debt declined to Rs. 5,744.0 crore (including CPs of Rs. 1,950.0 crore used as bridge financing) as on March 31, 2023 from Rs. 12,453.0 crore as on March 31, 2021. The CPs issued are being used as bridge financing and will be further refinanced through long-term debt over the next six months. The reduction in debt levels has improved the company's leverage and coverage metrics. The debt/OPBDITA is expected to remain below 4.0 times over FY2024 and FY2025 and the cumulative DSCR is expected to remain ~1.4x over the debt tenure. While the capex to be incurred for complying with the revised emission norms is expected to increase the debt level in FY2026, the debt coverage metrics are expected to remain comfortable. Further, the company's liquidity position remains comfortable with healthy cash flow from operations and the presence of unencumbered cash balances and undrawn working capital limits.

Credit challenges

Counterparty credit risks due to significant exposure to state distribution utilities of AP and Telangana which have modest financial profiles - SEIL is exposed to counterparty credit risks as majority of the power generated is sold to the state distribution utilities of AP and Telangana, which have a modest financial profile. This has led to a build-up in the receivable position, especially from the Telangana discoms. However, the company is realising the past dues through instalments under the LPS scheme with full recovery of past dues expected by the end of this fiscal. Also, the current bills are largely being realised in a timely manner since August 2022. Nonetheless, the sustainability of these payments remains to be seen. However, the payments from Bangladesh are currently being received with a lag due to the prevailing economic stress in the country caused by the slowdown in their exports, mainly from the textile sector. The receivable period as on March 31, 2023 stood at 158 days as on March 31, 2023 compared to 175 days as on March 31, 2022. This risk is mitigated to an extent with timely payments from short-term sales and the high merit order position of SEIL's projects due to the competitive cost of generation.

Profitability exposed to volume and tariffs in short-term market and imported coal prices - The company sold ~25% of the net power generated in the short-term (ST) market in FY2023, exposing it to volume and pricing risks. The exposure to the ST market could increase in 2024 if the company is unable to renew its 570-MW PPA with the Telangana discoms. Additionally, for the short-term PPAs, the company's profitability also remains exposed to the fluctuations in imported coal prices.

Dependence on imported coal exposes company to fuel price and forex risks - The company has tied up long-term FSAs with Mahanadi Coalfields Limited (MCL) for 4.27 MTPA each for Project-1 and Project-2, which met 44% and 54% of the fuel requirement in FY2022 and FY2023, respectively, with the balance requirement being met through imports. While Project-1 has been able to draw coal under the FSA backed by the availability of PPAs, Project-2 was not able to fully draw the FSA coal due to lack of PPAs. With the operationalisation of the PPA with AP discoms, the supply from domestic sources is expected to improve. However, the company would continue to be dependent on imported coal, exposing it to international coal price movement and forex risks. This is partly mitigated by the medium/long-term agreements for imported coal with part of the supply at fixed rates, hedging of foreign exchange for these contracts and, fuel cost pass-through clause under the Telangana 570-MW PPA for domestic and imported coal and AP 625-MW PPA for domestic coal, and presence of escalable component for variable charges in the other long-term PPAs. Also, the foreign exchange risk is mitigated for the 250-MW PPA with BPDB and the 200-MW PPA with PTC India Ltd (supplying to BPDB) which have tariff denominated in US dollars.

Capital expenditure to meet environmental norms for thermal power projects - The company's thermal power projects require capital expenditure to meet the environmental norms, which shall be funded through a mix of equity and debt. The timeline for complying with these norms has been extended to December 2026 from December 2024. While the long-term PPAs with the discoms of Telangana and Andhra Pradesh will enable the recovery of capital expenditure through change-in-law, the timely completion of the capex and recovery of the same through tariffs remain monitorable. For the remaining capacity that does not allow the FGD cost to be a pass-through, the recovery of additional tariff is not certain. Also, the capacity exposed to the short-term market would face challenges in the recovery of such additional capex.

Liquidity position: Strong

The liquidity profile of SEIL is strong, supported by healthy cash flow from operations and available cash balances. The company is expected to generate cash flow from operations of over Rs. 1,200.0 crore (pre-dividend) against annual long-term debt repayment obligations of ~Rs. 304-468.0 crore over FY2024-FY2025. The unencumbered cash and bank balances stood at Rs. 385.0 crore as of April 2023.

Rating sensitivities

Positive factors - Not applicable.

Negative factors - The rating may be downgraded in case of significant delays in receiving payments from the offtakers, adversely impacting SEIL's liquidity profile. Also, SEIL's inability to renew its PPAs along with unremunerative tariffs in the short-term market in relation to its cost structure, or a significant decline in plant availability below the normative level could adversely impact its profitability and debt coverage metrics and trigger a downgrade. Further, significant weakening of the operational and financial linkages with the Sembcorp Group would remain a key rating monitorable for SEIL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Thermal Power Producers](#) [Rating Approach - Implicit parent or group support](#)
Parent/Group support	Rating is based on implicit support from the Sembcorp Group, which is expected to extend support in case of cash flow mismatches, given the operational and financial linkages
Consolidation/Standalone	Standalone

About the company

SEIL has 2,640 MW of thermal power capacity (Project-1 and Project-2 of 1,320 MW each) which is entirely operational. The project is located at Krishnapatnam in the Nellore district of Andhra Pradesh. Project-1 has a long-term 25-year PPA for 500 MW with the discoms of united Andhra Pradesh (bifurcated into Telangana and Andhra Pradesh) and a medium-term PPA for 570 MW with Telangana discoms valid till FY2024. Project-2 has a 250-MW long-term PPA (13.5 years) with Bangladesh Power Development Board (BPDB); a 200-MW long-term PPA (11.25 years) with PTC India Ltd signed in February 2022 with supply commencing from March 2022; and a 625-MW long-term PPA (12-years) with AP discoms signed in December 2021 (supply commenced from February 2023) out of the installed capacity of 1,320 MW. Thus, the total capacity tied up under the long-term/medium-term PPAs by the two projects is ~86% of the overall net capacity of ~2,501 MW. Also, the company has a PPA with Gujarat discoms for 100 MW, valid till July 2023. The remaining capacity of Project-1 and Project-2 is sold through short-term PPA/merchant route. The company has a fuel supply agreement for 4.27 MTPA of coal from MCL for Project-1 and another FSA for 4.27 MTPA of coal from MCL for Project-2. The remaining fuel requirement for Project-1 and Project-2 is met through imported coal/e-auction.

SEIL is currently held by Tanweer Consortium and the thermal assets are managed by the Sembcorp Group through a technical service agreement.

Key financial indicators (audited)

	FY2022 Audited	FY2023 Audited
Operating income	7,689.1	9,388.6
PAT	142.4	621.5
OPBDIT/OI	27.7%	20.8%
PAT/OI	1.9%	6.6%
Total outside liabilities/Tangible net worth (times)	0.9	0.8
Total debt/OPBDIT (times)	4.0	3.5
Interest coverage (times)	2.0	2.5

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 rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Jul 06, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Jul 07, 2023	Dec 13, 2022	Sep 14, 2022	Jan 28, 2022	Jan 08, 2021
1	**Commercial paper**	Short term	2,500.00	1,975.00	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	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
INE460M14388	**Commercial paper**	Dec-2022	8.87%	Dec-2023	1000.00	[ICRA]A1+
INE460M14420	**Commercial paper**	Mar-2023	8.65%	Oct-2023	475.00	[ICRA]A1+
INE460M14453	**Commercial paper**	Apr-2023	7.85%	Jul-2023	100.00	[ICRA]A1+
INE460M14461	**Commercial paper**	Jun-2023	7.50%	Sep-2023	250.00	[ICRA]A1+
INE460M14479	**Commercial paper**	Jun-2023	7.50%	Sep-2023	150.00	[ICRA]A1+
NA	**Commercial paper**	Yet to be placed	NA	NA	525.00	[ICRA]A1+

Source: Company; As on July 06, 2023

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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