February 24, 2025

Lakadia Vadodara Transmission Project Limited: Rating upgraded to [ICRA]AAA (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Term loan – Fund-based	1,840.00	1,840.00	[ICRA]AAA (Stable); upgraded from [ICRA]AA- (Stable)
Total	**1,840.00**	**1,840.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for Lakadia Vadodara Transmission Project Limited (LVTPL) reflects the satisfactory operational track record of its power transmission project since commissioning in January 2023 with its line availability remaining largely in line with the normative level and the timely collections from the counterparty, Central Transmission Utility of India Limited (CTU).

LVTPL commissioned the project in January 2023 and has reported a healthy operational performance with average line availability of 98.7% during the period from Jan '23 to Mar '24, above the normative requirement of 98.0%. While the line availability declined to 96.6% in 9M FY2025 due to insulator issues on account of excessive rainfall leading to line tripping in August 2024 and September 2024, these were resolved and subsequently the line availability remained healthy at 100% in Q3 FY2025. The company has filed an insurance claim due to material damage and business interruption loss for these two months and the outcome of the same is expected shortly. Further, the management has taken various initiatives, including maintaining sufficient spare parts inventory, to avoid line tripping issues in future.

The rating further factors in the assured offtake for LVTPL's power transmission project by virtue of a long-term (35 years) transmission service agreement (TSA) with availability-linked payments. Further, the project, being a part of the interstate transmission system (ISTS), is expected to benefit from favourable payment security under the pooling mechanism managed by the CTU (subsidiary of Power Grid Corporation of India Limited (PGCIL)). The CTU is responsible for billing and collection on behalf of all the inter-state transmission licensees in the country, thereby significantly diversifying the counterparty credit risk. The availability-linked payments and low payment risk provide high visibility to the company's revenues and cash flows. This is expected to enable the company to achieve adequate debt coverage metrics, with the cumulative debt service coverage ratio (DSCR) for the project estimated to remain above 1.2x over the debt repayment tenure. Also, the collections for the project commenced in June 2023. While the payments from January 2023 to March 2023 have not yet been received from the CTU owing to pending approval from the Central Electricity Regulatory Commission (CERC), the collections for the bills raised since April 23 are being realised in a timely manner.

The capital cost for the project increased from the appraised level of Rs. 2,024 crore to Rs. 2,355 crore, mainly owing to the increase in land compensation costs and higher interest during construction (IDC) due to delays in implementation. The delay was caused by the impact of Covid-19, delays in the acquisition of right of way (Row) and a cyclone in Gujarat. The land compensation increased because of the revised guidelines notified by the Government of Gujarat, dated December 31, 2021. The company has claimed additional tariff under change-in-law in lieu of the higher land compensation cost from the long-term transmission customers (LTTCs), as per the Electricity (Timely Recovery of Costs due to Change in Law) Rules dated October 22, 2021 notified by the Ministry of Power, Government of India. The company is receiving additional tariffs under change-in-law from the LTTCs.

The company had refinanced its long-term debt in FY2024 to replace the term loan facility of Rs. 1,417 crores, with a new loan of Rs. 1,840 crore comprising tranche-I of Rs. 1,700 crore and tranche-II of Rs. 140 crore. The additional debt availed was mainly used to fund the cost overrun and repay a portion of the subordinated debt of the promoters. The company has outstanding capital creditors of Rs. 282.4 crore as of March 2024, which shall be funded through an undrawn tranche-II debt and cash surplus from operations. The drawdown of tranche-II debt under the refinancing is linked with the receipt of approval from the CERC for the additional tariff under change-in-law, which is currently pending.

The term loan has a tenure of 17.5 years with a bullet repayment of 47.6% of the debt in March 2041. Further, the terms of the loan provide a put option to the lenders at the end of the third and fifth year from the date of first disbursement and every year after the fifth year. In addition, the lenders have the right to ask the company to repay the loan in case the credit rating falls below A. While this exposes the company to refinancing risk, comfort can be drawn from the long TSA tenure of 35 years and the high certainty of cash flows for a power transmission project. The promoter contribution for the project is in the form of equity and compulsory convertible debentures (CCDs). The promoter CCDs are subordinated to the external project debt.

The rating continues to factor in the established track record of its sponsor- Resonia Limited {RL; formerly known as Sterlite Grid 32 Limited (SGL 32) - in implementing and operating power transmission projects. RL is a platform incorporated by Sterlite Grid 5 Limited (SGL5) and Singapore-based sovereign fund GIC with a shareholding ratio of 51% and 49%, respectively, by demerging the transmission business of Sterlite Power Transmission Ltd (SPTL). RL currently holds a portfolio of 10 power transmission projects through various special purpose vehicles. Within this, three projects are operational as on date and the balance seven are under development. The commissioned power transmission projects have been operating at healthy line availability. GIC has made a funding commitment of $500 million towards RL to develop and operate power transmission assets.

The rating is, however, constrained by the company's exposure to operations and maintenance (O&M) related risks, including the risk of an increase in O&M cost, inadequate maintenance resulting in lower line availability and potential deductions from transmission charges by the CTU. However, the experience of the sponsor in the power transmission business should ensure adequate resource allocation and cost-efficient execution of O&M activity. The ratings also consider the exposure to interest rate risks due to the high share of debt funding in the project cost and the largely fixed tariff under the TSA.

The Stable outlook on the long-term rating of LVTPL factors in the high cash flow visibility for its transmission project, supported by the long-term TSA, high line availability and a strong payment security.

Key rating drivers and their description

Credit strengths

Assured offtake under long-term TSA with availability-linked payments – The presence of a long-term TSA (35-years) with availability-linked tariff payments limits the demand and tariff risks for the transmission project of LVTPL. The company is eligible to receive the full quoted tariff under the TSA if the line availability is maintained at or above 98.0%. Also, the company would be eligible for receiving incentives for availability over the normative level.

Strong payment security from being part of ISTS pool – The transmission project under LVTPL is a part of the inter-state transmission grid, which enjoys strong payment security because of the pooling benefit at the national level. The CTU is responsible for raising bills and collecting payments from the consumers of the transmission system and distributing the payments among various inter-state transmission licensees.

Improved operational track record; line availability remains satisfactory – The project was fully commissioned on January 28, 2023, and has reported a satisfactory operating performance so far, with an average line availability of 98.7% during the period from January 2023 to March 2024, above the normative requirement of 98.0%. The line availability declined to 96.6% in 9M

FY2025 due to insulator issues on account of excessive rainfall, causing the line to trip in August 2024 and September 2024. However, these issues were resolved and subsequently the line availability remained healthy at 100% in Q3 FY2025. Also, the collections for the project commenced in June 2023, with the company realising the bills raised since April 2023 in a timely manner. The payments related to January 2023 to March 2023 is awaited from the CTU owing to pending approval from the CERC.

Debt coverage metrics are expected to be adequate – The debt coverage metrics of the project are expected to be adequate, with the cumulative DSCR expected to remain above ~1.2x, supported by the long-term TSA with availability linked tariff, the long tenure of the project debt and a competitive interest rate. This considers a debt of Rs. 1,840 crore, the prevailing interest rate and additional tariff under change-in-law as being received currently.

Established track record of the sponsor Group – LVTPL is promoted by RL, a platform incorporated by SGL5 and Singapore-based sovereign fund GIC by demerging the erstwhile transmission business of SPTL. The project will continue to benefit from the established track record of the Sterlite Power Group in operating power transmission projects in India.

Credit challenges

Moderate operations and maintenance risk – As the company's revenues are subject to the maintenance of the stipulated line availability, it is important that the lines are maintained in a good condition, reducing instances of tripping and minimising the outage time. While LVTPL's profitability will remain exposed to the variations in O&M expenses, the risk is partially mitigated as O&M expenses form a small proportion of the revenues. Further, the sponsors' experience in the power transmission business should ensure adequate resource allocation and cost-efficient execution of O&M activity.

Interest rate and refinancing risks – The company's debt coverage metrics remain exposed to interest rate risks due to the high share of debt funding in the project cost, floating interest rates and the largely fixed tariff under the TSA. The term loan will have a tenure of 17.5 years with a bullet repayment of 47.6% of the debt in March 2041. Further, the terms of the loan provide a put option to the lenders at the end of third and fifth year from the date of first disbursement and every year after the fifth year. This exposes the company to refinancing risk. Nonetheless, comfort can be drawn from the long residual TSA tenure and the high certainty of cash flows for a power transmission project.

Liquidity position: Strong

LVTPL's liquidity profile is expected to remain strong with a healthy buffer between the cash flow from the project and debt servicing obligations, supported by satisfactory line availability and timely realisation of payments. Additionally, comfort is derived from the presence of debt service reserve (DSRA) equivalent to one quarter of debt servicing. ICRA expects the company to generate fund flow from the operations of ~Rs. 80-85 crores yearly in FY2025 and FY2026 against debt repayment obligation of ~Rs. 42 crores in FY2025 and Rs. ~50 crore in FY2026. As on December 31, 2024, the company had free cash and bank balances of Rs. 56.35 crore and DSRA balance of Rs 58.84 crore.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the rating could arise if lower-than-targeted line availability, higher expenses or increase in indebtedness of the company result in a deterioration of the ICRA-projected cumulative DSCR to lower than 1.20 times on a sustained basis. In addition, delays in receiving payments under the pooling mechanism adversely impacting the company's cash flows and liquidity profile may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power Transmission
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

LVTPL was incorporated in 2019 as a special purpose vehicle to establish a 765 kV D/C transmission line from Lakadia to Vadodara with a total line length of 334 KM. The project also involves the installation of 300 MVAr switchable line rectors and two 765 kV bays at Lakadia and Vadodara substations in Gujarat. The project is implemented on a built, own, operate and maintain (BOOM) basis and has a TSA with long-term transmission customers for 35 years. The project achieved a COD on January 28, 2023. The company is promoted by Sterlite Grid 18 Limited (SGL18; 51% stake) and RL (49% stake). RL holds a 100% stake in SGL18.

Key financial indicators

Audited	FY2023	FY2024
Operating Income (Rs. crore)	0.0	215.6
PAT (Rs. crore)	-42.4	-36.4
OPBDITA/OI (%)	-	93.2%
PAT/OI (%)	-	-16.9%
Total Outside Liabilities/Tangible Net Worth (times)	40.1	121.0
Total Debt/OPBDITA (times)	NM	10.0
Interest Coverage (times)	NM	1.2

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; NM – Not meaningful as company was in project phase
Source: Company data, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years							
		Type	Amount rated (Rs. crore)	Feb 24, 2025	FY2025		FY2024		FY2023		FY2022	
					Date	Rating	Date	Rating	Date	Rating	Date	Rating
1	Term loan	Long term	1840.00	[ICRA]AAA (Stable)	Jun 7, 2024	[ICRA]AA- (Stable)	Dec 28, 2023	[ICRA]AA- (Stable)	-	-	-	-
					-	-	Oct 4, 2023	Provisional [ICRA]AA- (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based – 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 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 No	Instrument name	Date of issuance/Sanction	Coupon rate	Maturity date	Amount rated (Rs. crore)	Current rating and outlook
NA	**Term loan I**	Dec 2023	-	March 2041	571.00	[ICRA]AAA (Stable)
NA	**Term loan II**	Dec 2023		March 2041	569.00	[ICRA]AAA (Stable)
NA	**Term loan III**	Dec 2023		March 2041	560.00	[ICRA]AAA (Stable)
NA	**Term loan IV**	Dec 2023	-	March 2041	140.00	[ICRA]AAA (Stable)

Source: *Company data*

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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