

Shiga Energy Pvt. Ltd.

Instrument	Amount Rated (Rs. crore)	Rating Action
Non Fund Based Limits (Structured Obligation)	45.05	[ICRA]A (SO)(stable)/[ICRA]A1(SO) (Assigned)
Non Fund Based Limits	4.95	[ICRA]A4 (Assigned)

ICRA has assigned a rating of [ICRA]A(SO)/A1(SO) (pronounced ICRA A Structured Obligation/A one Structured Obligation) to the Rs. 45.05 Cr. letter of credit facility and a rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 4.95 Cr. non fund based limits of Shiga Energy Pvt. Ltd. (SEPL)[†] The outlook on the long term SO rating is 'Stable'.

Credit Enhancement

While assigning a structured obligation rating for the Rs. 45.05 Cr. letter of credit facility, ICRA has factored in credit enhancement in form of letter of comfort that has been/will be provided either by Power Finance Corporation (PFC) (rated ICRA [AAA] and ICRA [A1+]) or IFCI Limited (IFCI) (rated ICRA [A+] and ICRA [A1+]). The letters of comfort issued under the financing arrangement constitute an unconditional and irrevocable commitment from PFC or IFCI to make payment towards letters of credit whenever due.

ICRA's standalone rating factors in the tariff related risks for the company's 97 MW under construction Tashiding Hydro Electric Project (THEP) in Sikkim, arising out of the absence of firm power purchase agreements (PPAs). With the company planning to undertake merchant sales in the interim till long-term offtake arrangements are finalised, ICRA notes that in such an eventuality, the rate at which power will be sold will be lower than the tariff rate warranted as per CERC regulations. ICRA's rating also factors in the execution risks that are typical of green-field projects for the company's 97 MW under construction Tashiding Hydro Electric Project (THEP) in Sikkim, including implementation risks arising out of factors like risks of geological surprises, seismic risks; although these risks stand mitigated to a large extent given that the project is in advanced stages of completion (~85% work done till March 2016 as per revised project timelines). Nonetheless, ICRA takes note of the fact that the project has already witnessed cost and time overruns.

ICRA also notes that, the transmission lines required for power evacuation are not in place yet. Any delay in establishing the power evacuation infrastructure by Power Grid Corporation of India Ltd. (PGCIL) may further delay the commencement of generation in the project. However, as per the schedule the transmission line is expected to be operational by Dec 2016. While assigning the rating, ICRA also takes into account that a portion of the equity has been brought in the form of redeemable preference shares which would be repaid in 3 years from FY19 onwards.

Nevertheless, the standalone rating derives comfort from the long experience of key promoters in the hydro power segment apart from the presence of renowned investor in Equis Pte Ltd. which has subscribed to the Non Convertible Debentures in this project. While assigning the ratings, ICRA factors in the support derived by virtue of being a part of the Dans Group which a 96 MW operational project in Sikkim. The promoters' having infused the full amount of equity as envisaged in the proposed capital structure also supports the rating. ICRA also derives comfort from the satisfactory progress in the project which is running as per the revised project timelines.

Company Profile

Tashiding Hydro Electric Project (THEP) is being developed by SEPL on the Build, Own, Operate and Transfer (BOOT) model. THEP is located in West Sikkim envisages the utilization of the flow of Rathong Chhu, a tributary of Rangit River for generating 97MW of electric power through two units of 48.5MW each. SEPL has a MOU with Sikkim Government which entails free sale of power to the Sikkim Government. SEPL would supply free power to the extent of 12% of the power generated for the first fifteen years and 15% of the power generated for the next twenty years.

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[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications



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