

March 31, 2017

## RAPP Transmission Company Limited

Instrument*	Rated Amount (in crore)	Rating Action
Term Loan (Proposed)	257.00 (enhanced from Rs. 240.00 crore)	[ICRA]A (SO) (Stable) assigned
<b>Total</b>	<b>257.00</b>	

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has assigned a long term rating of [ICRA]A (SO) (pronounced as ICRA A Structured Obligation)<sup>1</sup> to the Rs. 257.00 crore<sup>2</sup> (enhanced from Rs. 240.00 crore) proposed term loan facility of RAPP Transmission Company Limited (RTCL). The outlook on the long term rating is Stable. The letters SO in parenthesis suffixed to a rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms and its structure. The SO rating here signifies the presence of debt service reserve account (DSRA)<sup>3</sup> and an escrow structure for the proposed facility.

### Rationale

The assigned rating reflects successful completion of the project in February 2016, earlier than the scheduled COD and within budgeted cost, mitigating the execution related risks; assured off-take under the long term transmission service agreement with an annuity based monthly tariff and strong payment security under the point-of-connection (POC) mechanism being operated by Power Grid Corporation of India Limited (PGCIL). The company has received CERC approval for start of annuity payments from March 2016 due to early commissioning. The company is in the process of refinancing the existing term loan with a new one having lower rate of interest. The rating also positively factors in the presence of DSRA equivalent to 4.5 months of repayment obligations (three months post FY2018) as well as an escrow structure for the proposed term loan.

The rating however takes into consideration absence of major share cash inflows till date in spite of the aforementioned approval. The repayment of the refinanced debt would commence from March 2017, therefore start of cash inflows is essential for interest and principal repayments. Nevertheless, ICRA notes that the principal repayment is modest for first five quarters providing support to the debt servicing ability. The rating also takes into consideration moderate counterparty risk due to weak financial position of some of the power distribution companies in the country. However the project being a part of national grid, the risk is mitigated to a large extent by diversification of customer base due to the POC mechanism. ICRA also notes that the O&M for the project would be handled by a group company, which does not have established track record for O&M yet; nevertheless comfort is derived from sizeable portfolio of power transmission assets in the group. The rating also factors in proposed high debt to equity ratio post refinancing of debt.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million

<sup>3</sup> While the lender has the right to dip into the DSRA, the rated instrument does not have a DSRA invocation mechanism

## Key rating drivers

### Credit Strengths

- The project work was completed in February 2016 – earlier than planned commissioning and within budgeted cost; approval for start of annuity from March 2016 received
- Healthy availability and payment collection track record of other projects of the group
- Assured offtake under the long term Transmission Service Agreement (TSA) with the customers for a fixed monthly tariff
- Strong payment security with point of connection (POC) mechanism in place providing stable cash flows
- Proposed refinancing of debt with lower rate of interest as well as presence of DSRA equivalent to 4.5 months of repayment obligations (three months post FY2018) and an escrow structure

### Credit Weakness

- Moderate counterparty risk due to weak financial health of some of the discoms in the country; however the same is mitigated to a large extent by
  - Diversification of customer base due to POC mechanism
  - Strong bargaining power of PGCIL for recovery from discoms
- Major share of cash inflows yet to be received in spite of approval in place
- High debt to equity ratio of the proposed refinancing

### Description of key rating drivers highlighted above:

The project was completed in February 2016 against scheduled COD of March 2017. Further, the project became the first transmission project to be completed on tariff based competitive bidding (TBCB) and hence eligible for start of annuity tariff earlier than the schedule. The company has received approval from CERC for start of annuity from March 2016. The execution related risks are mitigated due to completion of the project and the risks related to lack of clarity on timeline of annuity payments have been mitigated due to the CERC approval. However, as on date, only small part of the tariff billed till date has been received and receipt of balance payment remains crucial.

ICRA assessed that the power transmission projects typically demonstrate healthy line availabilities and operational performance. Further, the payment collection track record for other commissioned projects in the group remains satisfactory. The project enjoys assured fixed monthly tariff as per the TSA, provided the line availability is maintained as per prescribed norms. Though the counterparty risks are moderate for the company due to weak financial position of some of the discoms in the country; the project, being a part of interstate transmission system, enjoys strong payment security due to POC mechanism.

The company is expected to benefit going forward due to refinancing of debt at a lower rate of interest; however high debt to equity ratio of the proposed refinancing has also been factored into the ratings. Nevertheless, presence of DSRA equivalent to 4.5 months of repayment obligations till FY2018 (three months post FY2018) as well as an escrow structure enhance the credit profile of the company.

### Analytical approach:

For arriving at the ratings, ICRA has taken into account, key operating developments in the recent past, standalone financials along with structural features associated including the escrow mechanism and maintenance of debt service reserve account (DSRA). The company being a special purpose vehicle (SPV) operates as a standalone entity. ICRA has also considered implicit promoter strength due to the company being part of one of the largest power transmission players in the country.



## **Links to applicable Criteria**

### **Corporate Credit Ratings: A Note on Methodology**

#### **About the Company:**

In order to pursue the objective of encouraging private investment in transmissions sector, Ministry of Power (MoP), Government of India issued guidelines in 2006, intended to initiate a scheme for development of Independent Transmission Projects through private sector participation and system strengthening in India. Accordingly, it was proposed to construct 400 kV D/C transmission line from Rajasthan Atomic Power Project (RAPP) to Shujalpur substation for evacuation of power from RAPP 7 & 8. RTCL, incorporated on December 20, 2012, was established as a wholly owned subsidiary of Power Finance Corporation (PFC), which has been transferred to the Sterlite group after they had been awarded the project. RTCL has constructed a total length of ~201 km, as part of the project. The project is implemented on Build, Own, Operate and Maintain basis (BOOM) basis and has a transmission service agreement (TSA) in place for 35 years.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month-year & Rating in FY2014	
				March 2017	-	-	-	
1	Term Loans (Proposed)	Long Term	257.00	[ICRA]A (SO) (Stable)	-	-	-	

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Term Loan (Proposed)	-	-	-	257.00	[ICRA]A (SO) (Stable)

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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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