

January 30, 2020

Patratu Vidyut Utpadan Nigam Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund based facilities	237.6	487.6	[ICRA]A- (Stable); reaffirmed
Unallocated	262.4	12.4	[ICRA]A- (Stable); reaffirmed
Total	500.0	500.0	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account the strong credit profile, long track record of operations and project execution, and the management capabilities of NTPC Limited, which holds a 74% stake in PVUNL. Jharkhand Bijli Vitran Nigam Limited (JBVNL), a state government-owned distribution company of Jharkhand holds the remaining 26% stake in the company. Notably, PVUNL is setting up a 2,400-MW coal-based thermal power plant in Jharkhand. These ratings also take into account the cost-plus power purchase agreement (PPA) based on the Central Electricity Regulatory Commission's (CERC) tariff regulations and assured fuel supply. The ratings, however, are constrained by the sizeable project implementation risks, and counterparty credit risks arising from the modest financials of the offtaker, JBVNL. Timely equity infusion from JBVNL/Government of Jharkhand (GoJh) for the balance equity portion (beyond the available deemed loan) and coal mine development will be critical for achieving timely completion and maintaining cost competitiveness of the project.

Key rating drivers and their description

Credit strengths

Strong parentage of NTPC – The rating derives comfort from the commitment of NTPC's management towards infusion of equity capital (in the proportion of its ownership, which is a 74% stake in the project) for the budgeted cost as well cost overruns (if any). Additionally, PVUNL will benefit from the strong executional, operational and managerial capabilities of NTPC, which has a commercial capacity of nearly 56.5 Giga Watt (GW) at present, comprising coal, gas, solar, wind and hydro power generation assets.

PPA for 100% capacity mitigates offtake risk; cost-plus tariff to result in stable cash flows – PVUNL has entered into a PPA with JBVNL for its entire capacity with tariff based on CERC guidelines. This provides comfort as it will result in steady revenues, assured return potential as well as comfortable debt servicing capacity. Fuel cost pass through will result in full recovery of costs subject to operating within normative parameters.

Low permitting risks and available infrastructure to aid project execution – The project is being constructed on the premises of the existing Patratu thermal power station (325-MW de-rated station which was decommissioned in January 2017). Thus, the infrastructure in terms of construction power, water during construction, railway siding, etc. is already in place. The project has received clearance from the Ministry of Environment Forest and Climate Change and the Airport Authority of India (for stack height). The project land requirement is already in place, as part of the Transfer Scheme of GoJh, 2015.

Assured fuel supply – The coal block for the project’s end use has been transferred to PVUNL, which will undertake development of the coal mine alongside the construction of the power plant. To reduce any delay in commencement of coal mining operations beyond the commission of the power project, Bridge Linkage from Coal India Limited has been approved by the Ministry of Coal, Government of India (GoI). Thus, fuel supply risks for the project are minimal.

Highly competitive power cost increases affordability – PVUNL will benefit from lower landed cost of coal because of the proximity of allocated coal block to the project site (located 110 km away). Consequently, the power generated will be available at very competitive price (lower variable charge). Availability of low-cost power will provide additional safeguard against offtake and demand risks for the project.

Credit challenges

Significant project execution risks – The project activities have only recently commenced with the award of the EPC¹ package to Bharat Heavy Electricals Limited (BHEL) in March 2018. Although the presence of BHEL as the EPC contractor is a source of comfort, construction delays cannot be ruled out, given the very nascent stage of construction and large scale of the project. The ensuing time and cost overruns will ultimately have to be approved by CERC. Disallowance will result in lower cushion for debt servicing, while approval will result in increase in tariff/reduced attractiveness of the generated power.

Project exposed to counterparty credit risks – The entire power from the project (minimum 85%; the balance 15% is subject to allocation by the Ministry of Power) will be sold to JBVNL. The modest financial profile of JBVNL as reflected in its negative net worth, low cost coverage, weak coverage indicators, high aggregate technical and commercial loss (AT&C loss) and stretched payable days exposes PVUNL to counterparty credit risks. However, these risks are mitigated by the presence of multiple payment security mechanisms. The PPA specifies maintaining a letter of credit of 105% of monthly billing amount by JBVNL. In addition, the dues from JBVNL are backed by guarantee from the GoJh. Additionally, these dues are covered under the tripartite agreements between the GoI, state governments and the Reserve Bank of India for payment of dues by state utilities.

Timely infusion of equity by GoJh/JBVNL – Of the 25% equity requirement for the project, JBVNL has to fund Rs. 1,213.7 crore. A substantial portion of this commitment is to be funded from the consideration for the land transferred by the GoJh to PVUNL (Rs. 837 crore plus accrued interest during the project construction period). For the balance equity capital and for funding cost overruns (if any) in the project, JBVNL will have to infuse funds. In addition, JBVNL will have to infuse equity for funding the mine development project cost, the project cost and modality of funding of which is under finalization. Given the modest financial profile of JBVNL, these funds will have to be infused by the GoJh. Although the cash requirements are back ended (initial amount will be subscribed from land transfer consideration), the eventual timing of receipt of funds from the GoJh (if required) will be critical.

Liquidity position: Adequate

PVUNL’s liquidity is **adequate**, backed by the presence of a strong parent, NTPC, and the substantial upfront equity from JBVNL (in the form of deemed loan) which should ensure timely equity infusion. ICRA expects that with the achievement of design operating parameters, the company’s liquidity profile will remain adequate post commissioning. The company is expected to generate adequate cash flows for debt servicing and still have surplus cash from operations.

¹ engineering, procurement and construction

Rating sensitivities

Positive triggers: ICRA may upgrade PVUNL’s rating if the project is commissioned within the budgeted time and cost estimates.

Negative triggers: Negative pressure on PVUNL’s rating may arise on account of time and cost overruns in commissioning of the thermal project, resulting in lowering of expected return and coverage metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers
Parent/Group Support	Parent – NTPC holds a 74% stake in PVUNL Assigned rating derives comfort from strong credit profile of parent NTPC (which holds 74% stake in PVUNL), which is expected to meet the funding requirements or cash flow mismatches of PVUNL as and when required
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity

About the company

PVUNL, incorporated in October 2015, is a joint venture of NTPC (74% stake) and JBVNL (26% stake). It is involved in the development of 4,000-MW coal-based power plant in Jharkhand. The power project will be developed sequentially in two phases – Phase-I – 2,400 MW (3*800 MW) and Phase-II – 1,600 MW (2*800MW). The budgeted cost for Phase I is Rs. 18,668 crore, which is to be funded in debt:equity ratio of 3:1. The Rural Electrification Corporation Limited has sanctioned the project debt of Rs. 14,000 crore. The PPA has been signed with JBVNL (85% allocated to JBVNL, 15% available with the Ministry of Power, GoI as unallocated quota) for a term of 25 years from the start of commercial operations with tariff based on prevailing CERC regulations. The EPC contract has been awarded to BHEL and the expected commercial operation date of Unit 1 of Phase-I is March 2022. Subsequently, the other two units are to be commissioned in intervals of six months each. The coal will be sourced from Banhardih coal block, which has been allocated to and will be developed by PVUNL.

In FY2019, the company reported a net profit of (-)Rs. 1.4 crore on an operating income of Rs. 0.0 crore compared to a net profit of Rs. 0.0 crore on an operating income of (-)Rs. 0.5 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	-0.5	0.0
PAT (Rs. crore)	0.0	-1.4
OPBDIT/OI (%)	NM*	NM
RoCE (%)	NM	NM
Total Outside Liabilities/Tangible Net Worth (times)	7.4	5.8
Total Debt/OPBDITA (times)	NM	NM
Interest Coverage (times)	NM	NM

*NM: Not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					30-Jan-2020	3-Oct-2018		
1	Non fund based facilities	Long Term	487.6	0.0*	[ICRA]A-(Stable)	[ICRA]A-(Stable)		-
2	Unallocated	Long Term	12.4	0.0*	[ICRA]A-(Stable)	[ICRA]A-(Stable)		-

*as on December 31, 2019
Amount in Rs. crore

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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non fund based facilities	NA	NA	NA	487.6	[ICRA]A- (Stable)
NA	Unallocated	NA	NA	NA	12.4	[ICRA]A- (Stable)

Source: Patratu Vidyut Utpadan Nigam Ltd

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

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