

September 14, 2020 ^{Revised}

Gurgaon-Palwal Transmission Limited: Rating upgraded, outlook revised to Stable, and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund-based -Term Loan	800.00	800.00	[ICRA]AA, upgraded from [ICRA]BBB+, outlook revised to Stable from Positive, and withdrawn
Non-fund Based-Letter of Credit (sublimit of Term Loan)	(600.00)	(600.00)	[ICRA]AA / [ICRA]A1+; upgraded from [ICRA]BBB+ / [ICRA]A2; outlook revised to Stable from Positive, and withdrawn
Total	800.00	800.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA has upgraded the rating for the Rs. 800.00-crore bank facilities of Gurgaon-Palwal Transmission Limited (GPTL) to [ICRA]AA / [ICRA]A1+ from [ICRA]BBB+ / [ICRA]A2 with revision in outlook to Stable from Positive. It has simultaneously withdrawn the same at the request of the company, based on the no dues certificates provided by its lenders, in accordance with ICRA's policy on Withdrawal and Suspension of Credit Rating.

The upward revision in the rating at the time of withdrawal factors the refinancing of Gurgaon-Palwal Transmission Limited's (GPTL) existing project debt with a new debt having much lower interest rate of 8.75% (reduced from 11.55%) and longer tenure of 18 years, along with the successful completion of GPTL's acquisition by India Grid Trust (rated [ICRA]AAA (Stable)/ [ICRA]A1+). The acquisition of GPTL from Sterlite Power Grid Ventures Limited (SPGVL), which owns GPTL through its step-down subsidiary, Sterlite Grid 4 Limited (SGL4), was approved by India Grid Trust's Board of Directors on April 09, 2020, subject to the receipt of the unitholder's approval, regulatory approvals and completion of precedent conditions. The transaction was completed on August 31, 2020, wherein India Grid Trust acquired 100% economic interest and complete management control in GPTL. The transmission service agreement (TSA) has a lock-in period for the original sponsor, SGL-4, which is required to hold at least 51% stake in GPTL till two years from the commercial operations date (COD) and 26% stake for the next three years, thereafter. As a result, at present, India Grid Trust holds 49% stake in GPTL, which will be raised to 100% on completion of the lock-in period for SGL-4. The residual 51% equity will be pledged with India Grid Trust for the remaining lock-in period. The terms of the new debt raised by GPTL for refinancing earlier debt, require India Grid Trust to hold minimum 49% stake in GPTL, have the management control and provide undertaking to make good any shortfall in debt servicing by GPTL. Being a part of the India Grid Trust InvIT, GPTL is expected to benefit from the pooling benefit out of the surplus cash flows from all the SPVs of the Trust.

The rating factors the assured offtake of power as well as stable cash inflows for the project, being a part of the Inter-State Transmission System (ISTS), in the form of annuity-based fixed monthly charges over the TSA period of 35 years, subject to maintaining the minimum line availability of 98%. Further, the rating draws comfort from the strong payment security and the low counterparty credit risk due to the pooling benefit of point-of-connection (PoC) mechanism for the underlying power transmission assets of India Grid trust, including GPTL, in which Power Grid Corporation of India Limited (PGCIL, rated [ICRA]AAA (Stable) / [ICRA]A1+), the central transmission utility (CTU), is responsible for collecting the transmission charges from the beneficiary users and disbursing the same to inter-state transmission licensees. The company's monthly

collections were affected from April to July 2020, because of adverse impact on the cash flows of power distribution entities on the back of decline in electricity demand and constraints in collections from consumers because of the nationwide lockdown, imposed to control the Covid-19 pandemic. However, the same recovered in August 2020 to ~95% of the monthly billed amount. The rating also favourably considers the project's revenue generation track record of ~18 months, with commissioning of the first two elements in March 2019.

The rating, however, is constrained by the limited track record of operations for the entire project. While the first two elements of the project became operational in March 2019, it attained full completion in April 2020. Given this, the combined operational track record of all nine elements of the project remains limited. The project witnessed a delay of about six months and a cost overrun of ~Rs. 35 crore, which was entirely funded by the promoters. The company has already filed a petition before the Central Electricity Regulatory Commission (CERC) for considering the events leading to project delays as force majeure, given that the same were beyond its control, and identifying the shift from Service Tax to Goods and Service Tax (GST) as a change in law event contributing to a large part of the cost overrun. As per the transmission service agreement (TSA), its revenues are linked to the line availability. Hence, its ability to maintain the line availability at normative level of 98% over a longer tenure to recover full annual fixed charges remains to be seen and will be a key rating monitorable. Nevertheless, till July 2020, the average line availability for the operational elements remained healthy at 99%, which provides comfort. The rating also considers the exposure to moderate operations and maintenance (O&M) risks as any lapses in the same may impact the line availability performance, and variability in O&M expenses may impact the profitability of the transmission asset. Further, ICRA notes the refinanced debt has quarterly amortisation over June 30, 2020 to March 31, 2038 period, with a large bullet repayment of 50.85% on March 31, 2038, which exposes the project to refinancing risk. However, the much longer concession period of TSA of 35 years, extending well beyond the loan tenor, coupled with high certainty of cash flows for a power transmission project, mitigate the risk to a large extent.

Key rating drivers and their description

Credit strengths

Acquisition by India Grid Trust on August 31, 2020 – India Grid Trust had signed a framework agreement with Sterlite Power Grid Ventures Limited (SPGVL) in May 2019 to acquire GPTL and another two transmission assets over the next two years. On April 9, 2020, India Grid Trust's Board of Directors approved GPTL's acquisition from Sterlite Grid 4 Limited (SGL4), a step-down subsidiary of SPGVL, subject to the receipt of the unitholder's approval, regulatory approvals and completion of conditions precedents. The transaction was completed on August 31, 2020, wherein India Grid Trust acquired 100% economic interest and complete management control in GPTL. The TSA has a lock-in period for the original sponsor, SGL-4, which is required to hold at least 51% stake in GPTL till two years from the COD and 26% stake for the next three years, thereafter. Consequently, at present, India Grid Trust holds 49% stake in GPTL, which will be raised to 100% on completion of the lock-in period for SGL-4. The residual 51% equity will be pledged with India Grid Trust for the remaining lock-in period. The terms of the new debt raised by GPTL for refinancing earlier debt, require India Grid Trust to hold minimum 49% stake in GPTL, have the management control. The terms of sanction also require India Grid Trust to provide undertaking in favour of the new lender to make good any shortfall in debt servicing by GPTL, which provides additional comfort. Being a part of the India Grid Trust, GPTL is expected to benefit from the pooling benefit out of the surplus cash flows from all the SPVs of the Trust.

Favourable debt terms after refinancing – GPTL has refinanced its earlier project term loans of Rs. 800 crore availed from the consortium of four lenders with a new term loan of Rs. 980 crore from a single lender. The new term loan has three tranches with the first tranche of Rs. 825 crore to be used for refinancing the loans from the earlier lenders, and the remaining two tranches for the balance amount for repaying the capital creditors/unsecured loans from promoters. The new term loan has been sanctioned at a much lower interest rate of 8.75% vis-à-vis the earlier interest rate of 11.55%. It has a longer tenor with debt repayments ending on March 31, 2038 against September 30, 2031 for the earlier loans. The

company has availed only the first tranche and does not intend to drawdown the balance amount. The current outstanding term loan amount is ~Rs. 750 crore. Given the favourable debt terms, the company's debt servicing metrics are expected to remain healthy.

Assured offtake under long-term TSA and strong payment security – GPTL, being a part of the inter-state transmission system, enjoys assured offtake of power as well as stable cash inflows in the form of annuity-based fixed monthly charges over the TSA period of 35 years, provided the line availability is maintained at or above 98%. The project benefits from the diversified counterparty risk and strong payment security under the POC mechanism. Under the POC mechanism, the CTU i.e. PGCIL collects monthly transmission charges from ISTS customers, which are distributed to ISTS licensees from the centrally-collected pool. ICRA notes that the decline in electricity demand as well as constraints in collections from consumers because of the nationwide lockdown imposed to control the Covid-19 pandemic, had affected the cash flows of power distribution entities. This, in turn, had impacted the collections for the company from April to July 2020 period, which averaged at 32% of the monthly billed amount. However, the same has improved significantly in August 2020, as reflected by collection of Rs. 14.19 crore against billed amount of Rs. 14.91 crore.

Successful project completion mitigating execution and approval-related risks; revenue generation track record of 18 months – The project achieved full completion of physical work in April 2020. As on date, all the nine elements of the project are operational. All the key approvals for the project including the energisation approval, trial run completion certificate and commissioning certificate from the LIE are in place. The first two elements of the project Neemrana-Dhonanda transmission line and line bays at Dhanonda substation became operational in March 2019 and hence, the project has an established revenue generation track record of around 18 months. The remaining elements have been commissioned subsequently, in a phased manner, over the last one year and have been generating revenues.

Credit challenges

Ability to maintain transmission line availability within normative level remains crucial – While the first two elements of the project became operational in March 2019, the project attained full completion in April 2020. Given this, the combined operational track record of all nine elements of the project remains limited. As revenues are linked to the stipulated line availability, the company's ability to maintain line availability at normative level of 98% over a longer tenure remains to be seen and will be a key rating monitorable. Nevertheless, ICRA notes that till July 2020, the average line availability for the operational elements remained healthy at 99%.

Refinancing risk at maturity of project loans – GPTL's new term loan (after refinancing) has a tenor of 18 years, with no moratorium period. The quarterly repayments for the loan have commenced from June 30, 2020 and will end on March 31, 2038 with a final bullet repayment of 50.85% of the total drawn down amount, which exposes the company to refinancing risk. Nonetheless, the risk is partially offset by the fact that the tenure of TSA is 35 years, which extends much beyond the term loan repayment tenor. This should enable GPTL to refinance the bullet repayment, given the high certainty of cash flows in a power transmission project.

Moderate O&M risk – Since the company's revenues are subject to 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. Improper line maintenance may lead to revenue losses and weaken its debt repayment capabilities. While GPTL's profitability would remain exposed to variations in O&M expenses, the risk is partially mitigated as O&M expenses form a small proportion of the revenues. Further, O&M activity is not technically challenging and is subject to routine maintenance. Moreover, the experience of the asset manager in power transmission business should ensure adequate resource allocation and cost-efficient execution of the O&M activity.

Liquidity position: Strong

As on July 30, 2020, the company had free cash of Rs. 0.32 crore, DSRA balance of Rs. 23.04 crore and liquid investments of Rs. 38.67 crore in the form of non-lien fixed deposits. Its liquidity position is expected to be supported by healthy operating performance that ensures stable revenue generation, coupled with the timely collection of transmission charges under the PoC mechanism, going forward. Further, access to the pooling benefit of the surplus cash flows from all the SPVs of the Trust (India Grid Trust InvIT) and undertaking by India Grid Trust in favour of the new lender to make good any shortfall in debt servicing by GPTL provide additional liquidity comfort.

Rating sensitivities

Positive triggers – Not applicable as the rating is being withdrawn.

Negative triggers – Not applicable as the rating is being withdrawn.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Power Transmission Companies ICRA Policy on Withdrawal and Suspension of Credit Rating India Grid Trust
Parent/Group Support	The rating assigned to the company factors in the high likelihood of India Grid Trust, extending financial support to it because of close business linkages between the entities. Additionally, GPTL, now being a part of the India Grid Trust InvIT, is expected to be supported by the pooling benefit out of the surplus cash flows from all the SPVs of the Trust.
Consolidation / Standalone	Standalone

About the company

GPTL was incorporated to construct four transmission lines of 143 km length, three substations, two bays and one LILO to cater to power requirements of Gurgaon and Palwal areas. Incorporated on October 26, 2015, the company was established as a wholly-owned subsidiary of Power Finance Corporation (PFC), which was later transferred to Sterlite Power Grid Ventures Limited (SPGVL), after the latter was awarded the project. The project is implemented on a build, own, operate and maintain basis (BOOM) basis and has a TSA in place for 35 years. The first two elements of the project became operational in March 2019. The remaining seven elements were completed in a phased manner over the next 12 months, with the project attaining full completion in March 2020. The final approval related to completion of successful trial run for the last element was obtained in April 2020. On August 31, 2020, India Grid Trust acquired 100% economic interest and complete management control in GPTL. The TSA has a lock-in period for the original sponsor, SGL-4, which is required to hold at least 51% stake in GPTL till two years from the COD and 26% stake for the next three years, thereafter. As a result, at present, India Grid Trust holds 49% stake in GPTL, which will be raised to 100% on completion of the lock-in period for SGL-4. The residual 51% stake will be pledged with India Grid Trust for the remaining lock-in period.

Key financial indicators (Audited)

	FY2018* (Audited)	FY2019* (Audited)
Operating Income (Rs. crore)	-	-
PAT (Rs. crore)	-	-
OPBDIT/OI (%)	-	-
RoCE (%)	-	-
Total Outside Liabilities / Tangible Net Worth (times)	-	-
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	-	-
DSCR excluding short-term debt (times)	-	-

**no material financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

SN	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	14-Sep-20	02-Jun-20	FY2020	FY2019	FY2018	FY2017
							20-Aug-2019	31-Jul-2018	02-May-2017	
1	Term Loans	Long-Term	800.00	0.00	[ICRA]AA (Stable), withdrawn	[ICRA]BBB+ (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
2	Letters of Credit	Long/Short Term	(600.00)	-	[ICRA]AA (Stable)/ [ICRA]A1+; withdrawn	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable) / [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	-

* As on August 31, 2020

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Term Loans	Oct-2016	11.55%	Sep-2031*	800.00	[ICRA]AA (Stable), withdrawn
-	Letter of Credit (sublimit of Term Loans)	-	-	-	(600.00)	[ICRA]AA (Stable)/ [ICRA]A1+; withdrawn

Source: GPTL, * fully repaid with no amount outstanding as on date

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

Corrigendum

Document dated September 14,2020 has been corrected with revision as detailed below:

- The link for the following applicable methodology - 'ICRA Policy on Withdrawal and Suspension of Credit Rating' has been included in the analytical approach section.

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