September 21, 2020 Revised

Chhattisgarh Hydro Power LLP (formerly Chhattisgarh Hydro Power (P) Ltd.): Long term rating upgraded to [ICRA]BBB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long Term- Term loan	121.0	110.0	[ICRA]BBB+ (Stable) (Upgraded from [ICRA]BBB/Stable)
Long Term – Non-Fund Based	-	5.0	[ICRA]BBB+ (Stable) (Upgraded from [ICRA]BBB/Stable)
Long Term – Unallocated	-	6.0	[ICRA]BBB+ (Stable) (Upgraded from [ICRA]BBB/Stable)
Issuer Rating	-	-	[ICRA]BBB+ (Stable) (Upgraded from [ICRA]BBB/Stable)
Total Rated Limits	**121.0**	**121.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in a significant improvement in the generation levels for Chhattisgarh Hydro Power LLP (CHPLLP) in FY2020 as well as the current fiscal, which has supported an improvement in profitability and debt metrics. ICRA notes that aided by a favourable hydrology, CHPLLP's plant load factor (PLF) from the 24-MW Gullu hydroelectric project increased from 30.5% in FY2019 to 43.9% in FY2020. In the current fiscal thus far, the generation levels improved further, as indicated by a PLF of ~59.8% in 5M FY2021, much higher than 34.7% registered in 5M FY2020. The rating upgrade also factors in the favourable regulatory development received in the form of exemption from scheduling norms for small-hydro projects in Chhattisgarh. ICRA notes that this regulatory change, which was operationalised from December 2019, is expected to plug CHPLLP's revenue leakages arising due to excess generation over scheduled energy going forward. The rating further reflects the limited offtake risks for the Gullu hydroelectric, supported by a 35-year long-term power purchase agreement (PPA) with Chhattisgarh State Power Distribution Company Limited (CSPDCL) at a remunerative fixed feed-in tariff of Rs. 5.21/unit, which leads to healthy business returns. CHPLLP's interest rates on the project loan is poised to decline by 130-basis points from H2 FY2021, which would lead to a significant reduction in interest burden and further improve debt protection metrics in the current fiscal. The rating also derives strength from the availability of a debt service reserve account (DSRA) amounting to Rs. 10 crore, which would adequately cover for six months' debt service requirements for the existing project loan. In addition, the elongated ballooning tenure of the loan taken at a competitive interest rate leads to healthy debt service coverage ratio, strengthening CHPLLP's credit profile. ICRA expects CHPLLP's controlling partner, Sarda Energy & Minerals Limited (SEML, the flagship entity of the Sarda Group), to be willing to extend financial support to CHPLLP, should there be a need, given the strategic importance that CHPLLP holds to SEML for meeting its diversification objectives. CHPLLP has received demonstrated funding support from the Sarda Group in the past for completing the operational project at Gullu. Further, the strong parentage has led to increased financial flexibility for CHPLLP, as indicated by its ability to raise long-term 11-year door-to-door tenure loan at an attractive interest rate.

The rating is, however, tempered by CHPLLP's exposure to hydrology risks, given that the profits are directly linked to rainfall levels. In addition, CHPLLP remains exposed to asset and customer concentration risks as well, given that it has a small scale of operations at present, with a single asset delivering power to a single offtaker. The rating also reflects CHPLLP's sizeable upcoming debt-funded capex plan for constructing another 24-MW small-hydropower project in Chhattisgarh, exposing the LLP to execution risks, and would keep the leverage ratios at an elevated level in the medium term during the project construction period. The rating is also constrained by the weak financial profile of the offtaker (CSPDCL), which could potentially lead to working capital blockage in future. Given its corporate status as an LLP, CHPLLP inherently suffers from the potential risk of capital leakage due to withdrawal by the partners, which could adversely impact its capital structure and leverage metrics in future.

Going forward, CHPLLP's financial profile will be supported by the accruals generated from the operational hydropower project, as well as the demonstrated funding support from the Sarda Group. In addition, CHPLLP is expected to benefit from the Group's experience in developing other hydropower projects, which it can be leveraged during the development of the upcoming 24-MW project within the budgeted time and costs.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that CHPLLP will be able to operate the Gullu hydroelectric project at a steady-state PLF of over 40% over the medium term, which is significantly higher than the minimum guaranteed supply commitment of 30%, and that it would also be able to maintain a healthy collection efficiency from CSPDCL, which would help generate adequate retained cash flows to service its scheduled debt service commitments.

Key rating drivers and their description

Credit strengths

Stable earnings from the 24-MW hydropower project in Gullu; significant improvement in generation levels in FY2020 and FY2021 (thus far) – CHPLLP has commissioned a 24-MW small-hydropower project at Gullu, in Chhattisgarh, on July 17, 2017. With the synchronisation being completed earlier on March 31, 2017, the project is eligible for 80 IA tax benefits, which supports its profits and cash accruals. The LLP has been able to generate free cash flows since its first year of operations in FY2018. Supported by favourable hydrology, the PLF from the Gullu hydroelectric project steadily increased from 30.5% in FY2019 to 43.9% in FY2020 and an estimated 59.8% in 5M FY2021. This increase in generation levels have supported an improvement in overall profitability and debt metrics in FY2020, and ICRA expects further improvement in the financial performance in the current fiscal as well. ICRA notes that the LLP has received a capital subsidy of Rs. 5 crore from the Ministry of New & Renewable Energy (MNRE), which has also supported the overall business returns.

Limited offtake risks for the Gullu hydroelectric supported by long-term PPA – CHPLLP has signed a 35-year long PPA with CSPDCL, which covers the entire economic life of the project, at a fixed feed-in tariff of Rs. 5.21/unit. Moreover, ICRA notes that the non-solar renewable purchase obligation (RPO) trajectory in Chhattisgarh has been steadily increasing from 7.5% in FY2019 to 8.5% in FY2021, which partly mitigates off-take risks. In addition, to incentivise investments in setting up small hydro projects in the State, the Chhattisgarh State Electricity Regulatory Commission (CSERC) has revised the feed-in tariffs for upcoming new small hydro projects in the State upwards from Rs. 5.21/unit in FY2018 to Rs. 5.96/unit in FY2020 and Rs. 6.15/unit in FY2021, which indicates a conducive regulatory environment.

Healthy business returns supported by adequate fixed feed-in tariff – The tariff for the 24-MW operational hydroelectric project at Gullu has been fixed at a reasonable level of Rs. 5.21/unit for the entire term of the PPA. Supported by healthy generation levels and remunerative tariffs, the Gullu hydroelectric project is expected to yield a healthy post-tax project IRR[1] of 16.9% and a comfortable cumulative DSCR[2] of 2.05 times. Though the capital cost intensity for Rehar is expected to remain higher at ~Rs. 10.4 crore/MW against Rs. 8.9 crore/MW for Gullu, at the prevailing feed-in tariff of Rs. 6.15/unit, the return indicators for the Rehar project is estimated to remain favourable as well, as indicated by a post-tax project IRR of 13.1% and a cumulative DSCR of 1.32 times.

Liquidity buffer from DSRA strengthens the credit profile – In addition to the attractive tariff levels and timely collections for Gullu, which supports positive retained cash flows, CHPLLP's liquidity profile is also strengthened by the presence of two quarters of DSRA kept as fixed deposit with the lender.

[1] Internal rate of return
[2] Debt service coverage ratio

Extended ballooning tenure of project debt leads to a comfortable debt service coverage ratio – The loan for the 24-MW Gullu hydropower project has an extended repayment tenure of 10 years with a ballooning structure (1-year moratorium and 10-year repayment). With interest servicing requirement being high during the initial years, the ballooning repayment pattern would give CHPLLP an adequate headroom to meet its debt service requirements. ICRA expects CHPLLP's debt service coverage ratio (DSCR) to remain in a comfortable range of 1.8-2.8 times between FY2021 and FY2023.

Exemption from the day-ahead scheduling to plug revenue leakage going forward – CHPLLP had to comply with the day-ahead scheduling norms before December 2019. Given the variability in rainfall, and the challenges associated with forecasting generation in a run-of-the-river hydroelectric project, CHPLLP's actual generation was seen to be higher than scheduled generation in previous years. As CHPLLP was able to bill its customer for only the scheduled generation, this led to revenue leakages, which is estimated at ~Rs. 1.8 crore in FY2020. However, CSERC waived the scheduling requirement for renewable energy projects in December 2019, and this is expected to plug the revenue leakages entirely from FY2021.

Savings in interest cost from rate reduction expected to improve debt protection metrics – CHPLLP's interest rate is set for an annual reset in end-September 2020, when it is expected to decline from the prevailing 9.15% to 7.85%. Such a sharp reduction in interest rate is expected to lead to an improvement in the entity's debt protection metrics in the near term.

Demonstrated funding support from the Sarda Group – CHPLLP's partners include SEML (which has a profit-sharing ratio of 72%) and Sarda Energy Limited (which is a wholly owned subsidiary of SEML and has a profit-sharing ratio of 28%). ICRA notes that CHPLLP has received demonstrated funding support from the Sarda Group in the past for completing the operational project at Gullu. Further, the strong parentage has led to increased financial flexibility, as indicated by CHPLLP's ability to raise long-term 11-year door-to-door tenure loan at a competitive interest rate. This apart, CHPLLP benefits from the Group's experience in the development and operation of other hydropower projects.

Credit challenges

Exposure to hydrology risks – CHPLLP's PPA with CSPDCL is based on a single part feed-in tariff, and consequently, the entire hydrology risk is borne by the seller. Further, the PPA provides for penalty[3] payable by the seller to the offtaker in case the generation in any fiscal falls below the minimum guaranteed supply against a plant load factor (PLF) of 30%. Consequently, in years of poor hydrology, when the PLF is lower than 30%, CHPLLP remains not only exposed to lower revenues, but also potentially faces the risk of liquidation damages for a shortfall in minimum guaranteed supply.

Small scale of operations with exposure to asset and customer concentration risks – As on date, CHPLLP has a single operational small-hydropower project, supplying power to a single offtaker. This exposes it to asset and customer concentration risks. Moreover, CHPLLP's small scale of operations remains a constraint.

Exposure to execution risks, given the sizeable debt-funded capex plans – Apart from the operational Gullu project, CHPLLP has been allotted three more small-hydropower projects in Chhattisgarh having a cumulative capacity of around 72-MW. Preliminary work for construction of another 24-MW hydropower project at Rehar (in Chhattisgarh) is expected to commence in the near term. Given the geological challenges associated with the execution of hydroelectric projects, CHPLLP would be exposed to execution risks during the construction period. The Rehar project's budgeted cost has been pegged at Rs. 250 crore (Rs. 10.4 crore/MW), to be funded by a debt to equity mix of around 72:28. The sizeable debt-funded capex is expected to lead to a deterioration in CHPLLP's total debt/OPBITDA metric during the project construction period. ICRA estimates that due to the gradual absorption of Rehar's project debt in the balance sheet, CHPLLP's total debt/OPBITDA metric is likely to reach a peak level of around 5.5 times in FY2025 from 2.6 times in FY2020 and an estimated 1.7 times in FY2021.

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[3] *In proportion to the penalty imposed by the State Electricity Regulatory Commission on CSPDCL for non-fulfilment of renewable purchase obligations*

Weak financial profile of the offtaker – The weak financial profile of CSPDCL exposes CHPLLP to the risk of potential working capital blockage in future. However, ICRA notes that payments from CSPDCL have been received within 60-90 days thus far, which, in turn has supported healthy free cash flow generation.

Risk of capital withdrawal by the partners, which could adversely impact capital structure and leverage metrics – In the past, CHPLLP has been utilising a part of the surplus funds in parking as advances with SEML and repaying unsecured loans from the partners. Given its corporate status as an LLP, the entity inherently suffers from the risk of capital leakage due to withdrawal by the partners, which could adversely impact its capital structure and leverage metrics in future.

Liquidity position: Adequate

CHPLLP's liquidity is **adequate**, with the entity expected to generate positive retained cash flows which can adequately cover its scheduled debt service obligations. Moreover, the LLP has been generating positive free cash flows in FY2019 and FY2020, and this is expected to continue in FY2021 as well. However, with the Rehar project execution expected to gradually pick up from FY2022, free cash flows are expected to remain negative thereafter during the project construction period. However, ICRA understands that the tie-up of project debt before commencement of Rehar's construction would mitigate funding risks to a large extent. CHPLLP's liquidity profile is also supported by the presence of a DSRA of Rs. 10 crore with the lender, which would cover debt service requirements for two quarters in case of any cash flow shortfalls.

Rating sensitivities

Positive triggers – ICRA could upgrade CHPLLP's rating if the entity consistently demonstrates P-90 (50.13%) level of generation from the Gullu hydroelectric project leading to better than expected cash accruals. The rating could also be upgraded if the entity is able to commission the upcoming Rehar project within budgeted time and costs, and firm-up long-term PPA at a cost reflective tariff.

Negative triggers – Negative pressure on CHPLLP's rating could arise if, for reasons including its PLF levels falling below 30% on a sustained basis, leading to a financial burden emanating from minimum guaranteed supply commitment to the buyer, or if there is a significant deterioration in the collection efficiency leading to the retained cash flows being consistently lower than the scheduled debt service obligations. Any large capital withdrawal by the partner which adversely impacts the capital structure, liquidity profile, and debt protection metrics would also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Parent Company: Sarda Energy & Minerals Limited (SEML) ICRA expects CHPLLP's controlling partner, SEML, to be willing to extend financial support to CHPLLP, should there be a need, given the strategic importance that CHPLLP holds to SEML for meeting its diversification objectives. We also expect SEML to be willing to extend financial support to CHPLLP out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

CHPLLP (formerly Chhattisgarh Hydro Power Pvt. Ltd) was incorporated on May 24, 2005 as a private limited company. It was subsequently converted into an LLP on September 17, 2010. The partners of CHPLLP include SEML (72% profit share), and Sarda Energy Limited (28% profit share).

CHPLLP has commissioned a 2X12-MW Gullu small-hydropower plant in the Jashpur District of Chhattisgarh. The plant has entered into a long-term PPA with CSPDCL for a tenure of 35 years at an attractive feed-in tariff of Rs. 5.21/unit. CHPLLP is also looking to construct another 2X12-MW small-hydroelectric project on river Rehar in the Surajpur district of Chhattisgarh.

In FY2020, the LLP reported a net profit of Rs. 17.5 crore on an operating income of Rs. 47.2 crore compared to a net profit of Rs. 10.0 crore on an operating income of Rs. 37.0 crore in the previous year.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	37.0	47.2
PAT (Rs. crore)	10.0	17.5
OPBDIT/OI (%)	85.9%	90.0%
PAT/OI (%)	27.0%	37.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.2
Total Debt/OPBDIT (times)	3.9	2.6
Interest Coverage (times)	2.6	3.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years	
		Type	Amount Rated	Amount Outstanding (as on 31.03.2020)	Rating	FY2020	
					21-Sep-2020	31-May-2019	25-Apr-2019
1	Long term- Term loan	Long Term	110.0	109.6	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	-
2	Long Term – Non-Fund Based	Long Term	5.0	4.9	[ICRA]BBB+ (Stable)	-	-
3	Long Term – Unallocated	Long Term	6.0	-	[ICRA]BBB+ (Stable)	-	-
4	Issuer Rating	Long Term	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

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 click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long term- Term loan	-	7.85%	FY2027	110.0	[ICRA]BBB+ (Stable)
-	Long Term – Non-Fund Based	-	-	-	5.0	[ICRA]BBB+ (Stable)
-	Long Term – Unallocated	-	-	-	6.0	[ICRA]BBB+ (Stable)
-	Issuer Rating	-	-	-	-	[ICRA]BBB+ (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

CHPLLP has no subsidiaries as on date.

Corrigendum

Rationale dated September 21, 2020 has been corrected as below:

- Relationship contact has been updated

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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.

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