June 24, 2019

Sasan Power Limited: Long-term and the short-term ratings revised to [ICRA]BB+/[ICRA]A4; outlook revised to Negative from Stable

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Working Capital Limits	567.50	567.50	Rating Revised to [ICRA]BB+ from [ICRA]BBB; outlook revised to Negative from Stable
Term Loans#	19,282.0	19,282.0	Rating Revised to [ICRA]BB+ from [ICRA]BBB; outlook revised to Negative from Stable
Non-fund Based Limits (Letter of Credit as a sub-limit of the term loan facility)	(10,000.0)	(10,000.0)	Rating Revised to [ICRA]BB+ from [ICRA]BBB; outlook revised to Negative from Stable
Non-fund Based Limit (interchangeable between long-term and short-term scale)	300.0	300.0	Rating Revised to [ICRA]BB+/[ICRA]A4 from [ICRA]BBB/[ICRA]A2; outlook revised to Negative from Stable
Total	**20,149.50**	**20,149.50**	

*Instrument details are provided in Annexure-1

including letter of credit/ buyer's credit / LUT/LOC as sub limit of term loan facility and Long Term LER Limits

Rationale:

The revision in the ratings and the outlook takes into account the significant deterioration in the financial risk profile of Reliance Power Group and the uncertainty over the timelines for approval and subsequent implementation for tariff compensation matters, both under change in law during construction and forex variation. Consequently, the buffer between the debt servicing obligations and the cash accruals for the company remains limited which has also resulted in lack of funding for creation of debt service reserve account (DSRA) till date. While revising the ratings, ICRA has also considered the outstanding retention money amounting to ~ Rs. 1000 crore, which, if paid, will be funded through incremental borrowing which may further stretch the overall liquidity profile and debt service coverage metrics of the company.

The ratings are further constrained by exchange rate risks due to high foreign currency debt. Nonetheless, the risk has been mitigated to some extent by the hedging undertaken by the company to the extent of 40-50% of the principal payment over the next 10 years. Further, SPL continues to remain exposed to interest rate and counterparty credit risks. However, the risks are partially offset by the payment security mechanism implemented in the PPAs, competitive nature of tariffs and the option available for third-party sale of power in case of default by procurers (as allowed under the PPA), particularly in view of the continuance of power-deficit status in some of the procuring states. While the company has received a favourable order for cost items on account of change in law during operations period from Central Electricity Regulatory Commission (CERC), CERC has not approved most of the cost items & subsequently, SPL has approached the Appellate Tribunal of Electricity (APTEL) against the same. APTEL has approved some items and SPL has filed computation petition in CERC for relief granted by APTEL. CERC has reserved its order post completion of hearings and as per the management, the outcome of the order will translate into an additional tariff of 2.5-3 paisa per unit which will be a credit positive. Further, with regards to petition related to forex variation, the company has been successful in getting the matter remanded back from APTEL to CERC for providing relief under section 79 of Electricity Act.

The ratings continue to favourably factor in the strengths from the tie-up of the entire capacity through long-term power purchase agreement (PPA) at cost-competitive tariff as well as the cost advantages due to access to captive coal mines. Further, ICRA takes a note of the cash-flow benefits available to the Sasan Power project with sustained improvement in plant load factor (PLF) post non-applicability of coal green cess and excise duty resulting in decrease in cost of generation and consequently an improved merit order position since July 2017. ICRA, however, notes that the debt service coverage ratio on a cumulative basis remains modest, assuming the PLF level of 95% owing to the significant cost overruns for the project, mainly due to exposure to forex risks. Thus, the company's ability to sustain superior operating efficiencies to maintain the actual costs at the bid levels remains critical from a credit perspective.

Outlook: Negative

The outlook may be revised to Stable in case of any favourable order issued and its subsequent implementation (i.e. without any litigation by counterparties) on the pending tariff compensation matters including change in law.

Key rating drivers:

Credit strengths

Healthy operational performance so far; however, sustenance of strong operating performance remains critical- Since the commencement of all the units in March 2015, the company's plant availability factor (PAF) and PLF level have remained satisfactory and have been reported at 93% and 95% respectively in FY2019. Given the nature of the competitively-bid tariff with a higher mix of energy charge component, the company's ability to ensure the high PLF level at 93-95% in a sustained manner, as well as the other efficiency indicators such as heat rate and auxiliary consumption within the budgeted levels remains critical from a credit perspective. Further, the ability of the company to ensure the cost of mining and other operating cost overheads within the budgeted levels remains important.

Elongated debt repayment period and improved cash-flow position in the initial few years due to refinancing of debt under Reserve Bank of India's (RBI's) 5/25 scheme - The company has refinanced the project debt under RBI's flexible restructuring scheme (5/25 scheme) with effect from October 2015. As per the 5/25 scheme, the debt repayment period has increased from 10-15 years earlier to 21 years at present with repayment schedule synchronised with cash flows of the project, resulting in improvement in the cumulative DSCR for the company. Further, the repayment in the initial years was relatively lower, which resulted in higher cash flows during the next one to two year. However, ICRA notes that the DSCR on a cumulative basis remains modest at PLF level of 95% and without assuming the tariff compensation under forex variation.

Long-term PPA with cost-competitive tariff in place with all procurers - The entire capacity of the company is tied up through long-term PPAs at cost-competitive tariff with multiple procurers. The average realisations for the company is currently at ~Rs. 1.4/ unit, which is highly competitive. This is mainly on account of cost advantages due to captive mining, which results in fuel cost of ~Rs. 0.50/ unit.

Credit challenges

Deterioration in the financial risk profile of Reliance Power Group (Reliance Power rated [ICRA]C/ A4; issuer not cooperating) – The financial profile of Reliance Power has deteriorated significantly as evident from considerable decline in the net cash accruals in FY 2018-19 & net-worth erosion due to impairment of assets amounting to ~ Rs. 4170 crore as on March 31, 2019.

Regulatory uncertainty prevails on tariff compensation requests to CERC- For petition related to change in law during construction period some of the items have been approved by CERC. For items that have not been approved by CERC under change in law petitions, SPL has approached APTEL. APTEL has approved some items and SPL has filed computation petition in CERC for relief granted by APTEL. CERC has reserved its order post completion of hearings and as per the management, the outcome of the order will translate into an additional tariff of 2.5-3 paisa per unit which will be a credit positive. Further, with regards to petition related to forex variation, the company has been successful in getting the matter remanded back from APTEL to CERC for providing relief under section 79 of Electricity Act.

Significant cost overrun because of rupee depreciation against dollar; increase in hard cost adversely impacts key project metrics - The project cost increased by 27% on account of change in law during the construction period, foreign exchange fluctuation and increase in interest during construction (IDC) with forex movement impacting interest costs on foreign currency loan. The increase in project cost from original appraised level has been significant which has adversely impacted the key project metrics.

Interest rate and counterparty credit risk - SPL continues to be exposed to interest rate and counterparty credit risks, partially offset by payment security mechanism as per the PPAs, competitive nature of tariffs and option available for third-party sale of power in case of default by procurers (as allowed under the PPA), particularly in view of the continuance of power deficit status in some of the procuring states.

Exposure to foreign exchange risk – The operations of the company remains exposed to foreign exchange rate risks due to high foreign currency debt. Nonetheless, the risk has been mitigated to some extent by the hedging undertaken by the company to the extent of 40-50% of the principal payment over the next 10 years.

Liquidity position

The company's liquidity position remains constrained on account of absence of DSRA so far and high utilisation of working capital limits.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers
Parent/Group Support	Not available
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company:

SPL, is a wholly-owned subsidiary of Reliance Power Limited, and is involved in developing and operating a captive coal-based project with a capacity of 3,960 MW at Sasan, Madhya Pradesh. The project was won by Reliance Energy Limited (which was subsequently transferred to Reliance Power Limited) through competitive bidding. The project has been implemented in six units of 660 MW each based on super-critical technology. SPL signed PPAs in August 2007 for the contracted capacity of 3,722 MW with 14 state utilities in seven states namely Madhya Pradesh (lead procurer), Uttar Pradesh, National Capital Territory of Delhi, Punjab, Haryana, Rajasthan, and Uttaranchal. Levellised tariff for the project (which is competitive bid based) for a PPA period of 25 years is Rs. 1.19/unit. As per the original PPA schedule, the project commercial operations date (COD) was scheduled for April 2016 but was subsequently advanced to March 2013 (for which supplementary PPA was signed in October 2008). As there was delay on the part of procurers in meeting their obligations, the commissioning date(s) were further revised during the meeting(s) held with procurers. The project COD was achieved in March 2015. The project was allotted three captive coal mine blocks, viz. Moher, Moher Amlohri Extension and Chhatrasal, with estimated coal reserves of about 700 million metric tonne with an estimated average gross calorific value (GCV) of 4,700 Kcal/Kg. The Chhatrasal coal mine has been de-allocated by the Ministry of Coal, Govt of India, vide gazette notification dated May 7, 2015. The company has filed the petition against de-allocation in Delhi High Court, where the matter is at present sub-judice. The captive mine blocks of Moher and Moher Amlohri Extension, which together attribute to total reserve of 575 MMT are fully operational, with production capacity of 20 MTPA, though the mining has been restricted to 18 MTPA.

The project cost, including the capital cost of coal mine development, stood at Rs. 26,405 crore and was funded through debt of Rs. 18,185 crore and the remaining has been funded through equity infusion / promoter contribution of Rs 8,220 crore.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	4917	4679
PAT (Rs. crore)	164	-113
OPBDIT/OI (%)	49.9%	55.0%
RoCE (%)	5.7%	5.8%
Total Debt/TNW (times)	1.9	1.8
Total Debt/OPBDIT (times)	6.7	6.0
Interest Coverage (times)	1.5	1.7
NWC/OI (%)	17%	-5%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S.No	Name of Instrument	Current Rating				Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2019	Month-year & Rating in FY2019 April 2018	Month- year & Rating in FY2018 September 2017	Month-year & Rating in FY2016 March 2016
1	Fund based limits	Long-Term	567.50	567.50	[ICRA]BB+ (Negative)	[ICRA]BBB (stable)	[ICRA]BBB (stable)	[ICRA]BBB (stable)
2	Term Loans	Long-Term	19,282.0	14,935[&]	[ICRA]BB+ (Negative)	[ICRA]BBB (stable)	[ICRA]BBB (stable)	[ICRA]BBB (stable)
3	Non-fund based limits	Long-Term	(10,000.0)	(10,000.0)	[ICRA]BB+ (Negative)	[ICRA]BBB (stable)	[ICRA]BBB (stable)	[ICRA]BBB (stable)
4	Non-fund based limit	Long-Term /Short-Term	300.0	300.0	[ICRA]BB+ (Negative) / [ICRA]A4	[ICRA]BBB (stable) / [ICRA]A2	[ICRA]BBB (stable) / [ICRA]A2	[ICRA]BBB (stable) / [ICRA]A2

*with maturity less than one year; & as on end March 2019

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
-	Fund based limits	-	-	-	567.50	[ICRA]BB+ (Negative)
-	Term Loans	FY 2010	4-12%	FY 2036	19,282.0	[ICRA]BB+ (Negative)
-	Non-fund based limits	-	-	-	(10,000.0)	[ICRA]BB+ (Negative)
-	Non-fund based limit	-	-	-	300.0	[ICRA]BB+ (Negative) / [ICRA]A4

Source: Sasan Power Limited

ANALYST CONTACTS

Anjan Ghosh
+91 22 6114 3407
aghosh@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Aditya Jhaver
+91 22 6169 3379
aditya.jhaver@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
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