January 16, 2020

SKS Power Generation (Chhattisgarh) Limited: Rating of [ICRA]BB(CE)(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	1600.0	[ICRA]BB(CE)(Stable); Assigned
Fund-based Cash Credit	330.0	[ICRA]BB(CE)(Stable); Assigned
Non-fund based	535.0	[ICRA]BB(CE)(Stable); Assigned
Total	**2465.0**	

**Instrument details are provided in Annexure-1*

Rating Without Explicit Credit Enhancement	**[ICRA]B+**

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The assigned rating factors in the operational nature of the 600-MW coal-based thermal power project under SKS Power Generation (Chhattisgarh) Limited (SPGCL) and the strength of the corporate guarantee provided by Agritrade Resource Ltd (ARL) for all borrowings of the company. SPGCL commenced operations of the two units, each 300 MW capacity, in October 2017 and April 2018, with plant availability factor (PAF) of 37.9% and 82.5%, respectively, in FY2019 and H1FY2020. The rating further takes into account the presence of a fuel supply agreement (FSA) with South Eastern Coalfields Limited (SECL, a subsidiary of Coal India Limited), with the fuel supply under linkage sufficient to meet 66% of the plant's fuel requirement at 85% PLF. Further, ICRA takes a note of the favourable change in ownership and the company's reduction in debt post completion of the resolution process. SPGCL is currently promoted by ARL, which has also provided an unconditional and irrevocable corporate guarantee to the borrowings of SPGCL.

However, the assigned rating is constrained by the lack of long-term power purchase agreements (PPAs) for almost 500 MW capacity and the counter-party credit risk associated for the majority of the balance capacity with exposure to ultimate offtakers which are state-owned distribution utilities and have weak financial profile. The company has entered into medium-term PPAs with Noida Power Company Limited (NPCL) and PTC India Ltd (PTC) for a capacity totaling 400 MW. The PPAs with PTC have a tenure of three years and constitute 50% of the total capacity, with ultimate offtakers as Bihar Discoms and Haryana Discoms. While the tariff of Rs. 4.24/unit has been adopted by SERCs in Haryana and Bihar, the PPA with Bihar discoms is under dispute (whether discom should schedule 100% of the power or minimum of 55% with the condition that they could offtake power beyond 55% in case of need and at a lower tariff). The APTEL has given an interim order asking Bihar discoms to offtake 55% of the contracted capacity till the dispute between the company and discoms is resolved. Further, the company is yet to identify a suitable offtaker for the remaining 100-MW capacity and the timeliness of the same remains critical from the credit perspective. The PPA with NPCL has a tenure of 16 moths and the remaining medium-term PPAs are signed for a three-year period, consequently, the ability of the company to renew existing PPAs or enter into fresh medium-term PPAs during expiry of current PPAs in a timely manner at cost reflective tariff remains highly critical. The rating further takes into account the on-going legal proceedings and the regulatory uncertainty over the long-term PPA signed with Rajasthan discoms, wherein, discoms have not yet adopted the tariff citing that the tariff rate is higher than the market rate. The rating also factors the exposure to interest rate risk as well as the cash flow sensitivity to variation in short-term power tariff levels and off-take over the debt tenure, given the significant share of untied capacity.

Adequacy of credit enhancement

The rating of the instrument is credit enhanced, based on the presence of the corporate guarantee from ARL. The guarantee is legally enforceable, unconditional, covers the entire amount and tenure of the rated instrument. The guarantee, however, does not have a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by ARL is adequate to result in a rating enhancement of the said instrument to **[ICRA]BB(CE)** against the rating of [ICRA]B+, without explicit credit enhancement.

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- *In the event of default by SPGCL in payment of amounts due, ARL shall immediately pay the defaulted amount on demand by the Lender*
- *The guarantee will continue till all the amounts due under the facility are repaid*
- *The liability of ARL shall continue or reinstated in case there is any change in terms of the rated facilities*
- *The guarantor's obligations and undertakings under this guarantee shall cease to exist on the final settlement date*

Key rating drivers and their description

Credit strengths

Corporate guarantee from ARL - Post the debt restructuring exercise and the subsequent open offer, SPGCL has become a subsidiary of ARL. As part of the restructuring plan, ARL has extended a corporate guarantee on the term loan and working capital facilities of SPGCL. ARL operates two fully-mechanised long-wall underground coal mines in Indonesia (FY2019 production: 483000 tonnes). In addition, the company has recently acquired a coal mine in the Shaanxi province of China, which is expected to commence operations in Q4FY2020. The Group owns 51% stake in a bio-diesel plant in the USA, having a production capacity of 40 million gallons annually. The coal mining business of ARL is the main driver of the company's revenue and contributed 88% to the total revenue in FY2019.

Operational project with all two units generating power; plant availability higher than 80% in H1FY2020- The company achieved commercial operations date (CoD) of the two units under phase I in October 2017 and April 2018. While the entire capacity of 600 MW is operational since April 2018, the PLF levels remained muted till May 2019 due to lack of suitable offtakers. The company reported an average PLF of 27.9% in FY2019, which improved to 60.8% in H1FY2020 as a result of signing of multiple medium-term PPAs. Further, the plant availability factor (PAF) of the project witnessed an improvement to 82.5% in H1FY2020 from 37.9% in FY2019 due to better availability of linkage coal.

FSA with CIL subsidiary adequate for 66% of fuel requirement at 85% PLF - The company signed a fuel supply agreement (FSA) with South Eastern Coalfields Limited (SECL) in 2013 for supply of 2.6 MTPA coal for the power plant for coal grades of G10 to G12 (3701-4600 kCal/Kg). Most of the coal requirement in the first half of the current fiscal was met from linkage sources. Assuming the supply rate at 75% of the contracted quantity, the linkage quantity (adjusted for GCV values) would be sufficient for meeting about 66% of the fuel requirement of the operational units at 85% PLF.

Reduction in debt post resolution process –The final cost of the project stood at Rs. 6180 crore, which was funded by debt and equity of Rs. 5263 crore and Rs. 917 crore, respectively. The project cost escalated by 63% from the appraised cost of Rs. 3787.2 crore. Due to delayed execution and significant escalation of project cost, the company was not able to service its debt obligations in a timely manner. Hence, in accordance with the RBI circular on resolution of stressed assets, the lenders opted for a change in management through an open bidding process. Accordingly, the proposal of ARL, which comprised payment of Rs.2,170 crore by ARL toward purchase of shares, assignment of loan and top-up of the outstanding BGs with 100% cash margins was accepted. Subsequent to this, the management control of SPGCL was passed to ARL through its step-down wholly owned subsidiary, Entwickeln India Energy Pvt Ltd (EIPL) from March 18, 2019. EIPL had financed the acquisition amount of Rs.2,170 crore through Rs.1,600 crore of rupee term loan and the rest through equity and compulsory convertible debentures (CCDs). Accordingly, the adjusted gearing of SPGCL stood at ~1.0 times as on March 31, 2019.

Credit challenges

Regulatory uncertainty pertaining to implementation of long-term PPA for 100 MW capacity with Rajasthan utilities - The company entered into a long-term PPA (on February 2019) of 25 years with Rajasthan discoms for the 100 MW capacity. However, citing high tariff rate as the reason, the Rajasthan Rajya Vidyut Prasaran Nigam Ltd (RVPN, on discoms behalf) has not adopted the tariff rate yet. After the company approached Supreme Court (SC), the issue was referred to APTEL; the final order from APTEL is still awaited. Nonetheless, the regulatory uncertainty continues on the implementation of this PPA and thus, its timely adoption by the discoms in Rajasthan remains key monitorable.

~67% of total capacity relies on medium-term PPAs; PPA for remaining 100 MW capacity yet to be signed - The company has entered into medium-term PPAs with Noida Power Company Limited (NPCL) and PTC India Ltd (PTC) for a capacity totaling to 400 MW. The PPAs with PTC have a tenure of three years and constitute 50% of the total capacity, with ultimate offtakers as Bihar Discoms and Haryana discoms. The company has not yet signed a PPA for the remaining 100 MW capacity and the timeliness of the same remains a key monitorable.

Counterparty credit risks from indirect exposure to state discoms; although payments have remained timely so far - The counterparty credit risk of the company remains high, given the weak financial position of the state distribution utilities (which are the ultimate offtakers of power generated by the project); high distribution loss levels; and inadequate tariffs and subsidy in relation to the supply cost. The company has predominantly sold power through short-term and medium-term PPAs (with PTC as aggregator) or through power exchanges so far and payments have remained timely.

Exposure to volatility in short-term tariff rates - The company’s cash flows will remain sensitive to variation in short-term power tariff levels and off-take over the debt tenure, given the significant share of untied-up capacity. The power exchange tariffs have remained low in the recent months, given the slowdown in demand growth and the increase in supply from hydro and renewable sources. The spot power tariffs are likely to remain subdued in the near term, in view of the demand growth slowdown, significant overcapacity in the thermal segment, and growth in the share of renewable generation in the overall generation mix. Nonetheless, the tariff would remain sensitive to any sharp demand growth or any supply-side constraints such as coal availability, hydro and renewable generation.

Exposure to price risk- The company will remain exposed to volatility in coal prices and interest rate risk, owing to single-part tariff structure in medium-term PPAs.

Liquidity position: Stretched

The company's liquidity position at a standalone level is stretched since anticipated net cash accruals are likely to remain insufficient to meet the repayment obligations for the remaining part of the current fiscal. Need-based fund infusion by the guarantee provider/promoter is expected to ensure timely payment of debt-related obligations. SPGCL has undrawn cash credit limit of Rs. 19.0 crore and unencumbered cash balance of Rs 3.3 crore as on November 30, 2019. ARL has cash balance of HK$ 650 million as on March 31, 2019

Rating sensitivities

Positive triggers - The rating could be upgraded in case of a) favourable regulatory development with regards to implementation of Rajasthan-based PPA and timely adoption of the same by the discoms in Rajasthan, b) the company signing the PPA for the un-tied capacity in a timely manner and c) any significant and sustained improvement in the financial profile of the guarantee provider (ARL).

Negative triggers – The rating could face downward pressure in case of a) deterioration in plant performance and payment cycle from counterparties lead to liquidity constraints and b) any deterioration in the financial profile of the guarantee provider (ARL).

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent/Group Company: ARL For arriving at the ratings, ICRA has taken into account the unconditional and irrevocable corporate guarantee from ARL that would cover all the repayment obligations to the lender as per the terms of the facility documents.
Consolidation/Standalone	Not Applicable

About the company

SPGCL was originally promoted by SKS Ispat and Power Ltd for development of a 1200-MW (4 x 300 MW) thermal power project, in two phases of 600 MW (2 X 300 MW) capacity each, in the Raigarh district of Chhattisgarh (CG). The company achieved commercial operations date (CoD) of the two units under phase I in October 2017 and April 2018. Due to delayed execution and significant escalation in project cost, the company was unable to service its debt obligations in a timely manner. Consequently, in accordance with the RBI circular on resolution of stressed assets, the lenders opted for a change in management through an open bidding process. Accordingly, the proposal of Agritrade Resource Ltd (ARL), a company listed on Hong Kong stock exchange, was accepted that comprised payment of Rs.2,170 crore by ARL towards purchase of shares, assignment of loan, and top-up of the outstanding BGs with 100% cash margins. Subsequently, the management control of SPGCL was passed to ARL through its step-down wholly owned subsidiary, Entwickeln India Energy Pvt Ltd (EIPL) on March 18, 2019. EIPL had financed the acquisition amount of Rs. 2,170 crore through Rs. 1,600 crore of rupee term loan and the rest through equity and compulsory convertible debentures (CCDs). At present, all borrowings of the company are backed by an unconditional and irrevocable corporate guarantee from ARL.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	212.5	511.2
PAT (Rs. crore)	-295.1	-2381.6
OPBDIT/OI (%)	-5.2%	-22.4%
RoCE (%)	-2.8%	-49.3%
Total Outside Liabilities/Tangible Net Worth (times)	20.8	-4.5
Total Debt/OPBDIT (times)	-498.1	-46.1
Interest Coverage (times)	0.0	-0.2

About the Guarantor

ARL operates two fully-mechanised long-wall underground coal mines in Indonesia (FY2019 production: 483000 tonnes). In addition, the company has recently acquired a coal mine in the Shaanxi province of China, which is expected to commence operations in Q4FY2020. The Group owns 51% stake in a bio-diesel plant in USA, having a production capacity of 40 million gallons annually. The coal mining business of ARL is the main driver of the company's revenue and contributed 88% to the total revenue in FY2019. ARL reported a net profit of HK$ 1185.1 million on an OI of HK$ 1940.7 million in FY2019 and a net profit of HK$ 611.0 million on an OI of HK$ 2237.3 million in FY2018. The decline in revenues was mainly because of the lower average selling price of coal in FY2019 and the reduction in coal imports from certain major markets such as China and India.

Status of non-cooperation with previous CRA:

CARE has migrated the ratings to 'CARE D; Issuer not cooperating' on April 05, 2019; on best available information with the credit rating agency.

http://www.careratings.com/upload/CompanyFiles/PR/SKS%20Power%20Generation%20(Chhattisgarh)%20Limited-04-05-2019.pdf

Any other information: None

Rating history for past three years

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 16-Jan-202020	FY2019	FY2018	FY2017
1	Fund-based - Term Loan	Long Term	1600.0	1467.00	[ICRA]BB(CE)(Stable)			
2	Fund-based – Cash Credit	Long Term	330.0	-	[ICRA]BB(CE)(Stable)			
3	Non-fund based	Long Term	535.0	-	[ICRA]BB(CE)(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

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based - Term Loan	February 2019	--	FY2030	1600.0	[ICRA]BB(CE)(Stable)
NA	Fund-based – Cash Credit	--	--	--	330.0	[ICRA]BB(CE)(Stable)
NA	Non-fund based	--	--	--	535.0	[ICRA]BB(CE)(Stable)

Source: SPGCL

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About ICRA Limited:

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