December 23, 2022

SJVN Thermal Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	8448.46	8448.46	[ICRA]BBB+ (Stable); reaffirmed
Total	**8448.46**	**8448.46**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmed rating takes into account the strong credit profile, long track record of operations, project execution and the management capabilities of SJVN Limited (SJVN), which holds a 100% stake in SJVN Thermal Private Limited (STPL) that is currently developing a 1,320-MW coal-based thermal power plant in Buxar, Bihar. STPL benefits from the superior project management capabilities and financial flexibility of its parent. ICRA expects SJVN to infuse equity and facilitate the achievement of necessary project milestones/clearances in a timely manner.

The Buxar thermal power project has witnessed delays on account of the pandemic-led lockdown, resulting in restrictions on sand transportation and a ban on sand mining by the Government of Bihar. Hence, the project is expected to witness time and cost overruns from its current budgeted estimates. Nevertheless, ICRA expects that such cost overruns are expected to be condoned by the regulator as they are largely on account of factors beyond the control of the company. ICRA notes that the cost-plus tariff-based power purchase agreement (PPA) based on the Central Electricity Regulatory Commission's (CERC) tariff regulations should result in assured returns for the project, subject to allowance of project costs and operations at normative levels. The fuel supply risk for the project is minimal with a fuel supply agreement (FSA) with Central Coalfields Limited (CCL) in place for the entire project capacity. Moreover, the power generated by the Buxar project is likely to be very competitive on account of close proximity to the coal mines (expected supply of coal from Magadh-Amrapali coal block in Jharkhand).

Notwithstanding the presence of a reputed engineering procurement and construction (EPC) contractor, Larsen & Toubro Ltd (L&T), which has significant experience in developing projects of such scale, the rating is constrained by the sizeable project implementation risks, given the delays in the construction phase of the project (17% as on July 2022) and deferral in the completion of key project milestones such as boiler hydrotest, boiler light-up and steam blowing ahead of expected commissioning of unit I in June 2023.

With power being sold to Bihar discoms (for 85% project capacity), the project is exposed to counterparty credit risk resulting from the weak financial profile of its beneficiaries. However, the presence of payment security mechanisms in the PPA and coverage under the tripartite agreements signed between the Government of India, the respective state governments and the Reserve Bank of India provide comfort.

The Stable outlook on the rating reflects ICRA's opinion that the company will continue to benefit from its strong parentage, and earn assured project returns under the cost-plus tariff regime without any major project cost disallowances from the regulator.

Key rating drivers and their description

Credit strengths

Strong parentage of SJVN – STPL is a wholly-owned subsidiary of SJVN, which has developed and is operating hydropower plants for more than 15 years. It has an installed capacity of 2090.2 MW, which consists of two hydro power plants of aggregate 1,912 MW, two wind projects of aggregate 97.6 MW and solar projects of 80.6 MW capacity. It also has 4,241-MW of under-construction hydro and solar power projects. The financial profile of SJVN is strong, given the cost-plus tariff and long operational history of its hydro plants, ensuring strong accruals and resulting in negative net debt.

PPA for entire capacity mitigates offtake risk; cost-plus tariff to result in fuel cost pass-through, recovery of fixed costs and assured returns – STPL has executed a PPA with Bihar discoms for its entire capacity. The tariff is based on the CERC's guidelines, which allow for recovery of fixed charges and pass-through of energy charges, along with assured return on equity and incentives. This is a significant source of comfort as it will result in steady revenues, assured return as well as comfortable debt servicing, subject to operating at normative parameters (minimum plant availability factor of 85%). The fuel cost pass-through will result in full recovery of variable costs, subject to operations within the normative parameters. Notably, the company's profitability will not be affected by any increase in fuel costs. This should result in a healthy financial profile for the company.

Permitting risks remain low – The project has received clearance from the Ministry of Environment Forest and Climate Change, Bihar Pollution Control Board and the Airport Authority of India (for stack height) and the entire land required for the project has been acquired. The power evacuation is being undertaken by Bihar Transco.

Minimal fuel supply issues – The company has signed an FSA with CCL for the supply of the full quantum of 4.976 MTPA of coal required at the station at a price notified by Coal India Limited (CIL). This significantly mitigates the fuel supply risks for the project. Given that the tariff is cost-plus in nature, availability of fuel will enable the company to achieve normative availability for full recovery of capacity charges.

Competitive cost of power results in increased affordability – The project benefits from its proximity to coal mines (coal likely to be supplied from Magadh-Amrapali coal block located ~465 km from the project site). This should result in a competitive cost of power, which should lead to full scheduling of power from the plant on account of higher rank in the merit order of the state discoms. Additionally, as the cheaper generated power from the project can be competitively supplied to alternative customers (in the event of non-payment of dues by the Bihar discoms), it will ensure timely payment of dues from its beneficiaries.

Credit challenges

Significant execution risk considering nascent stage of construction – The construction activities have commenced from June 2019 with the award of EPC package to L&T. However, only 17% of the construction work has been completed until July 2022 on account of pandemic-induced restrictions, sand transportation issues and ban on sand mining by the Government of Bihar. Delays due to these issues may result in time and cost overruns which will ultimately have to be approved by the CERC. Disallowance, if any, and the extent of the same may result in subdued project returns as well as lower the cushion for debt servicing. The presence of L&T as the EPC contractor (rated [ICRA]AAA(Stable)/A1+) is a source of comfort for the timeliness of project execution.

Exposure to counterparty credit risks; mitigated by presence of payment security mechanism – STPL has contracted bulk of its capacity (85%) with Bihar discoms, which exposes it to significant counterparty credit risks, given the weak financial profile of its beneficiaries. ICRA notes that the PPA has adequate payment security mechanism in the form of letter of credit (to be provided by the discoms) and it is also covered under the tri-partite agreement between the state, Central Government and the Reserve Bank of India, which allows for debiting of state government account in the event of delays in payment from state distribution companies.

Liquidity position: Adequate

STPL's liquidity is adequate, supported by SJVN, which is expected to provide the necessary support in terms of management expertise and meeting equity commitments in a timely manner. ICRA notes the tie-up of project debt financing, which will ensure necessary capital to enable commissioning of the project within the budgeted estimates. ICRA expects that with the achievement of design operating parameters, the company's liquidity profile will remain adequate post commissioning. It is likely to generate adequate cash flows for debt servicing and still have surplus cash from operations.

Rating sensitivities

Positive factors - ICRA may upgrade STPL's rating if the project is commissioned within the budgeted time and cost estimates.

Negative factors - Pressure on STPL's rating may arise on account of time and cost overruns in commissioning the thermal project, lowering the expected return and coverage metrics. A change in the support philosophy or deterioration in the credit profile of the parent - SJVN Limited – will also affect the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers Rating approach - Implicit parent or group support
Parent/Group Support	Parent – STPL is a wholly-owned subsidiary of SJVN Limited Assigned rating derives comfort from STPL being a 100% owned subsidiary of SJVN; ICRA expects that SJVN will meet the funding requirements of STPL as and when required (not limited to equity funding for the current budgeted cost of the Buxar project)
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

SJVN Thermal Private Limited (STPL), erstwhile Buxar Bijli Company Pvt Ltd. (BBCPL), was incorporated in May 2007 to develop a 1,320-MW super-critical thermal power project in Buxar, Bihar. SJVN signed an MoU with Bihar State Power Holding Company Limited (BSPHCL) and Bihar Infrastructure Company (BPIC) in January 2013 wherein the project was transferred to SJVN. SJVN took over BBCPL in July 2013 and the name of the company was changed to STPL (a wholly owned subsidiary of SJVN Ltd) in October 2013. The Cabinet Committee of Economic Affairs approved the investment proposal of Rs 10,439.09 crore for the project in March 2019. The project is to be funded in debt:equity ratio of 70:30. Financial closure has been achieved and facility agreement for project financing has been signed in March 2021 with a consortium of State Bank of India (lead bank), Canara Bank and India Infrastructure Finance Company Limited.

The company has incurred a cost of Rs. 5,768 crore on the project till July 2022 and the same has been funded through debt and equity from SJVN in a 70:30 funding mix. The PPA has been signed with North Bihar Power Distribution Company Limited (NBPDCL) and South Bihar Power Distribution Company Limited (SBPDCL), subsidiaries of Bihar State Power Holding Company Limited (BSPHCL, 85% allocated to Bihar discoms, 15% available with Ministry of Power, Government of India, as unallocated quota) for a term of 25 years from the start of commercial operations with tariff based on the prevailing CERC regulations and will include capacity charge, energy charge, incentives, taxes, levies etc. The PPA was originally signed with BSPHCL and subsequently assigned to NBPDCL and SBPDCL.

Key financial indicators

	FY2021	FY2022
Operating income (Rs. crore)	0.0	0.0
PAT (Rs. crore)	1.1	-1.1
OPBDIT/OI (%)	NM	NM
PAT/OI (%)	NM	NM
Total outside liabilities/tangible net worth (times)	0.2	0.7
Total debt/OPBDIT (times)	NM	NM
Interest coverage (times)	NM	NM

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; NM: Not meaningful

Status of non-cooperation with previous CRA: Not Available

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					23-Dec-2022	Sep 08, 2021	Mar 31, 2021	Feb 17, 2020
1	**Term loan**	Long-term	8448.46	1178.2	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	**NCD**	Long Term	-	-	-	-	[ICRA]BBB+ (Stable) - withdrawn	[ICRA]BBB+ (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term loans	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	16-Mar-21	-	31-Mar-39	8448.46	[ICRA]BBB+ (Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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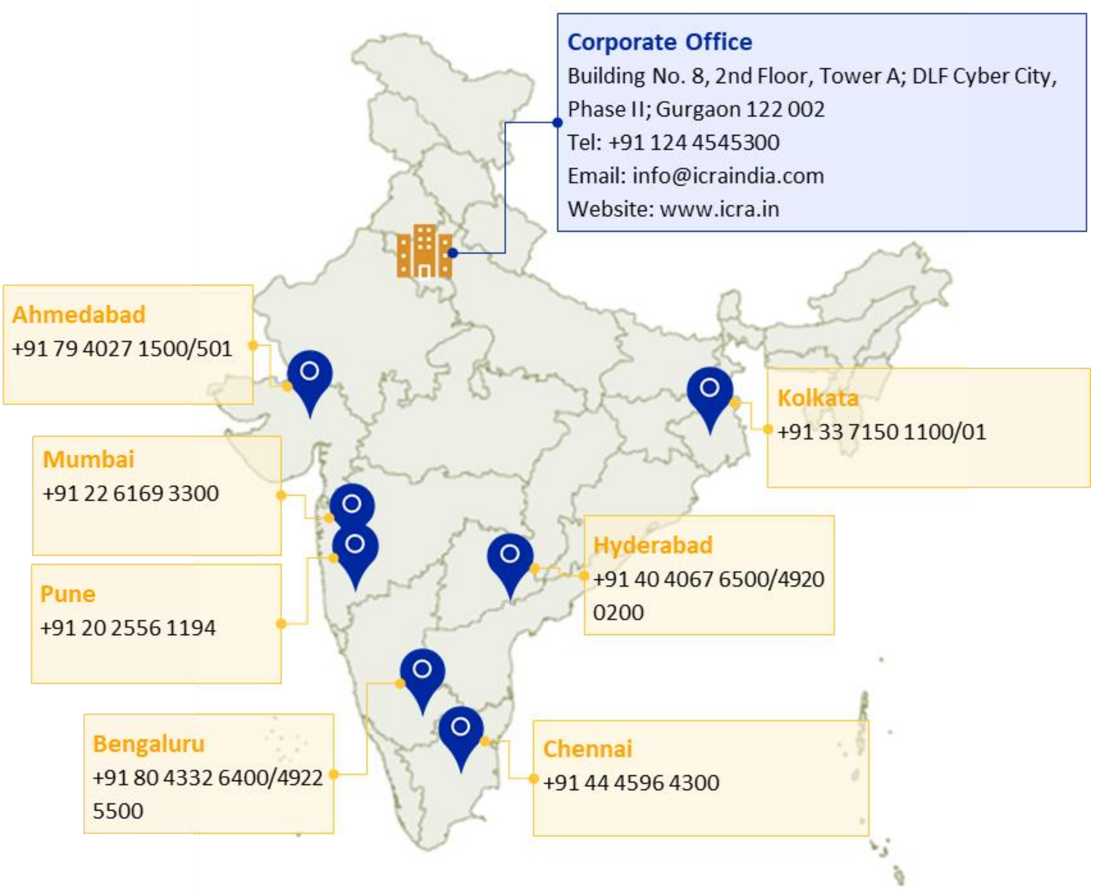

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