

March 29, 2025

VS Lignite Power Private Limited: Rating downgraded

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – Fund based- Term loan	97.65	97.65	[ICRA]BB+ (Stable); downgraded from [ICRA]BBB- (Stable)
Long-term – Fund based- Cash credit	-	30.00	[ICRA]BB+ (Stable); downgraded from [ICRA]BBB- (Stable)
Long-term – Unallocated	157.35	-	-
Total	255.00	127.65	

*Instrument details are provided in Annexure I

Rationale

The rating action for VS Lignite Power Private Limited (VSLPPL) factors in the deterioration in its overall performance due to recurring operational issues, lower merchant tariffs, coupled with sharp increase in fuel & overhead costs in the current fiscal (FY2025). ICRA observes that VSLPPL witnessed a 55-60% increase in fuel costs over the past two years to Rs.1.97 per kWh in 11M FY2025 from Rs.1.25 per kWh in FY2023. VSLPPL's operating profits, therefore, plummeted to Rs. 18.4 crore in 11M FY2025, significantly weaker than ICRA's earlier expectations of Rs. 80-85 crore for the full year. Given the headwinds experienced in the power business, VSLPPL's debt protection metrics contracted materially, with the Debt Service Coverage Ratio (DSCR) being estimated to fall below 1 times in the current fiscal. ICRA notes that the company is planning to execute two major projects in the near term at a value of Rs. 125 crore. This includes capital repairs for the boiler (~Rs. 50 crore investment) and foray into the Compressed Bio-Gas (CBG) segment through a subsidiary (~Rs. 75-crore investment). Such sizeable investment outlay (~21% of the balance sheet as on March 31, 2024) is expected to exert pressure on the consolidated free cash flows over the near term and lead to additional borrowing dependence. Moreover, VSLPPL's limited experience in the CBG business accentuates execution risks. The funding tie-up for the CBG project is awaited, exposing the company to funding risks as well in the intervening period.

The company's other operating expenses steadily rose to Rs.1.85 per kWh from Rs.1.56 per kWh in FY2023, in part due to the sizeable overhead costs accumulating to an estimated Rs. 16 crore/annum incurred towards pre-operating expenses for the CBG business, which weighed down on VSLPPL's earnings. The timely completion of the CBG project in Rajasthan within budgeted time and costs, along with improvement in the performance of the power business remains important from the credit perspective. The rating is also tempered by the company's high volatility of earnings in the power business due to its realised tariffs being linked to the fluctuations in the tariffs discovered in the short-term power market. Given the lack of any fuel cost pass-through mechanism under the PPA, the company's ability to control its operating costs will remain important.

The rating takes comfort from the presence of a long-term (10-year) power purchase agreement (PPA) with a strong counterparty, PTC India Limited (PTC; rated [ICRA]A1+), for its 135-megawatt (MW) lignite-based power plant in Rajasthan. The PPA has been signed for a net capacity of 115 MW with a minimum guaranteed offtake of 75% of the contracted capacity and a minimum tariff obligation of Rs. 3.25/unit, mitigating the demand and tariff risks to an extent. VSLPPL's access to captive lignite mines supports its cost-competitiveness and lowers fuel availability risks. The rating also factors in the timely collection track record, with an average collection period of 10 days in FY2024 and four days in 11M FY2025, which mitigates the risk of capital blockage and supports the liquidity profile.

The Stable outlook on VSLPPL's rating reflects the company's comfortable liquidity position, which is expected to help tide over the current period of weak earnings, and support the ongoing investment plans, till the time the earnings from the power business recovers meaningfully, and the CBG business starts to deliver adequate returns.

Key rating drivers and their description

Credit strengths

Long-term PPA with strong offtaker limits demand and tariff risks; counterparty credit risks remain low – VSLPPL has signed a 10-year PPA for 115 MW with PTC India Limited (PTC, rated [ICRA]A1+), effective from July 2023. PTC has a minimum offtake obligation of 75% of the contracted capacity and a minimum tariff obligation of Rs. 3.25/unit. While PTC is an intermediary and could choose to sell power in the short-term market or sign a medium-term/long-term power sale agreement (PSA) with an ultimate offtaker, the presence of a long-term PPA reduces the demand and tariff risks to an extent for VSLPPL. Further, the company benefits from the offtaker's strong credit profile, reflected in improvement of the average collection period to 10 days in FY2024 from 81 days in FY2023, thereby mitigating counterparty risks.

Low fuel availability risk with access to captive lignite mine enhances cost-competitiveness – The plant is located at the pithead of the captive Gurha (East) lignite block with an estimated annual capacity of 1.0 million Tonnes Per Annum (MTPA), ensuring a stable lignite supply so far. The annual production from the mine is sufficient to operate the power plant at the minimum required PLF under the PPA. Further, the company is permitted to sell excess lignite and other mining by-products in the open market, providing an avenue for additional revenue.

Credit challenges

Rising fuel costs, lower spot power tariffs and increase in overhead costs resulted in significantly weaker-than-expected earnings in FY2025 and deterioration of debt coverage metrics – The company's revenues and profitability are vulnerable to the PLF levels achieved by the thermal power plant. The plant witnessed a moderation in operational performance in 11M FY2025, where the company's PLF was 59.39% against 73.46% in FY2024, driven by frequent tripping instances and boiler tube leakages leading to operational disruptions for 2-3 months. Further, the company's lower average realisation tariff of Rs. 4.10 per kWh in 11M FY2025 (compared to Rs.5.03 per kWh in FY2024), led to subdued power sales revenue of Rs. 238.53 crore against Rs. 348.88 crore in 11M FY2024. Additionally, the earnings were weighed down by pre-operating expenses of ~Rs. 16 crore incurred by the company on behalf of its subsidiary's upcoming CBG business. This was exacerbated by an increase in average fuel costs by 55-60% to Rs. 1.97 per kWh in 11M FY2025 from Rs. 1.25 per kWh in FY2023. Consequently, the operational profits plummeted to Rs.18.4 crore in 11M FY2025 against Rs.141.1 crore in FY2024 and Rs. 66.3 crore in FY2023.

Frequent operational disruptions impact generation performance of the plant – Since the commencement of operations, VSLPPL has been experiencing persistent operational issues during FY2023 to 11M FY2025, despite periodic maintenance of the plant. This resulted in frequent shutdown of plant operations for few months leading to recurring expenditure without a mechanism for pass-through of such costs in the tariff. Further, the company is scheduled to undertake capital repairs in the boiler for two months, from June 2025 to July 2025, with a planned capital expenditure of Rs. 50 crore. The capex is expected to impact generation levels in FY2026.

Significant execution and funding risks with entry into new business segments and debt-funded capex plans – During FY2025, the company set up a wholly-owned subsidiary, Sai VSLP Bioenergy Private Limited (SVSLP), marking the Group's foray into the Compressed Biogas (CBG) segment. The first plant with a capacity of 10 tonnes per day is being set up at Bikaner, Rajasthan. The project cost is estimated in the range of Rs. 70-75 crore, funded with a debt-equity ratio of 3:1. The CBG plant is being targeted to commence operations from FY2027. As on date, VSLPPL has leased land of 1,000 acres in the catchment area and has advanced inter-corporate deposits of Rs. 50 crore. Of this, Rs. 25 crore has been funded by the ultimate parent company, Sherisha Technologies Private Limited (STPL) to VSLPPL as unsecured loans towards the initial project development. Given the company's lack of track record in this line of business, execution risks would remain elevated. Moreover, the company is yet to tie-up project debt, which exposes the company to funding risks as well.

Liquidity position: Adequate

The liquidity position of the company is expected to remain adequate, supported by timely collections from PTC. However, given the sizeable capex plans, free cash flows are expected to remain negative in the near term, against scheduled debt service obligations of Rs. 35.52 crore in Q4 FY2025 and H1 FY2026. However, the company has an undrawn line of cash credit of Rs. 30 crore, liquid investments of Rs. 18.45 crore and unencumbered cash & bank balance of Rs.2.64 crore as on March 19, 2025, which will help tide over any temporary cash flow timing mismatch.

Rating sensitivities

Positive factors – The company's rating could be upgraded if it successfully completes the major maintenance of its thermal plant within the budgeted time and costs, leading to a recovery in the power business's performance. Additionally, the rating could see upward pressure if the company successfully commences operations of the CBG plant, resulting in increased consolidated earnings while maintaining comfortable liquidity and debt protection metrics. Furthermore, demonstrating a sustained period of healthy earnings from the power business, which would reduce the need for borrowings to fund upcoming capital expenditure plans, could also positively impact the rating.

Negative factors – The rating could witness a downward revision, in case a sharp decline in the profitability of the company, adversely impacts its debt coverage metrics. Also, any delays in receiving payments from PTC adversely impacting the company's liquidity profile or unforeseen execution challenges for its ongoing investment plans could also exert rating pressure.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Thermal
Parent/Group support	Not applicable
Consolidation/Standalone	As VSLPL's consolidated financials were not available, ICRA has added the planned borrowing of the wholly-owned subsidiary on VSLPL's standalone financials while arriving at the rating.

About the company

VSLPPL operates a power plant with an installed capacity of 135 MW in Bikaner district of Rajasthan. The power plant was commissioned in July 2010 and sources fuel from a captive lignite mine. Earlier, VSLPPL was promoted by KSK Electricity Financing India Pvt. Ltd. (KEFIPL), a power project investment arm under the Hyderabad-based KSK Group. In March 2021, the company was acquired by Sherisha Technologies Private Limited (STPL) through the National Company Law Tribunal (NCLT) proceedings under the ambit of the Insolvency and Bankruptcy Code (IBC). The company has tied up a 10-year long PPA with PTC India Limited, with effect from July 2023.

Key financial indicators (Audited)

VSLPPL - Standalone	FY2023	FY2024
Operating income	301.4	384.8
PAT	41.4	117.3
OPBDIT/OI	22.0%	36.7%
PAT/OI	13.7%	30.5%
Total outside liabilities/Tangible net worth (times)	4.1	1.1
Total debt/OPBDIT (times)	2.0	0.6
Interest coverage (times)	4.7	12.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore;

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortization.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	29-Mar-2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Term Loan	Long term	97.65	[ICRA]BB+ (Stable)	-	-	27-Dec-2023	[ICRA]BBB- (Stable)	-	-
Cash Credit	Long term	30.00	[ICRA]BB+ (Stable)	-	-	-	-	-	-
Unallocated	Long term	-	-	-	-	27-Dec-2023	Provisional [ICRA]BBB- (Stable); withdrawn and [ICRA]BBB- (Stable); assigned	-	-
				-	-	29-Sep-2023	Provisional [ICRA]BBB- (Stable)	-	-
Proposed term loan	Long term	-	-	-	-	27-Dec-2023	Provisional [ICRA]BBB- (Stable); withdrawn	-	-
				-	-	29-Sep-2023	Provisional [ICRA]BBB- (Stable)	-	-
Proposed working capital	Long term	-	-	-	-	27-Dec-2023	Provisional [ICRA]BBB- (Stable); withdrawn	-	-
				-	-	29-Sep-2023	Provisional [ICRA]BBB- (Stable)	-	-
Cash Credit	Long term	-	-	-	-	30-Jun-2023	[ICRA]D; ISSUER NOT COOPERATING; Withdrawn	20-Jun-2022	[ICRA]D; ISSUER NOT COOPERATING
Term Loan	Long term	-	-	-	-	30-Jun-2023	[ICRA]D; ISSUER NOT COOPERATING; Withdrawn	20-Jun-2022	[ICRA]D; ISSUER NOT COOPERATING
Unallocated	Long term	-	-	-	-	30-Jun-2023	[ICRA]D; ISSUER NOT COOPERATING; Withdrawn	20-Jun-2022	[ICRA]D; ISSUER NOT COOPERATING
Non-Fund Based	Short Term	-	-	-	-	30-Jun-2023	[ICRA]D; ISSUER NOT COOPERATING; Withdrawn	20-Jun-2022	[ICRA]D; ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity indicator
Long Term- Fund Based- Term Loan	Simple
Long Term- Fund Based- Cash Credit	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 Loans	Mar-2024	NA	Mar-2026	97.65	[ICRA]BB+ (Stable)
NA	Cash Credit	NA	NA	NA	30.00	[ICRA]BB+ (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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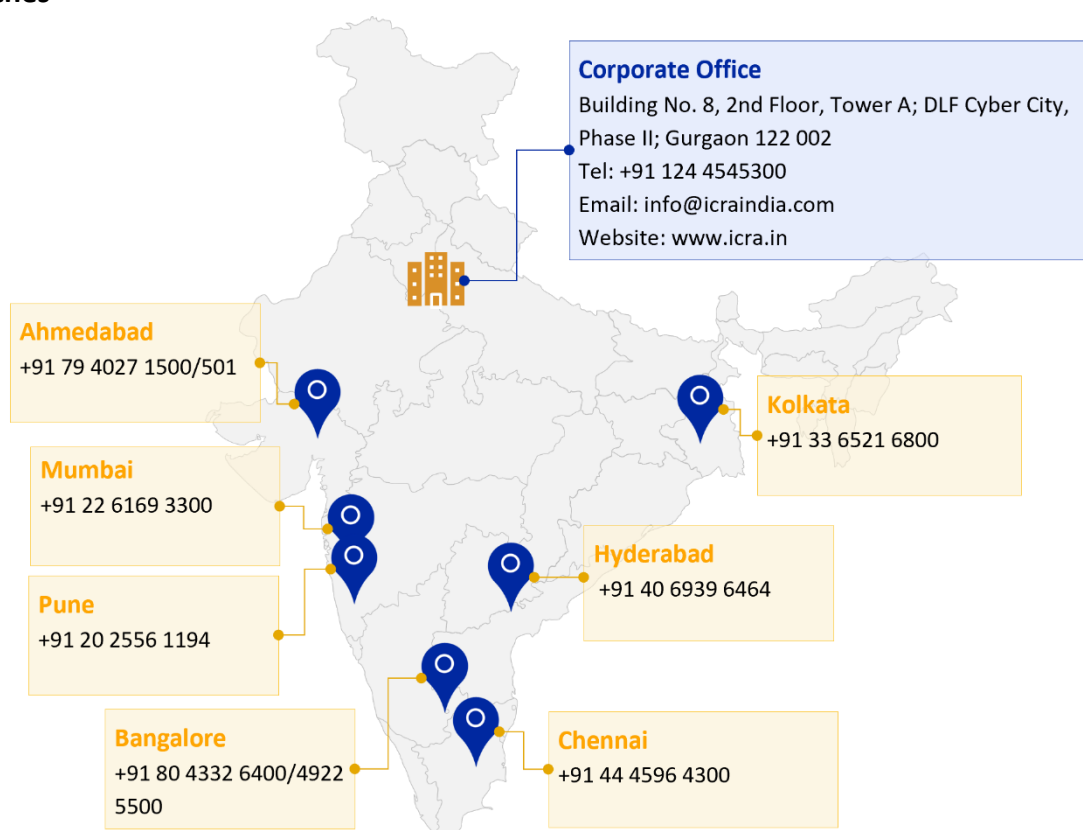
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