May 07, 2021

SJVN Arun-3 Power Development Company Pvt. Ltd.: Rating reaffirmed and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	6333.48	6333.48	Provisional [ICRA]AA+(CE) (Stable) – reaffirmed & withdrawn
Rating Without Explicit Credit Enhancement			[ICRA]A-

**Instrument details are provided in Annexure-1*

Note: The CE suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. 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 CE ratings are based on an unconditional and irrevocable guarantee provided (executed but yet to become effective) by SJVN Ltd (SJVN; the guarantor) for the Rs. 6,333.48-crore term loans of SJVN Arun-3 Power Development Company Pvt. Ltd. (SJVN APDCL). The ratings consider the undertaking from the guarantor to ensure that the debt obligations are serviced on or prior to the due date, irrespective of the invocation of the guarantee by the beneficiary.

The ratings are provisional (as denoted by the word, Provisional, mentioned with the rating symbol) as the same were subject to fulfilment of all the conditions under the structure and review of the final documentation pertaining to the facility rated by ICRA, besides the executed actions or documentation being in line with ICRA's expectations. As the ratings have remained provisional (given the pendency in documentation) beyond the stipulated timeline as per ICRA's Policy on Provisional ratings, the same are being withdrawn.

Adequacy of Credit Enhancement

The guarantee would be legally enforceable, irrevocable and unconditional, and would cover the entire amount and tenor of the rated instrument. Given these attributes, the guarantee (to be provided) by SJVN is adequately strong to result in an enhancement of the rating of the said instrument to Provisional [ICRA]AA+(CE) against the rating of [ICRA]A- without explicit credit enhancement. If the credit profile of the guarantor changes in future, the same would reflect in the rating of the aforesaid instrument.

Salient covenants related to the rated facility

- During the currency of the loan, the borrower will not, without the bank's permission (a) effect any change in the capital structure where shareholding of the existing promoter gets diluted or leads to dilution below 51% or the promoter ceases to retain management control in the borrower (b) formulate any scheme of amalgamation or reconstruction, (c) undertake guarantee obligations on behalf of any other company
- Dividends, if any, shall be declared only out of the profits for that year after making all the due and necessary provisions and in accordance with the terms of the agreement
- The lenders may cancel the limits (either fully or partially) unconditionally without prior notice in case the limits/part of the limits are not utilised and/or in case of deterioration in the loan accounts in any manner whatsoever/guarantor ceases to be a public sector undertaking (PSU)

The reaffirmation of the ratings at the time of withdrawal factors in the strategic importance of SJVN for the Government of India (GoI) and the Government of Himachal Pradesh (GoHP) as well as its long operating track record in the hydro power sector. The ratings favourably factor in the cost-plus tariff structure for SJVN's operating hydro project portfolio (1,912 MW) resulting in regulated returns, as well as the presence of long-term power purchase agreements (PPAs) for operational projects.

Moreover, the ratings note SJVN's counterparty credit risk exposure towards the offtakers (state-owned distribution utilities). Nonetheless, the same is mitigated to some extent by its diversified exposure to counterparties in 11 states as well as relatively superior tariff competitiveness for the operational projects. The inclusion of SJVN under the tripartite agreement in the event of delays in collections for state discoms provides a source of comfort. Further, it is exposed to execution risks associated with the under-construction projects (2,626 MW), including that of SJVN APDCL (900 MW). Hence, SJVN's ability to execute the under-construction large hydro projects, in a timely manner, and within the budgeted costs to ensure the PPA tie-up at cost reflective tariff before commissioning remains critical. Additionally, SJVN remains exposed to regulatory risk of any disallowance in the capital cost by CERC for the under-construction projects post commissioning.

The Stable outlook reflects ICRA's opinion that SJVN will continue to benefit from its cost-plus tariff operations, which will be supported by healthy generation levels and efficient operations.

Key rating drivers and their description

Credit strengths

Corporate guarantee extended by parent for full bank lines – The credit profile of SJVN APDCL is strengthened by the unconditional and irrevocable corporate guarantee to be extended by SJVN for SJVN APDCL's bank lines.

Undertaking ensures timely servicing of dues – While the executed (but yet to become effective) corporate guarantee given by SJVN does not have a structured payment mechanism, the guarantor has provided an assurance, over and above the corporate guarantee given to the bankers that it would ensure timely servicing of SJVN's bank debt-related obligations.

Strategically important GoI-owned company – SJVN is promoted by the GoI (a 59.92% stake) and the GoHP (a 26.85% stake). It has developed two hydro projects with an aggregate capacity of 1,912 MW on River Sutlej in Himachal Pradesh. Its flagship project, 1,500-MW Nathpa Jhakri hydro power project (HPP) has completed 15 years of operations. The GoI and GoHP have demonstrated their support for SJVN through equity contributions in the past. In addition, SJVN was able to secure project debt funding from the World Bank at a cost competitive rate on account of it being a GoI entity. The World Bank loan is guaranteed by the GoI.

Cost-plus tariff to result in regulated returns – SJVN has cost-plus/fixed tariff structure for operational projects and under-construction project 1,320-MW Buxar project. For its other under-construction project, it expects to sign PPAs with CERC/Uttarakhand Electricity Regulatory Commission (UERC) at approved tariff rates (CERC tariff approval required for Arun 3 HPP, Luhri-I and Dhaulasidh and UERC tariff approval required for Naitwar Mori HPP being developed in Uttarakhand). The cost-plus tariff framework for the projects (both existing and under-construction) is thus expected to ensure recovery of fixed charges for debt servicing as well as earning regulated returns, subject to meeting the normative operating cost and the capital cost within the budgeted/approved level for the under-construction projects.

Operational plants of SJVN running efficiently – Generation from both the operating hydro plants (1,500-MW Nathpa Jhakri HPP and 412-MW Rampur HPP) for SJVN have consistently remained close to or above their respective design energy. This has aided SJVN in earning regulated returns, along with incentives attached to higher-than-normative plant availability and higher-than-designed energy generation. These incentives compensate for the higher-than-normative O&M expenses for SJVN.

Regulatory clarity in place – The tariff for both the operational hydro projects is based on CERC regulations. In the recent regulations (FY2020–FY2024), CERC has continued its cost-plus tariff with regulated return on equity of 16.5% for storage type hydro projects (norms tightened, receivable days 45 days from 60 days, escalation 4.77% instead of 6.64%). The tariff order for FY2015–FY2019 was issued in July 2019 for Nathpa Jhakri HPP and June 2019 for Rampur HPP.

Credit challenges

Significant project capacity under construction – Sizeable under-construction capacity (2,626 MW) exposes SJVN to significant project execution risks (completion within the budgeted time and cost estimates). These risks, however, are mitigated by the experience of SJVN in developing similar projects, support from the Government of Nepal (for 900-MW HPP in Nepal being developed by SJVN APDCL) and appointment of NTPC Ltd. as the project management consultant (for 1,320-MW Buxar project).

Exposure to counterparty risks – SJVN is exposed to the risk of delayed payments from utilities with weak financials (more than a third of the allocated capacity). This is mitigated through its competitive cost of generated power, which has resulted in relatively lower debtor days for SJVN compared to other Central PSUs operating in this space. ICRA draws comfort from SJVN being covered under tripartite agreements between the GoI, Reserve Bank of India and the respective state governments for recovery of discom dues.

Uncertainty regarding approval of costs by CERC – While the under-construction projects are expected to earn regulated returns on account of cost-plus tariff (subject to achieving normative operating parameters), there is uncertainty regarding the quantum of costs that will be eventually approved by CERC/UERC. To the extent the costs are disallowed, the cushion available for debt servicing for the respective project loans will be lower.

Increase in leverage level, although debt servicing metrics are likely to remain comfortable – SJVN, for its under-construction projects, is expected to incur cumulative expenditure of ~Rs. 19,000 crore over the next six years, which will be substantially funded through debt (debt-to-equity mix of 70:30 for the ongoing under-construction projects, and 80:20 for the new projects to be undertaken for construction). The total debt/OPBITDA is therefore anticipated to increase from ~1.1 times in FY2020. The debt servicing is likely to remain comfortable though, supported by cost-plus tariff-based PPAs.

Higher dividend payouts and/or higher incremental capital expenditure may put strain on internal accruals – Expected efficient performance of operating plats will allow SJVN to earn regulated returns going forward. Since these internal accruals will be significantly deployed for equity funding of under-construction projects, any significant dividend payout or commencement of new large-sized projects (several projects in SJVN portfolio are currently under survey/feasibility stage) will put a strain on these accruals and reduce the cushion available for debt servicing.

Liquidity position (Guarantor): Strong

The liquidity position of the guarantor (SJVN) is **strong**, supported by its regulated nature of operations, financial flexibility as reflected in its ability to raise funds from the market as a GoI entity as well as cash and liquid investments of ~Rs. 2,111 crore as on December 31, 2020. Given the cost-plus nature of operations, the debt servicing is expected to remain comfortable at the current level of planned capital expenditure (equity portion of capital expenditure to be funded through internal accruals).

Liquidity position (SAPDC): Adequate

The liquidity profile for SAPDC is **adequate**, supported by the strong credit profile of SJVN, which is ultimately responsible for any funding shortfall/ project execution.

Rating sensitivities

Positive factors – Not applicable as the rating is being withdrawn

Negative factors – Not applicable as the rating is being withdrawn

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support Policy on Provisional Ratings
Parent/Group Support	Parent: SJVN Limited The ratings are based on explicit support in the form of a corporate guarantee extended (yet to be become effective) by the parent (SJVN) for the bank lines of SJVN APDCL. The guarantee would be legally enforceable, irrevocable, unconditional, and would cover the entire amount and tenor of the rated instrument. The ratings derive comfort from the sovereign ownership of SJVN, which affords it considerable financial flexibility; ICRA expects that the GoI will provide need-based support to the company, if and when required
Consolidation/Standalone	For arriving at the ratings of SJVN, ICRA has consolidated the financials of the various entities of SJVN (as mentioned in Annexure-2), given the close business, financial and managerial linkages among the same.

About the company

SJVN APDCL, a 100% subsidiary of SJVN Ltd., is located in Nepal and is currently developing the 900-MW Arun 3 hydro project on build own operate transfer (BOOT) basis. The project will have a construction period of five years and operation period of 25 years, after which is it will be transferred to the GoN. The project, located on River Arun in the Sankhuwasabha district of Nepal, 657 km from Kathmandu via Birat Nagar, is a run-of-the-river scheme and will generate 3,924 MU. About 21.9% of the power generated will be supplied to the GoN as free power. The project is expected to commence commercial operations by the end of FY2024. Financial closure has been achieved in February 2020, and PPAs are yet to be signed. The project is being developed at a cost of Rs. 6,959 crore to be funded in debt-to-equity of 70:30. The entire equity is to be brought up front. The project development agreement (PDA) was signed with the Investment Board of Nepal, GoN on November 25, 2014. Financial closure has been achieved in February 2020. An amount of Rs. 1,349 crore has been incurred as of December 2020.

About the guarantor

SJVN is a Miniratna company promoted by the GoI (59.92%) and the GoHP (26.85%); the balance stake in the entity is held by the public. At present, it has an installed capacity of 2,014.5 MW, which includes two hydro projects of NathpaJhakri (1,500 MW) and Rampur (412 MW) in Himachal Pradesh, one wind project Khirvire (47.6 MW) in Maharashtra, one wind project Sadla (50 MW) and solar project Charanka (5 MW) in Gujarat. In addition, SJVN is currently developing projects of capacity 2,556 MW, which include the 900-MW Arun 3 hydro power project (HPP) in Nepal, 60-MW Naitwar Mori hydro project in Uttarakhand 1,320-MW Buxar project in Bihar, and 210-MW Luhri I HPP and 66-MW Dhaulasidh HPP in Himachal Pradesh. Apart from these, there are other hydro projects in SJVN's portfolio, which are under survey and investigation, DPR preparation, feasibility study stages.

Key financial indicators (audited)

SJVN Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	2,654.7	2,804.1
PAT (Rs. crore)	1,362.6	1,655.6
OPBDIT/OI (%)	76.6%	76.3%
PAT/OI (%)	51.3%	59.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3
Total Debt/OPBDIT (times)	1.1	1.1
Interest Coverage (times)	19.3	22.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="3">Current Rating (FY2022)</th><th colspan="6">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding as of Mar 31, 2021 (Rs. crore)</th><th>Date & Rating in</th><th colspan="3">Date & Rating in FY2021</th><th>Date & Rating in FY2020</th><th>Date & Rating in FY2019</th></tr>
<tr><th>May 7, 2021</th><th>Feb 11, 2021</th><th>Aug 17, 2020</th><th>Jun 15, 2020</th><th>Aug 09, 2019</th><th>-</th></tr>
<tr><td>1</td><td>Term Loans</td><td>Long-term</td><td>6333.48</td><td>Nil</td><td>Provisional [ICRA]AA+(CE) – Withdrawn</td><td>Provisional [ICRA]AA+(CE) (Stable)</td><td>Provisional [ICRA]AA+(CE) (Stable)</td><td>Provisional [ICRA]AA+(CE) (Stable)</td><td>Provisional [ICRA]AA+(CE) (Stable)</td><td>-</td></tr>
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Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Moderately Complex

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 analyzing 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, is available on ICRA's 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	Term Loan	FY2020	NA	FY2040	6333.48	Provisional[ICRA]AA+(CE)(Stable) - withdrawn

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
SJVN Ltd	Parent	Full Consolidation
SJVN Arun-3 Power Development Company Pvt. Ltd.	100%	Full Consolidation
SJVN Thermal Private Limited[1]	100%	Full Consolidation
Cross Border Power Transmission Company Limited	26%	Equity Method
Kholongchu Hydro Energy Limited	50%	Equity Method

Source: *Company*

Note: *ICRA has taken a consolidated view of the parent (SJVN), its subsidiaries and associates while assigning the ratings.*

[1]*Rated [ICRA]BBB+ (Stable). For latest rationale please* *click here*

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