July 29, 2024

SEIL Energy India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper (CP)	2,500.00	1,000.00	[ICRA]A1+; reaffirmed
Total	**2,500.00**	**1,000.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating for SEIL Energy India Limited (SEIL) (previously Sembcorp Energy India Limited) factors in the revenue visibility for the 2,640-MW thermal power capacity (comprising two projects of 1,320 MW each), supported by the availability of long-term power purchase agreements (PPA) for ~63% of the project capacity. The company has long-term PPAs of 625 MW with the state distribution companies (discoms) of Andhra Pradesh (AP), 250 MW with Bangladesh Power Development Board (BPDB), 200 MW with PTC India Limited (supplies to BPDB) and 500 MW with erstwhile united AP discoms (now shared between Telangana and AP discoms).

The rating also factors in the strong financial risk profile of the company, marked by healthy coverage metrics and recovery of past dues from the discoms of Telangana and AP through monthly instalments since August 2022 under the late payment surcharge (LPS) scheme notified by the Ministry of Power, Government of India. The cumulative debt service coverage ratio (DSCR) is expected to remain above 1.4 times over the debt tenure. The rating also factors in SEIL's comfortable liquidity position, supported by healthy cash flow from operations and the presence of free cash balances and undrawn working capital limits.

In January 2023, SCI sold the 100% stake held by its subsidiary, Sembcorp Utilities Pte Limited (SUPL), in SEIL to Tanweer Infrastructure SAOC (TIS). However, Sembcorp Group continues to operationally support the assets under SEIL and provide advisory services through a technical service agreement (TSA). Also, majority of the debt availed by SEIL is backed by the corporate guarantee extended by SUPL even after this stake sale. Moreover, the sale consideration of Rs. 11,734 crore along with interest will be paid by TIS to SUPL over a 15-year period (extendable by another 9 years) through upstreaming of the surplus cash flows generated by SEIL. TIS is owned by OSARA Corporation SAOC, Social Protection Fund, Dar Investment SPC and Seven Seas Company LLC.

The rating is constrained by the counterparty credit risks arising from the exposure to the state discoms of Telangana and AP, which have relatively modest financial profiles. While the company is realising the past dues through instalments and is receiving payments of the current bills from these discoms in a regular manner, the sustainability of the timely payments for the ongoing bills remains to be seen. However, this is offset by the delays in the payments from Bangladesh due to the prevailing economic stress in the country caused by the slowdown in their exports, mainly from the textile sector. Further, the rating is constrained by the exposure to volume and pricing risks in the short-term (ST) market for the capacity without long-term or medium-term PPAs. The risk has increased for the company post the expiry of the 570-MW PPA with Telangana discoms in March 2024, which has brought down the share of long-term and medium-term PPAs tor ~63% of the project capacity from ~86% previously.

SEIL has tied-up adequate medium/long-term fuel supply agreements (FSA) with imported coal suppliers for meeting its fuel supply, with part of the supply at fixed rates and hedging of foreign exchange for these contracts. The balance supply (if any) is met though e-auction coal. This exposes the company to fuel pricing risks and pass through of fuel price variation through tariff. This is mitigated partly through fuel cost pass-through clause for domestic coal under the AP 625-MW PPA and the presence of escalable component for energy charges in other long-term PPAs. For Project-1, the dependence on imported/e-auction coal has increased post March 2024 owing to the non-renewal of the PPA with Telangana discoms. For Project-2, the procurement of domestic coal under the FSA signed with a subsidiary of Coal India Limited (CIL) has increased owing to the operationalisation of the 625-MW AP PPA from February 2023.

Further, ICRA notes that SEIL's thermal power projects will have to incur additional capital expenditure to comply with the revised emission norms by December 2026, which shall be funded through a mix of debt and equity/internal accruals. While the long-term PPAs with the state discoms allow for recovery of such cost through change-in-law, there is uncertainty in recovery of such additional cost for the balance capacity.

Key rating drivers and their description

Credit strengths

Strong linkage with Sembcorp Group - While SCI sold SUPL's 100% stake in SEIL to Tanweer Consortium in January 2023, the Sembcorp Group continues to operationally support the assets under SEIL and provide advisory services through a TSA. Also, the corporate guarantee provided by SUPL for the debt availed by SEIL (for ~90% of the current bank debt) continues even after this transaction.

Long-term PPAs for ~63% operational capacity - SEIL's revenues and profitability are supported by the availability of long-term PPAs for 1,575-MW net capacity with a two-part tariff structure. However, the tied-up capacity has reduced from 2,145 MW after the expiry of the 570-MW Telangana PPA in March 2024. The current capacity under the long-term/medium-term PPAs is at ~63% of the total capacity compared to ~86% previously. The company is currently in discussions with various discoms for tying up long-term/medium-term PPAs. In the meantime, the company continues to sell the untied capacity in the short-term market, wherein the tariff rates remain healthy.

Satisfactory operational track record of thermal assets - The performance of SEIL's thermal power projects remains satisfactory with the average plant availability factor (PAF) remaining around 90% for both the projects combined over the last five fiscals. The PAF for Project-1 remained at 89% in FY2024 compared to 91% in FY2023, while the PAF for Project-2 improved significantly to 97% in FY2024 from 91% in FY2023. SEIL has been able to achieve healthy PLF levels over the years, supported by the competitive cost of generation, led by satisfactory operating efficiencies in terms of station heat rate and auxiliary consumption, and the strategic location of the plant for procuring imported coal. The plant availability and PLF level for Project-2 improved further in FY2024 with the commencement of supply under the 625-MW AP PPA from February 2023 onwards.

Healthy credit metrics and comfortable liquidity position - The company's long-term debt has reduced to a large extent since FY2021, driven by repayment of promoter debt in FY2022 and prepayment of some part of the long-term debt under a refinancing exercise undertaken in FY2023, apart from the regular scheduled debt repayments. The company refinanced some debt in FY2024 and in the current fiscal as well, mainly replacing the commercial papers (CP) issued as bridge financing by long term loans. The long-term debt stood at Rs. 5,255 crore as on June 30, 2024 compared to Rs. 12,453 crore as on March 31, 2021. The reduction in the debt levels has improved the company's leverage and coverage metrics. The debt/OPBDITA is expected to remain below 3.0 times in FY2025 and the cumulative DSCR is likely to stay at ~1.4 times over the debt tenure. While the capex to be incurred for complying with the revised emission norms is expected to increase the debt level in FY2026, the debt coverage metrics are expected to remain comfortable. Further, the company's liquidity position remains comfortable with healthy cash flow from operations and the presence of unencumbered cash balances and undrawn working capital limits.

Credit challenges

Counterparty credit risks due to significant exposure to state distribution utilities of AP and Telangana which have modest financial profiles - SEIL is exposed to counterparty credit risks as majority of the power generated is sold to the state distribution utilities of AP and Telangana, which have modest financial profiles. This has led to a build-up in the receivable position, especially from the Telangana discoms. However, the company is realising the past dues through instalments under the LPS scheme since August 2022, with the current bills also being realised largely in a timely manner. Nonetheless, the sustainability of these payments remains to be seen. The payments from Bangladesh, however, are currently being received with a lag due to the prevailing economic stress in the country caused by the slowdown in their exports, mainly from the textile sector. The receivable period improved to 127 days as on March 31, 2024, compared to 158 days as on March 31, 2023 and 184 days as on March 31, 2022. This risk is mitigated to an extent with timely payments from short-term sales and the high merit order position of SEIL's projects due to the competitive cost of generation.

Profitability exposed to volume and tariffs in short-term market and imported coal prices - The company sold ~14% of the net power generated in the short-term (ST) market in FY2024, exposing it to volume and pricing risks. The exposure to the ST market is expected to increase in FY2025 owing to the non-renewal of the 570-MW PPA with the Telangana discoms which expired in March 2024. Additionally, for the short-term PPAs, the company's profitability remains exposed to the fluctuations in imported coal prices.

Dependence on imported/e-auction coal exposes company to fuel price and forex risks - The company has tied up long-term FSAs with Mahanadi Coalfields Limited (MCL) for 4.27 MTPA each for Project-1 and Project-2, which met 56% and 54% of the fuel requirement in FY2024 and FY2023, respectively, with the balance requirement being met through imports. With the operationalisation of the PPA with the AP discoms, the supply from domestic sources for Project-2 increased since FY2024. However, the company's dependence on e-auction/imported coal is expected to increase in FY2025 owing to the expiry of the PPA with the Telangana discoms, exposing it to coal price movement and forex risks. The foreign exchange risk is mitigated for the 250-MW PPA with BPDB and the 200-MW PPA with PTC India Ltd (supplying to BPDB) which have tariff denominated in US dollars. This apart, the fuel cost pass-through clause for domestic coal under the AP 625-MW PPA and the presence of an escalable component for energy charges in other long-term PPAs mitigate the fuel price risk to an extent.

Capital expenditure to meet environmental norms for thermal power projects - The company's thermal power projects require capital expenditure to meet the environmental norms, which shall be funded through a mix of equity and debt. The timeline for complying with these norms is December 2026. While the long-term PPAs with the discoms of Telangana and Andhra Pradesh will enable the recovery of capital expenditure through change-in-law, the timely completion of the capex and the recovery of the same through tariffs remain monitorable. For the remaining capacity that does not allow the FGD cost to be a pass-through, the recovery of additional tariff is not certain. Also, the capacity exposed to the short-term market would face challenges in the recovery of such additional capex.

Liquidity position: Adequate

The liquidity profile of SEIL is adequate, supported by healthy cash flow from operations and available cash balances. The company is expected to generate cash flow from operations of over Rs. 1,000.0 crore (pre-dividend) against annual long-term debt repayment obligations of ~Rs. 500-505.0 crore over FY2025-FY2026. The unencumbered cash and bank balances stood at Rs. 460.0 crore as of June 2024, with undrawn working capital limits of over Rs. 500.0 core.

Rating sensitivities

Positive factors - Not applicable.

Negative factors - The rating may be downgraded in case of significant delays in receiving payments from the offtakers, adversely impacting SEIL's liquidity profile. Also, SEIL's inability to enter into long-term PPAs, or a significant decline in plant availability below the normative level could adversely impact its profitability and debt coverage metrics and trigger a downgrade. Further, significant weakening of the operational and financial linkages with the Sembcorp Group would remain a key rating monitorable for SEIL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Power - Thermal Corporate Credit Rating Methodology
Parent/Group support	The rating is based on the implicit support from the Sembcorp Group, which is expected to extend support in case of cash flow mismatches, given the operational and financial linkages
Consolidation/Standalone	Standalone

About the company

SEIL has 2,640 MW of thermal power capacity (Project-1 and Project-2 of 1,320 MW each) which is entirely operational. The project is located at Krishnapatnam in the Nellore district of Andhra Pradesh. Project-1 has a long-term 25-year PPA for 500 MW with the discoms of united Andhra Pradesh (bifurcated into Telangana and Andhra Pradesh). Project-2 has a 250-MW long-term PPA (13.5 years) with Bangladesh Power Development Board (BPDB); a 200-MW long-term PPA (11.25 years) with PTC India Ltd signed in February 2022 with supply commencing from March 2022; and a 625-MW long-term PPA (12-years) with AP discoms signed in December 2021 (supply commenced from February 2023) out of the installed capacity of 1,320 MW. Thus, the total capacity tied up under the long-term/medium-term PPAs by the two projects is ~63% of the overall net capacity of ~2,501 MW. The remaining capacity of Project-1 and Project-2 is sold through the short-term PPA/merchant route. The company has fuel supply agreements with MCL for 4.27-MTPA coal each for the two projects. The remaining fuel requirement for Project-1 and Project-2 is met through imported coal/e-auction.

SEIL is currently held by Tanweer Consortium and the thermal assets are managed by the Sembcorp Group through a technical service agreement.

Key financial indicators (audited)

	FY2022	FY2023	FY2024
Operating income	7,689.1	9,388.6	9,832.3
PAT	142.4	621.5	2,280.7
OPBDIT/OI	27.7%	20.8%	31.8%
PAT/OI	1.9%	6.6%	23.2%
Total outside liabilities/Tangible net worth (times)	0.9	0.8	0.8
Total debt/OPBDIT (times)	4.0	3.5	2.2
Interest coverage (times)	2.0	2.5	4.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
			Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				Jul 29, 2024	Jul 07, 2023	Dec 13, 2022	Sep 14, 2022	Jan 28, 2022
1	**Commercial paper**	Short term	1,000.00	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	Very 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
INE460M14628	**Commercial paper**	03-May-24	7.90%	02-Aug-24	100.00	[ICRA]A1+
INE460M14644	**Commercial paper**	17-May-24	7.90%	24-Jul-24	100.00	[ICRA]A1+
INE460M14636	**Commercial paper**	17-May-24	7.90%	14-Aug-24	100.00	[ICRA]A1+
NA	**Commercial paper**	Yet to be placed	NA	NA	700.00	[ICRA]A1+

Source: Company; As on June 27, 2024

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

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