Sardar Sarovar Narmada Nigam Limited
March 22, 2019

Rating

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Amount (Rs. crore)</th>
<th>Rating¹</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Deposit (FD) programme</td>
<td>1000.00*</td>
<td>CARE BBB+ (FD); Stable (Triple B Plus (Fixed Deposit); Outlook: Stable)</td>
<td>Reaffirmed</td>
</tr>
<tr>
<td>Total Facilities</td>
<td>1000.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Out of which Rs.699.10 crore was outstanding as on February 28, 2019
Details of instruments/facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

The rating assigned to the fixed deposit issue of Sardar Sarovar Narmada Nigam Ltd. (SSNNL) continues to derive strength from the strong parentage and demonstrated financial support of Government of Gujarat (GoG) along with strategic importance of the project for GoG.

The rating is, however, constrained on account of risk associated with receipt of necessary regulatory approvals and clearances, continued net losses incurred by the company in past three years ended FY18 (refers to the period April 1 to March 31), limited revenue stream and high level of financial dependence of the company on GoG.

Continued explicit and implicit support of GoG to SSNNL shall be the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

**Strategic importance of the project; an extended arm of GoG:** SSNNL is formed as an extended arm of the GoG to implement the Sardar Sarovar Project (SSP). SSP is a joint venture project amongst the states of Gujarat, Madhya Pradesh, Maharashtra and Rajasthan. It aims at providing assured irrigation to a large portion of barren land of Gujarat & Rajasthan through an inter-basin transfer of the water of river Narmada. Furthermore, the project would provide a source of drinking water to a large number of villages in Gujarat and Rajasthan. The states of Gujarat, Madhya Pradesh and Maharashtra will also receive 16%, 57% and 27% share in electricity generated by the two hydro powerhouses of SSP, respectively. Accordingly, SSP is a strategically important project for all the four neighboring states, particularly for Gujarat.

**Strong parentage and demonstrated support by GoG:** GoG has been supporting the project of SSNNL since its inception by way of infusion of equity, even in times of inadequate contribution from participating states. GoG has infused total equity of nearly Rs.55,300 crore up to March 31, 2018 towards SSP. It has also availed debt from GoG promoted entities which has further increased at end-FY18, resulting in consequent increase in total debt of the company; however, SSNNL enjoys flexibility to roll over the debt availed from the GoG promoted entities. Further, overall gearing continued to remain comfortable at 0.08x as on March 31, 2018 (0.06x as on March 31, 2017) on account of strong net worth base of Rs.53,528 crore as on March 31, 2018.

**Liquidity Analysis: Comfortable liquidity:** SSNL liquidity position remains comfortable with cash and bank balance of Rs.919.97 crore as on March 31, 2018. Further, SSNL's liquidity is also underpinned by access to timely funding support from GoG.

Key Rating Weaknesses

**Limited operating revenue stream:** SSNL earns revenue in the form of power charges from sale of electricity generated from its two power houses to three states, Gujarat, Madhya Pradesh and Maharashtra and collects water charges from farmers. Power generation is dependent on the water level. During the last three years, SSNL earned a total operating income of around Rs.450-600 crore per annum, which was not adequate to meet its operational expenses and debt servicing requirements. Accordingly, it remains dependent on equity infusion from GoG for servicing of its debt. It is pertinent to note that GoG, apart from supporting the servicing of SSNL's guaranteed debt in the past, it has also supported the servicing of its non-guaranteed debt.

Continued support of GoG would thus be an important rating sensitivity for the company.

**Delay in project completion leading to significant increase in project cost; albeit risk associated with necessary regulatory approvals and clearances has reduced with completion of large part of the project:** The construction of SSP has faced delays in implementation, with the work for construction of dam being originally planned to commence from

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications
1994 and slated to be completed by 2000. This was mainly on account of opposition from Narmada Bachao Andolan (NBA) on account of repercussions of project implementation on environment and rehabilitation of the affected people. Delay in implementation of the project has significantly inflated the project cost from Rs.13,181 crore at 1991-92 price levels as approved by the Planning Commission to Rs.23,103 crore at 1996-97 price levels. SSNNL has incurred an expenditure of Rs.64,466 crore on the project up to March 31, 2018. Construction of dam and appurtenant works along with installation of 30 radial gates has been completed in FY18. Further, construction of main canal and irrigation bypass tunnel has been completed while branch canal, distributaries and balance irrigation potential system is in progress. Large part of the project has been completed which reduces SSNNL’s exposure to timely receipt of necessary regulatory approvals and clearances for pending portion. During during last water year (July to June) 2017-18, the project has been able to irrigate around 6.46 lakh Ha in the command area of the project as compared to the targeted level of 18.45 lakh Ha. Further, the project has provided drinking water to 8,628 villages as compared to a target level of 9,490 villages and covered 165 urban centres as compared to targeted level of 173.

**Change in accounting policy leading to huge losses in past three years ended FY18; albeit continued support from GoG:**

Till FY15, substantial expenditure incurred towards the dam was capitalized by SSNNL under Capital Work In Progress (CWIP) based on the accounting policy of ‘substantial completion of project’. However, on the basis of the opinion of an Expert Advisory Committee (EAC) of the Institute of Chartered Accountants of India, the management, during FY16, changed its accounting policy with effect from April 01, 2015. It started capitalizing various components of dam and appurtenant works, main canal, power houses and major works of branch and distributaries on the basis of ‘completion of the respective works and same being ready for the intended use’. Also, various operational expenses and interest costs which were being previously added to CWIP are now expensed out in Profit & Loss (P&L) account with significant increase in depreciation charge. This has resulted in huge losses for the past three years ended FY18. Further, the magnitude of losses was higher in FY18 on account of write-off of assets and higher maintenance expenditure incurred for repair of irrigation system. However, GoG has continued to fund SSNNL’s losses over the years. Also, till FY16, SSNNL booked the entire Operations & Maintenance (O&M) expenditure incurred on the hydro power project in P&L, while revenue was booked only to the extent of 16% which was against sale of power to Gujarat. However, during FY17, the company changed its accounting treatment with effect from April 01, 2015 and commenced booking only 16% of the O&M expenditure incurred on the hydro power project in P&L, to match it with the 16% revenue booked from sale of power to Gujarat. The balance 84% of the O&M expenditure is reflected as receivables from GoG on its balance sheet.

**Analytical approach:** Standalone with support from GoG

SSNNL is dependent on funds received from GoG for development of the Sardar Sarovar Project, while it earns revenue from sale of power and collection of water charges. Thus, standalone financials of SSNNL, alongwith cash flow support from GoG, has been considered for analysis as SSP is strategically important to GoG due to its favourable impact on the agrarian economy of the state.

**Applicable Criteria**

- **Criteria on assigning Outlook to Credit Ratings**
- **CARE’s Policy on Default Recognition**
- **Rating Methodology - Infrastructure Sector Ratings**
- **Financial ratios – Non-Financial Sector**
- **Rating Methodology - Factoring Linkages in Ratings**

**About the Company**

SSNNL was incorporated in March 1988, as a Special Purpose Vehicle (SPV) - wholly owned by GoG for implementation of the SSP. SSP is an inter-state, multi-purpose project, being implemented with the participation of four states viz. Gujarat (designated as the implementing state), Madhya Pradesh, Maharashtra and Rajasthan.

The work for construction of dam, which was originally planned to commence from 1994 and slated to be completed by 2000, was suspended from May 1995 due to the writ petition filed by Narmada Bachao Andolan (NBA). The Hon’ble Supreme Court, vide its judgment in October 2000, quashed the writ petition and allowed SSNNL to raise the dam height 121.92 meters with requisite approval from the Narmada Control Authority (NCA). Furthermore, in June 2014, SSNNL received approval from NCA to raise the dam’s height to a further 138.68 meters with a storage capacity of 4.73 million cubic meters, which has been completed. 30 gates have been installed on the dam. Work for the main canal system and irrigation bye pass tunnel has been completed, while it is in progress for branch canal, distributaries and balance irrigation potential system.

The project comprises two power houses having total generation capacity of 1,450 MW viz. canal head power house (CHPH) having capacity of 250 MW and river bed power house (RBPH) which has six turbine generators, each having total capacity of 200 MW, with aggregate generating capacity of 1,200 MW. While CHPH got commissioned in a phased manner between August 2004 and December 2004, RBPH was similarly commissioned between February 2005 and June...
2006. The utilization of power project depends on the availability of water. SSNNL has incurred an expenditure of Rs.64,466 crore on the project up to March 31, 2018.

**Brief on FD scheme of SSNNL**

SSNNL is mobilizing resources for the ongoing Sardar Sarovar Project by accepting deposits from the public under Shri Nidhi Fixed Deposit Scheme governed under Companies Act, 2013. The outstanding of the Fixed Deposits was Rs.695.94 crore and Rs.699.10 crore as on March 31, 2018 and February 28, 2019 respectively. Out of total FDs, around 90% are issued under various welfare schemes of GoG such as Kanya Kelawani Scheme and Child Welfare Scheme. GoG directs SSNNL to issue FDs under these schemes to beneficiaries to achieve dual objectives viz. SSNNL has access to cheaper source of funds and payment under the scheme is managed by SSNNL. Further, balance FDs are subscribed by various trusts due to their social attachment with the project and their FDs are largely getting renewed at the time of maturity.

<table>
<thead>
<tr>
<th>Brief Financials (Rs. crore)</th>
<th>FY17 (A)</th>
<th>FY18 (A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating income</td>
<td>597.12</td>
<td>521.18</td>
</tr>
<tr>
<td>PBILDT</td>
<td>-509.39</td>
<td>-628.27</td>
</tr>
<tr>
<td>PAT</td>
<td>-1084.13</td>
<td>-1,709.96</td>
</tr>
<tr>
<td>Overall gearing (times)</td>
<td>0.06</td>
<td>0.08</td>
</tr>
<tr>
<td>Interest coverage (times)</td>
<td>Negative</td>
<td>Negative</td>
</tr>
</tbody>
</table>

A: Audited

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

<table>
<thead>
<tr>
<th>Name of the Instrument</th>
<th>Date of Issue</th>
<th>Coupon Rate</th>
<th>Maturity Date</th>
<th>Size of the Issue (Rs. crore)</th>
<th>Rating assigned along with Rating Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Deposit</td>
<td>-</td>
<td>-</td>
<td>March 31, 2020*</td>
<td>1000.00</td>
<td>CARE BBB+ (FD); Stable</td>
</tr>
</tbody>
</table>

*For existing FDs; proposed FDs envisaged to be repaid within 12 months to 36 months from the date of issue

Annexure-2: Rating History of last three years

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Instrument/Bank Facilities</th>
<th>Type</th>
<th>Amount Outstanding (Rs. crore)</th>
<th>Current Ratings</th>
<th>Rating History</th>
<th>Date(s) &amp; Rating(s) assigned in 2018-2019</th>
<th>Date(s) &amp; Rating(s) assigned in 2017-2018</th>
<th>Date(s) &amp; Rating(s) assigned in 2016-2017</th>
<th>Date(s) &amp; Rating(s) assigned in 2015-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Fixed Deposit</td>
<td>LT</td>
<td>1000.00</td>
<td>CARE BBB+ (FD); Stable</td>
<td>-</td>
<td>1)CARE BBB+ (FD); Stable (21-Mar-18)</td>
<td>1)CARE BBB+ (FD); Stable (17-Mar-17)</td>
<td>1)CARE BBB+ (FD) (05-Feb-16)</td>
<td>1)CARE BBB+ (FD) (18-Sep-15)</td>
</tr>
</tbody>
</table>