

Sai Wardha Power Generation Limited

February 11, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	755.93	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	100.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Assigned
Total Bank Facilities	855.93 (Rs. Eight Hundred Fifty-Five Crore and Ninety-Three Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sai Wardha Power Generation Limited (SWPGL) derive strength from the benefits derived out of the resolution plan implemented for the company with change in management and investment by the iLabs Group, significant debt reduction and fund infusion by the new management, long term off-take agreement entered with Maharashtra State Electricity Distribution Company Ltd. (MSEDCL) for 45% of total gross capacity and back-to-back with Brihanmumbai Electricity Supply and Transport (BEST) through Manikaran Power Limited (MPL) for 19% of total gross capacity and gradual improvement in the operational & financial performance of the company in the current fiscal. The rating strengths are however, tempered by the demand risk and price risk with respect to untied capacity, relatively low PLF level during 9MFY21 (refers to period April 01 to December 31) dependence upon auction coal for partial capacity thereby, resulting in susceptibility to raw material price volatility, exposure to counterparty credit risk arising from existing domestic off-takers having moderate financial risk profile and pending finalization of capex for flue gas desulphurization (FGD).

The key rating sensitivities are as follows -

Rating Sensitivities

Positive Factors:

- Tie up of balance capacity at favourable terms along with improvement in PLF at/above 85%
- Tie up of coal linkage for entire requirement

Negative Factors:

- PLF reducing below 60% for the three operational units
- Substantially lower actual PAF in comparison to normative level leading to lower capacity charge recovery
- Extended collection period with delays in receipt of payment from the off-takers beyond 75 days on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Implementation of Resolution Plan with change in management: Pursuant to the resolution plan approved by Hon'ble National Company Law Tribunal (NCLT), Hyderabad effective from December 30, 2019 onwards; the management of the company has been changed with investment by the Hyderabad based iLabs group through its companies Sri City Private Limited and KCR Enterprise LLP. The iLabs group was founded by Mr. Srini Raju in 2000 and is a funds of fund which participates as an anchor investor or co-investor in a variety of seed capital, venture capital, private equity and special situation investment funds. These funds combined have USD 1 billion of assets-under-management. As a part of the RP, the new management has invested about Rs.100 crore along with additional fund of Rs.200 crore infused for aiding the working capital requirement. There also exists a sponsor undertaking for providing financial assistance for working capital/other requirement for operational improvements.

Tie up of power off-take: The company had been facing liquidity issues earlier due to non-tie up of capacity and inability to supply power to captive consumers due to open access issues. The company has entered into two PPAs now for aggregate capacity of 340 MW which comprises of LT PPA (25 years) for 240 MW with MSEDCL and a medium term PPA (5 years) of 100 MW back-to-back with BEST through Manikaran Power Limited. The same provides revenue visibility for the long term.

Significant debt reduction: Post implementation of the RP, there has been significant debt reduction with waiver of about 80% of the debt in the books of account as March 31, 2019. Consequently, the outstanding debt has reduced from approx. Rs.4 crore per MW to about Rs.1 crore per MW as on March 31, 2020 resulting in reduction in debt servicing obligation and providing support to the debt coverage metrics.

Improving operational and performance during 9MFY21: The company commenced supplies to BEST from March 2020 and to MSEDCL from July 2020 which enabled it resume the stalled power generation. While the company has been able to

maintain Plant Availability Factor (nearly 99% on an average) above the normative level, lower scheduling from MSEDCL impacted the PLF levels in the first half of the year. Gradually there has been improvement in PLF which along with recovery of capacity charge from MSEDCL has subsequently resulted in growth in revenue on a month on month basis. During 9MFY21, the company reported revenue of Rs.547.14 and PBILDT of Rs.135 crore. The company has also exited from SEZ by way of De-notification which would further support the profitability going forward.

Key Rating Weaknesses

PPAs entered for only partial capacity and low PLF: SWPGL has gross generation capacity of 540 MW (135*4 MW each), of which 3 units are fully operational and one 135 MW unit is currently non-operating. The PPA covers 71% of the total net capacity and hence there exists demand and revenue risk associated with the untied capacity. Further, given the recent re-commencement of operations, non-operation of one unit and lower scheduling from MSEDCL during the off peak season, the PLF level has remained on the lower side at about 41% during 9MFY21.

Susceptibility to raw material price volatility: The company has a Fuel Supply Agreement (FSA)/Letter of Assurance (LOA) with Western Coalfield Ltd. for 2.26 million tonnes per annum of coal, entered in 2012. However the terms of the FSA are not operative with pending dispute resolution over pricing. In the interim, the company has approval from the Supreme Court for picking 3,000 tonnes per day which can be increased progressively, which would cover about 80% of the requirement at an increased PLF of 85%. Hence, there exists risk associated with input price fluctuation for balance requirement in the long run, although the auction pricing is currently favorable.

Counterparty credit risk associated with weak off-taker: SWPGL has PPA with MSEDCL and the company has been receiving bills in a timely manner from the off-taker with collection days of about 2 months on an average. However, the off-taker has a moderate credit profile and track record of extended payments to IPPs which has a bearing on the liquidity profile of the company.

Pending finalization of FGD capex: The Government of India's Power Ministry has mandated capex for installing FGD in coal-fired power plants to cut emissions of toxic sulphur dioxide. The same is a mandatory regulation to be fulfilled by the coal based thermal power producers in the country. In line with same, SWPGL has to also take up the capex and finalize funding plan w.r.t same. The extent of expenditure on this project which can be passed through in tariff to the domestic off-takers is to be seen. Any higher than envisaged debt and corresponding impact on the financial profile of the company would be important from credit perspective.

Impact of Covid-19: In the wake of the global pandemic COVID-19, the Central Government announced a country wide lockdown w.e.f March 21, 2020 till May 31, 2020 resulting in closure of non-essential business activities and slowdown of business operations of various business enterprises during the lockdown period. Nevertheless, the company was categorized as an essential service and hence, the operations were not effected in terms of continuity. However, labour and liquidity problems prevailed industry wide which impacted SWPGL as well. SWPGL is regularly servicing its debt obligation with free cash balance and deposits of Rs.26.28 crore as on March 31, 2020 (Rs.75.18 crore as on December 31, 2020).

Liquidity – Adequate

The company's liquidity position is adequate with cash profit reported during 9MFY21, adequate free cash balance and deposits of Rs.75.18 crore as on December 31, 2020 vis-à-vis debt repayment obligation of Rs.21.07 crore for FY21. Further, the company has been receiving timely payments from the off-takers. The company had availed moratorium for interest on term loan for the period of April-August 2020 as a part of Covid relief provided by the RBI and cleared the same in the next five months as per understanding with the term lenders.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology – Power Generation Projects](#)

[Rating Methodology – Thermal Power Producers](#)

[Financial Ratios – Non-Financial Sector](#)

About the Company

Incorporated in October 2005, Sai Wardha Power Generation Limited (SWPGL) was initially promoted by the KSK group of Hyderabad. Pursuant to the resolution plan approved by Hon'ble NCLT, Hyderabad under the provisions of Insolvency and Bankruptcy Code, 2016 the company was taken over by the iLabs group of Hyderabad through its entities Sri City Private Limited (holding 90% stake) and KCR Enterprise LLP (holding 10% stake) and the management was changed on 30th December, 2019. The company is engaged in operations of thermal (coal based) power project of 540 MW (135*4 MW each) at Warora, Chandrapur Maharashtra, which achieved COD in May 2011.

Covenants of rated instrument/facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3.

Brief Financials (Rs. crore)	FY19 (A)*	FY20 (A)
Total operating income	399.6	62.02
PBILDT	-53.6	-56.46
PAT	-281.98	-242.96
Overall gearing (times)	-3.4	0.25
Interest coverage (times)	NM	NM

*Pre-RP Implementation and submission under NCLT

A: Audited; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	December 2027	555.93	CARE BBB-; Stable
Fund-based - LT-Proposed fund based limits	-	-	-	200.00	CARE BBB-; Stable
Non-fund-based - LT/ST-BG/LC	-	-	-	100.00	CARE BBB-; Stable / CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (05-Oct-20) 2)CARE D; ISSUER NOT COOPERATING* (28-Aug-20)	1)CARE D; ISSUER NOT COOPERATING* (03-Jun-19)	-	1)CARE D; ISSUER NOT COOPERATING* (26-Mar-18)
2.	Fund-based - LT-Cash Credit	LT	-	-	1)Withdrawn (05-Oct-20) 2)CARE D; ISSUER NOT COOPERATING* (28-Aug-20)	1)CARE D; ISSUER NOT COOPERATING* (03-Jun-19)	-	1)CARE D; ISSUER NOT COOPERATING* (26-Mar-18)
3.	Non-fund-based - LT/ST-BG/LC	LT/ST	-	-	1)Withdrawn (05-Oct-20) 2)CARE D / CARE D; ISSUER NOT COOPERATING* (28-Aug-20)	1)CARE D / CARE D; ISSUER NOT COOPERATING* (03-Jun-19)	-	1)CARE D / CARE D; ISSUER NOT COOPERATING* (26-Mar-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
4.	Fund-based - LT- External Commercial Borrowings	LT	-	-	1)Withdrawn (05-Oct-20) 2)CARE D; ISSUER NOT COOPERATING* (28-Aug-20)	1)CARE D; ISSUER NOT COOPERATING* (03-Jun-19)	-	1)CARE D; ISSUER NOT COOPERATING* (26-Mar-18)
5.	Non-fund-based - ST-Bank Guarantees	ST	-	-	1)Withdrawn (05-Oct-20) 2)CARE D; ISSUER NOT COOPERATING* (28-Aug-20)	1)CARE D; ISSUER NOT COOPERATING* (03-Jun-19)	-	1)CARE D; ISSUER NOT COOPERATING* (26-Mar-18)
6.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	-	-	1)Withdrawn (05-Oct-20) 2)CARE D / CARE D; ISSUER NOT COOPERATING* (28-Aug-20)	1)CARE D / CARE D; ISSUER NOT COOPERATING* (03-Jun-19)	-	1)CARE D / CARE D; ISSUER NOT COOPERATING* (26-Mar-18)
7.	Fund-based - LT- Term Loan	LT	555.93	CARE BBB-; Stable	-	-	-	-
8.	Fund-based - LT- Proposed fund based limits	LT	200.00	CARE BBB-; Stable	-	-	-	-
9.	Non-fund-based - LT/ ST-BG/LC	LT/ST	100.00	CARE BBB-; Stable / CARE A3	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable.

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Proposed fund based limits	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT/ ST-BG/LC	Simple

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

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