

L&T Uttaranchal Hydropower Limited

August 18, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	15.00	CARE A (CWD) (Single A) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Bank Facilities	15.00 (Rs. Fifteen Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the rating of L&T Uttaranchal Hydropower Limited (L&T UHL) on 'Credit watch with developing implications' on account of L&T Power Development Limited (the holding company) entering into a securities purchase agreement for sale of its entire stake in the SPV to Renew Power Services Private Limited (a 100% subsidiary of Renew Power Private Limited). CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of L&T UHL is clear.

The ratings assigned to the bank facilities of L&T Uttaranchal Hydropower Limited derives strength from the demonstrated support by its highly experienced, reputed and resourceful promoter group, whereby financing of the project is entirely sourced out of equity and preference capital infused by Larsen & Toubro Limited (L&T). The rating takes into cognizance the commissioning of the plant on December 25, 2020 and its operational track record - though limited yet satisfactory.

The rating is, however, constrained due to price and power off-take risk with absence of Power Purchase Agreement (PPA) for entire capacity as well as instability associated with run-of-the-river power generation. Further, continued support from the promoter group will also be crucial from the credit perspective.

Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade:

- Signing up of long term PPA for entire capacity of 99 MW at a remunerative tariff.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any force majeure events or any event arising out of hydrological risks
- Delay in entering into PPA of entire capacity for the sale of electricity or PPA is entered for an unfavorable tariff.
- Deterioration in the credit profile of the promotor

Detailed description of the key rating drivers

Key Rating Strengths

100% step down subsidiary of L&T with financial and operational support in the past

L&T UHL is a wholly owned subsidiary of L&T Power Development Limited (L&T PDL). L&T PDL is a wholly owned subsidiary of L&T. Apart from being the equity holder; L&T is the EPC contractor for the project and has deputed its personnel in the company for completion of the project. Being part of L&T group, the project continues to receive financial backing by L&T, wherein the cost of the project is funded by equity and preference share capital infusion. The total cost of the project witnessed series of escalation in the past due to several reasons. The company commissioned the project on December 25 2020 at a project cost of Rs.1595.15 crore. The entire project cost was financed by L&T through equity and preference share infusion.

Recently, L&T Power Development Limited has entered into a securities purchase agreement for sale of its entire stake in the SPV to Renew Power Services Private Limited.

Moderately satisfactory operating performance of the power plant

As on date, the company is selling power on the Indian Energy Exchange at the rates prevailing in the market. As per the management, generation of the plant has been marginally above P-90 levels since the commissioning.

Key Rating Weaknesses

Hydrological risks associated with run-of-the-river power generation

Run-of-the-river power is considered an irregular source of power since a run-of-the-river project has little or no capacity for energy storage and hence cannot co-ordinate the output of electricity generation to match consumer demand. It thus generates much more power during times when seasonal river flows are high and much less during drier – winter months. Also, in the initial years of operations, stabilization risk still persists.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Price and power off-take risk

L&T Uttarakhand Hydropower Limited is also negotiating with GoUK (Government of Uttarakhand) for a better rate due to the implementation of the new Renewable power obligation. The proposal has moved forward from Uttarakhand Power Corporation Limited to Uttarakhand Electricity Regulatory Commission for tying up the entire capacity. Company expects to sign PPA with GoUK at a minimum tariff of Rs. 4.70/- per unit. However, this exposes the company to uncertainty with respect to power off-take and price risk.

Liquidity: Adequate

The liquidity profile of the company remains comfortable consequent to the continuous support demonstrated by L&T in the form of infusion of equity to fund the project cost, including all cost overruns. Besides, the company has not availed project term loan and as such does not have any debt service obligations.

Analytical approach: Standalone, factoring linkages with parent company

Applicable Criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Infrastructure Sector Ratings](#)

[Power Generation Projects](#)

About the Company

L&T UHL, incorporated in 2006, has set up a run-of-the-river hydropower project named as Singoli-Bhatwari Hydroelectric Project, with an aggregate capacity of 99 MW. It is located on the Mandakini River in the Garhwal region of Rudraprayag district, Uttarakhand.

Brief Financials – Not meaningful since the plant has started operations on December 25, 2020

Status of non-cooperation with previous CRA: NA

Any other information: NA

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
Non-fund-based - LT-Bank Guarantees	-	-	-	15.00	CARE A (CWD)

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - LT-Letter of credit	LT	-	-	1)Withdrawn (01-Apr-21)	-	1)CARE A; Stable (26-Feb-20)	1)CARE A; Stable (26-Mar-19)
2.	Non-fund-based - LT-Bank Guarantees	LT	15.00	CARE A (CWD)	1)CARE A; Stable (01-Apr-21)	-	1)CARE A; Stable (26-Feb-20)	1)CARE A; Stable (26-Mar-19)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Non-fund-based - LT-Bank Guarantees	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.

Contact us**Media Contact**

Name: Mradul Mishra
 Contact no. – +91-22-6754 3573
 Email ID – mradul.mishra@careratings.com

Analyst Contact

Name – Agnimitra Kar
 Contact no.- +91-11-45333285
 Email ID- agnimitra.kar@careratings.com

Relationship Contact

Name: Mr. Saikat Roy
 Contact no.: +91-22-68754 3404
 Email ID: saikat.roy@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**