SJVN Limited (Revised)

March 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	6,133.30	CARE AA+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of SJVN Limited (SJVN) derive comfort from the low sales risk by virtue of its long-term power purchase agreements (PPAs) for its operational capacity. The rating draws strength from the cost-plus tariff structure as per Central Electricity Regulatory Commission (CERC) tariff guidelines for its operational hydro capacity (1,912 MW) ensuring cost recovery with fixed return. Furthermore, the rating favourably factors in SJVN's strong operational performance of its hydro power plants characterised by healthy generation and plant availability factor (PAF) entitling it to incentive income. The rating also factors in its comfortable financial risk profile marked by healthy profitability margins, capital structure and strong liquidity profile. Furthermore, the rating derives strength from majority ownership by the Government of India (GoI), which has provided adequate financial flexibility to SJVN in the past.

However, the rating strengths are constrained by execution risks including time and cost overrun associated with its large projects under implementation stage and exposure to vagaries of merchant market in view of non-tie-up of capacity under implementation stage. The rating also takes cognisance of the counterparty risk associated with financially weaker off-takers.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Significant improvement in credit profile of the off-takers leading to improvement in average collection period.
- Timely commissioning of under-implementation plants with execution of PPA with off-takers having acceptable credit profile and at a favourable tariff.

Negative factors

- Dilution in GOI's support philosophy towards SJVN.
- Significant delay in the receipt of payments from counter parties, weakening the liquidity profile of SJVN.
- Significantly lower-than-envisaged operational profile or reduced tariff or increase in the borrowing cost or operating cost leading to adverse impact on coverage metrics.
- Significant time and cost overrun in the projects under implementation leading to moderation in financial risk profile.

Analytical approach: Consolidated. The rating factors in SJVN's strategic importance to the GoI and its important role for the Indian power generation sector. The list of subsidiaries/JVs which have been consolidated are as under.

S. No	Particulars	SJVN Shareholding (%)
	Subsidiaries	
1.	SJVN Arun – 3 Power Development Company Private Limited (SAPDC)	100
2.	SJVN Thermal Private Limited (STPL)	100
3.	SJVN Green Energy Limited (SGEL)	100
	Joint Ventures	
1.	Cross Border Power Transmission Company Limited (CPTC)	26

Outlook: Stable

The stable outlook reflects SJVN's ability to sustain operational performance of the current operational portfolio, leading to steady gross cash accrual while maintaining a reasonable average collection period coupled with increasing leverage due to implementation of capex in the medium term.

Key strengths

Steady cash flow with assured returns based on the CERC-determined tariffs: The operational hydro power capacity of SJVN is tied up in long-term PPAs with various beneficiary states that derive its revenue based on cost-plus mechanism. The tariff for the hydro power stations of SJVN is determined by CERC, ensuring recovery of cost (determined on normative operating parameters) along with post-tax return on equity (ROE) at 16.50%. 50% of Annual Fixed Cost (AFC) is recoverable upon achieving the design energy, while the balance is recoverable on achieving the Normative Annual Plant Availability Factor (NAPAF).

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Furthermore, there is adequate regulatory clarity for both the operational hydro plants of SJVN by virtue of availability of tariff order for the period 2019-24 as notified by CERC.

Strong operating efficiency of hydro power stations: During FY21 (refers to the period from April 1 to March 31), FY22 and 9MFY23 (refers to the period April 01 to December 31), SJVN's operating hydro power stations, viz., Nathpa Jhakri HEP and Rampur HEP has generated more than their respective annual design energy. The PAF for these plants stood at more than 100%, respectively in FY20, FY21 and FY22 as against NAPAF of 90% and 85% for Nathpa Jhakri HEP and Rampur HEP, respectively, thus leading to full recovery of annual fixed charges and also entitling them for incentive income.

Healthy financial risk profile: The company has healthy financial risk profile marked by healthy profitability margins, capital structure and debt coverage indicators. The overall gearing and PBILDT interest coverage moderated to 0.53x and 10.48x as on March 31, 2022 (FY21: 0.17x and 47.72x, respectively). On account of sizable pipeline of under-implementation projects, CARE Ratings Limited (CARE Ratings) expects leverage of SJVN to increase going forward.

Majority ownership by GoI and Miniratna Status: Given the Ministry of Power's (MoP's) focus on tapping hydro-electric potential in India and Nepal, SJVN is expected to remain strategically important for GoI. Majority of stake in SJVN is held by GoI (i.e., 59.92% as on September 30, 2022). By virtue of its strong parentage, besides equity support, the company also enjoys decent access to domestic and global debt market. The GoI is also involved in the appointment of the Board and senior management as well as setting up SJVN's business plan annually. Furthermore, the recognition of SJVN as a Miniratna Category-I central public sector enterprise (CPSE) provides its management with significant autonomy in taking financial decisions.

Industry outlook

Hydropower provides many advantages in terms of grid balancing ability due to the relatively quicker ramp-up/down, little emission, lower raw material supply risk, etc. The hydropower installed capacity, as well as generation, is less than 15% of the overall share in the country currently. This is despite the substantial hydropower potential. Project implementation is a challenge due to legal, regulatory issues, evacuation, and difficulties in financing. Difficult terrains and geological and climatic risks for construction and operation have been a challenge. The MoP and the Ministry of New and Renewable Energy (MNRE) have taken several initiatives to promote development and off-take power under the ambit of renewable sources.

Key rating weaknesses

Execution risks pertaining to projects under implementation: Currently, the company has 4,323 MW of projects under construction stage, which comprises around 1,618 MW of hydro projects, 1,320 MW of thermal project and 1,385 MW of solar projects.

The company has projected to incur more than ₹18,000 crore capex during FY24 and FY25 period. The project's under implementation are expected to be financed in debt to equity ratio of 70:30 or 80:20, thus leading to moderation in leverage metrics. Moreover, the company is also exposed to the risk of tying up of PPAs for these projects at remunerative tariffs. Sufficient internal accrual committed for capex will have to be generated to keep debt level, cost and time overrun under control. Moreover, for its equity commitments, SJVN has funded capex through securitisation of receivables of Nathpa Jhakri (HEP) and going forward the company is also planning dilution of its stake in SJVN Green Energy Limited.

However, these risks are partially mitigated through the company's extensive experience in implementing hydro projects along with its favourable capital structure, cash flow from operations and healthy cash and bank balances.

Counterparty credit risk: The financial health of many of the offtakers, i.e., state distribution utilities continue to remain a cause of concern for SJVN. The higher level of aggregate transmission and commercial (AT&C) losses, the rising power purchase costs and the absence of cost-reflective tariff regimes have put a strain on the financial position of some of the state distribution utilities. The significant counterparty credit risk is mitigated to some extent through existence of a long-term tripartite agreement between GoI, Reserve Bank of India (RBI) and the state government, which can be invoked in the event of default in payment by the beneficiary. Moreover, SJVN is also booking, late payment surcharge income (LPSC) for delayed payments by offtakers as per the provision of the PPA. Also, J&K (the state with highest amount of overdue amount to SJVN) has opted for EMI scheme, in accordance with LPS Rules 2022 notification by MoP on June 03, 2022.

Liquidity: Strong

There is some headroom between the projected gross cash accrual (GCA) for FY23 and FY24 vis-à-vis the scheduled debt repayment for SJVN. The company's cash and bank balance stood at around ₹2,400 crore as on March 13, 2023. The utilisation of fund-based working capital limits stood comfortable at around 25% as of February 28, 2023. Although the company faces refinancing risk during FY27 due to large maturity of ECB and NCD, considering the comfortable capital structure, financial flexibility by virtue of its parentage and its healthy cash accruals, the company has sufficient headroom, to raise additional debt for its capex.

Environmental, social and governance (ESG) profile: The ESG profile of the company is expected to derive comfort from the strong parental support of GoI. SJVN has a well-defined environmental policy in place which aids the company in achieving its goals for sustainable growth. The company prepares its annual action plan against the sustainable development goals of the United Nations.

Applicable criteria

Definition of Default
Consolidation
Factoring Linkages Government Support
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Infrastructure Sector Ratings
Power Generation Projects
Thermal Power
Solar Power Projects
Wind Power Projects

About the company and industry

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Generation

SJVN Limited (formerly known as Satluj Jal Vidyut Nigam Limited), a 'Miniratna' company was incorporated on May 24, 1988 as a joint venture of GoI and GoHP. As on September 30, 2022, GoI and GoHP (Government of Himachal Pradesh) held 59.92% and 26.85%, respectively, in SJVN. SJVN has an installed capacity of 2,091.5 MW, which includes Nathpa Jhakri hydro plant (1500MW), Rampur hydro plant (412 MW), Khirvire wind project (47.6 MW), Sadla solar project (50 MW), Charanka solar project (5.6 MW), Parasan solar power station (75 MW) and grid connected solar plant of 1.3 MW. It also operates an 86 km 400 KV DC line across India-Nepal border through JV mode.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Total operating income	2,451.79	2,411.17	2,699.72
PBILDT	2,071.17	1,690.09	2,186.37
PAT	1,645.70	989.80	1,340.87
Overall gearing (times)	0.17	0.53	NA
Interest coverage (times)	NM	10.48	5.97

A: Audited || UA.: Unaudited || NA.: Not Available || NM: Not Measurable || Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-External Commercial Borrowings	-	-	-	March 15, 2027	2,496.30	CARE AA+; Stable
Fund-based - LT-Term Loan	-	-	-	March 31, 2025	1,537.00	CARE AA+; Stable
Fund-based - LT-Term Loan	-	-	-	September 30, 2037	2,000.00	CARE AA+; Stable
Non-fund-based - LT-Bank Guarantee	-	-	-	-	100.00	CARE AA+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	1,537.00	CARE AA+; Stable				
2	Fund-based - LT-Term Loan	LT	2,000.00	CARE AA+; Stable				
3	Non-fund-based - LT-Bank Guarantee	LT	100.00	CARE AA+; Stable				
4	Fund-based - LT-External Commercial Borrowings	LT	2,496.30	CARE AA+; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-External Commercial Borrowings	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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