SJVN Limited
August 21, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	200.00	CARE AA+; Stable	Assigned
Long Term Bank Facilities	6,633.30 (Enhanced from 6,133.30)	CARE AA+; Stable	Reaffirmed
Short Term Bank Facilities	500.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the rating of long-term bank facilities and has assigned rating of 'CARE A1+' (A One Plus) to the short-term bank facilities of SJVN Limited (SJVN).

The rating of SJVN Limited (SJVN) derives comfort from the low sales risk by virtue of its long-term power purchase agreements (PPAs) for its operational capacity. Moreover, the cost-plus tariff structure as per the Central Electricity Regulatory Commission (CERC) tariff guidelines for its operational hydro capacity (1,912 MW), which ensures cost recovery with fixed return, adds strength to the rating.

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, the capital structure as on March 31, 2023, and the strong liquidity profile. Additionally, the rating draws strength from the 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 overruns associated with its large projects under the implementation stage and the exposure to vagaries of the merchant market in view of the non-tie-up of the capacity under the 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 the credit profile of the off-takers, leading to an improvement in the average collection period.
- Timely commissioning of the under-implementation plants with execution of PPAs with off-takers having an acceptable credit profile and at a favourable tariff.

Negative factors

- Dilution in the GoI's support philosophy towards SJVN.
- Significant delay in the receipt of payments from counterparties beyond 180 days, 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 an adverse impact on the coverage metrics.
- Significant time and cost overruns in the projects under implementation, leading to higher-than-projected total debt (TD)/profit before interest, lease rentals, depreciation, and taxation (PBILDT).

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/joint ventures (JVs) that have been consolidated are as under:

Sr. 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
4.	SJVN Lower Arun Power Development Company (SLAPDC)	100
	Joint Ventures	
1.	Cross Border Power Transmission Company Limited (CPTC)	26

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

Outlook: Stable

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

Detailed description of the key rating drivers

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 the cost-plus mechanism. The tariff for the hydro power stations of SJVN is determined by CERC, ensuring the recovery of cost (determined on normative operating parameters) along with post-tax return on equity (RoE) at 16.50%. Notably, 50% of the 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).

Furthermore, there is adequate regulatory clarity for both the operational hydro plants of SJVN by virtue of the availability of tariff order for the period 2019-2024 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 FY23, 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% in FY21, FY22 and FY23, as against the 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.

Reasonable financial risk profile

The company's financial risk profile is marked by healthy profitability margins, manageable capital structure, and debt coverage indicators amid large capex plans. The overall gearing and PBILDT interest coverage moderated to 1.02x and 5.38x as on March 31, 2023, respectively (FY22: 0.53x and 10.48x, respectively) on account of the debt-funded capex. On account of the sizeable pipeline of under-implementation projects, CARE Ratings Limited (CARE Ratings) expects the leverage of SJVN to increase going forward.

Majority ownership by the 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 the GoI. The majority of stake in SJVN is held by the GoI (i.e., 59.92% as on June 30, 2023). By virtue of its strong parentage, besides equity support, the company also enjoys decent access to the domestic and global debt market. The GoI is also involved in the appointment of the Board and the 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. Going forward, any in change in the government stance towards this company or reduction in its strategic importance will be a key rating sensitivity.

Industry outlook

Hydropower provides many advantages in terms of grid balancing ability due to the relatively quicker ramp-up or ramp-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 weaknesses

Execution risks pertaining to projects under implementation

Currently, the company has 4,438 MW of projects under the construction stage, which comprises around 1,618 MW of hydro projects, 1,320 MW of thermal projects, and 1,500 MW of solar projects.

The company has projected to incur more than ₹20,000 crore capex during the FY24 and FY25 period. The projects under implementation are expected to be financed in a debt-to-equity ratio of 70:30 or 80:20, thus leading to moderation in the leverage metrics. Moreover, the company is also exposed to the risk of tying up of PPAs for these projects at remunerative tariffs. Sufficient

internal accruals committed for the capex will have to be generated to keep the debt level, cost and time overruns under control. Moreover, for its equity commitments, SJVN has funded the capex through securitisation of receivables of Nathpa Jhakri (HEP) and, going forward, the company is also planning the 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 off-takers, 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 the existence of a long-term tripartite agreement between the GoI, the Reserve Bank of India (RBI), and the state government, which can be invoked in the event of default in payment by the beneficiary. Also, Jammu and Kashmir (the state with the highest amount of overdue amount to SJVN) has opted for EMI scheme, in accordance with the LPS Rules 2022 notification by the MoP on June 03, 2022.

Liquidity: Strong
There is some headroom between the projected GCA for FY24 and FY25 vis-à-vis the scheduled debt repayment for SJVN. The company's cash and bank balance stood at around ₹3,731 crore as on March 31, 2023. The utilisation of fund-based working capital limits stood at around 82% as of June 30, 2023. Although the company faces refinancing risk during FY27 due to large maturity of external commercial borrowings (ECBs) and non-convertible debentures (NCDs), considering the comfortable capital structure, the 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 the 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 (SDG) of the United Nations. Also, 50% of the board comprises independent directors and nominee directors from the GoI and the Government of Himachal Pradesh (GoHP).

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
Thermal Power
Solar Power Projects
Wind Power Projects
Short Term Instruments

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 JV of the GoI and the GoHP. As on June 30, 2023, the GoI and the GoHP held 59.92% and 26.85%, respectively, in SJVN. SJVN has an installed capacity of 2,091.5 MW, which includes the Nathpa Jhakri hydro plant (1,500 MW), the Rampur hydro plant (412 MW), the Khirvire wind project (47.6 MW), the Sadla solar project (50 MW), the Charanka solar project (5.6 MW), the Parasan solar power station (75 MW), and a grid connected solar plant of 1.3 MW. It also operates an 86-km 400 kV DC line across the India-Nepal border through the JV mode.

Brief Financials* (₹ crore) – (Consolidated)	FY22 (Aud.)	FY23 (Abr.)	Q1FY24 (UA)
Total operating income	2,411.17	2,938.35	744.39
PBILDT	1,690.09	2,230.17	572.30
PAT	989.80	1,357.27	271.75
Overall gearing (times)	0.53	1.02	NA
Interest coverage (times)	10.48	5.38	6.37

Aud: Audited; Abr: Abridged; UA.: Unaudited; NA: Not available. Note: The above results are the latest financial results available. *Financials reclassified as per CARE Ratings' internal standards.

Status of non-cooperation with previous CRA: SJVN has not cooperated with Brickwork Ratings, which has classified it in the 'non-cooperative category' vide its press release dated July 27, 2023.

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	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	-	-	-	-	600.00	CARE AA+; Stable
Fund-based - ST-Working Capital Limits	-	-	-	-	200.00^	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	100.00	CARE AA+; Stable
Non-fund-based - LT-BG/LC	-	-	-	-	100.00	CARE AA+; Stable
Fund-based - ST-Term loan		-	-	7-90 days	300.00	CARE A1+

^Proposed

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	1537.00	CARE AA+; Stable	-	1)CARE AA+; Stable (29-Mar-23)	-	-
2	Fund-based - LT-Term Loan	LT	2000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (29-Mar-23)	-	-
3	Non-fund-based - LT-Bank Guarantee	LT	600.00	CARE AA+; Stable	-	1)CARE AA+; Stable (29-Mar-23)	-	-
4	Fund-based - LT-External Commercial Borrowings	LT	2496.30	CARE AA+; Stable	-	1)CARE AA+; Stable (29-Mar-23)	-	-
5	Fund-based - LT-Cash Credit	LT	100.00	CARE AA+; Stable				
6	Non-fund-based - LT-BG/LC	LT	100.00	CARE AA+; Stable				
7	Fund-based - ST-Working Capital Limits	ST	200.00	CARE A1+				
8	Fund-based - ST-Term loan	ST	300.00	CARE A1+				

*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-Cash Credit	Simple
2	Fund-based - LT-External Commercial Borrowings	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - ST-Term loan	Simple
5	Fund-based - ST-Working Capital Limits	Simple
6	Non-fund-based - LT-Bank Guarantee	Simple
7	Non-fund-based - LT-BG/LC	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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