SEIL Energy India Limited

June 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	250.00	CARE AA+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the proposed long-term instrument of SEIL Energy India Limited (SEIL) derives strength from the revenue visibility considering a tie-up of around 63% of net capacity in long-term power purchase agreements (PPA) with state distribution companies (DISCOMs) of Andhra Pradesh and Telangana and Bangladesh Power Development Board (BPDB). The rating also factors in the healthy operational performance of the entire capacities per normative availability defined under the PPAs. The rating also takes comfort of the operational synergies among SEIL and Sembcorp Utilities Pte. Ltd. (wholly owned subsidiary of Sembcorp Industries Limited) considering a Technical Service Agreement. Sembcorp Industries Ltd (SIL) is the flagship Company of Sembcorp Group in which Singapore sovereign wealth fund Temasek is the single largest shareholder holding 49.5% stake. Sembcorp Utilities Pte Ltd (SCU) is wholly owned subsidiary of SIL. Additionally, the rating also derives strength from economic incentive for SUPL which is linked with the asset's ability to generate surplus cash flows.

However, the rating is constrained by its exposure to demand risk and price risk with respect to untied capacity and SEIL's exposure to the counterparty credit risk arising from the existing domestic off-takers having weak financial risk profile and elevated debtors from BPDB. The rating factors in the risk associated with the envisaged debt-funded capex for flue gas desulphurisation (FGD).

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving total debt / profit before interest, lease rentals, depreciation, and taxation (PBILDT) to less than 1.5x on a sustained basis.

Negative factors

- Material change in Sembcorp Group's interest in SEIL.
- Significantly deteriorating operational performance below normative parameters.
- Deteriorating total debt / PBILDT to more than 3.5x.
- Stretching average collection period beyond 180 days, adversely impacting the liquidity profile.

Analytical approach: Standalone along with factoring in operational linkages with Sembcorp Utilities Pte. Ltd. (wholly owned subsidiary of Sembcorp Industries Limited). This is due to economic incentive linked with SEIL's profitability and operational synergy considering Technical Service Agreement (TSA).

Outlook: Stable.

The 'stable' outlook reflects SEIL's ability to sustain its healthy operational performance, the maintenance of reasonable inventory level, healthy realisation on merchant sales, and a steady level of receivables in the near to medium term.

Detailed description of the key rating drivers:

Key strengths

Operational linkages with Sembcorp Group and incentive attached with profitability of the asset

SEIL was initially promoted by Sembcorp Industries Limited (through a wholly owned subsidiary, Sembcorp Utilities Pte. Ltd.) In FY23, the group executed share purchase agreement (SPA) with an Oman-based consortium for sale of entire stake in SEIL. The deal is structured through deferred payment note wherein the Omani Consortium is required to make yearly payments for purchase consideration in 15-24 years. As a part of the deal, a Technical Service Agreement (TSA) was also signed among the parties wherein Sembcorp will extend technical advisory and operational support to SEIL.

Owing to Deferred Payment Note (DPN) and TSA, Sembcorp continues to remain economically invested in SEIL as the asset performance is directly linked to the payment of purchase consideration. Additionally, post take over of the asset, Sembcorp had extended corporate guarantee to the refinanced rupee term loan, working capital limits, and commercial paper. However, as

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

articulated by the management to CARE Ratings, the guaranteed debt will be replaced with project backed debt in a phased manner.

Majority of capacity tied-up through long-term PPA
Project 1 (P1) has 500 MW (net) of capacity tied up with long-term PPA, whereas the long-term contracted capacity for P2 stood at 1,070 MW (factoring the newly executed agreement with AP Discom for supply of 625 MW). Moreover, majority of the existing PPAs have a residual tenor of around 10 years. CARE Ratings understands, although SEIL aims to tie up remaining capacity, around 15% of the capacity shall remain untied and power will be sold under short-term PPAs/exchange, thereby exposing the company to the vagaries of merchant market. Timely renewal of PPAs post expiry and signing of PPA for untied capacity at a remunerative tariff structure shall remain a key monitorable.

Secured fuel availability through linkage coal and imported coal under agreements at competitive rates
SEIL utilises a blend of domestic coal and imported coal for meeting the fuel requirement. SEIL has a long-term FSA with Mahanadi Coalfields Limited (MCL) for annual contracted quantity (ACQ) of 4.27 million tonnes per annum (MTPA), for P-1 and P-2. Additionally, for both the plants, the company has a long-term contract for the supply of coal with PT Bayan Resources TBK for 2.3 MTPA for 10 years. The remaining fuel requirement is met through short-term contracts.

Satisfactory operational performance
Plant availability factor (PAF) for both P1 and P2 remained above normative in FY24. Plant load factor (PLF) continued to remain well above all-India PLF levels and strong at 82% and 80%, respectively, for P1 and P2 in FY24 (PY: 77% and 70%, respectively). SEIL has relatively comfortable position in merit order dispatch in respective states and hence receives higher scheduling. Moreover, SEIL clocks sizable volume under short-term PPA/ merchant, by virtue of its competitive coal procurement and short-term trading capabilities.

Comfortable financial risk profile
SEIL has comfortable financial risk profile characterised by stable gross cash accruals (GCA) and acceptable leverage offset by comfortable coverage metrics. Owing to stable PAF ensuring fixed cost recovery under contracted capacity and PLF aided by sufficient power demand through short-term/ merchant, cash accrual of the company has been stable in the past. Overall gearing was reasonable at 0.63x as on March 31, 2024 (PY: 0.65x). Interest cover stood at 4.40x in FY24 (PY: 2.29x). The average collection period has marginally improved year-on-year and stood at 137 days in FY24 (PY: 148 days).

Key weaknesses

Exposure to counterparty credit risk, however, payment security in place
The company has exposure to counter party credit risk as a significant share of the total capacity is tied up with discoms of Andhra Pradesh and Telangana which have exhibited weaker financial and operational risk profiles. Although debtors for domestic counterparties have improved slightly post implementation and adaption of EMI scheme and management of receivables through PRAAPTI portal, SEIL is receiving payments from BPDB with a lag of 5-7 months. However, payments from counterparties are secured by LCs submitted by counterparties (including Bangladesh Power Development Board [BPDB]) which alleviates the risk to some extent.

Envisaged debt-funded capex for implementation of FGD
SEIL has been notified to install FGD systems to adhere to new emission norms. The project is expected to be funded through a mix of debt and internal accruals. Moreover, CERC has also allowed the company’s petition to accept FGD installation requirement under change in law. It has allowed provisionally approved benchmark cost. Timely execution of FGD within the timeline and allowance of the same under LT PPAs shall remain a key monitorable.

Liquidity: Adequate

The company’s liquidity profile is characterised by stable GCA against its debt obligation and bank balance of ₹174 crore as on March 31, 2024. Liquidity is further supported through moderate utilisation of fund-based working capital limits.
Going forward, the company’s capex requirement for FGD is expected to be funded through a mix of term loan (yet to be tied up) and internal accrual. SEIL also has a substantial amount of RTL borrowings maturing in FY27 and FY28, which is expected to be refinanced. Given the group’s past ability in refinancing and SEIL’s flexibility to seek deferment of payment of interest/ principal on deferred payment note for payment of purchase consideration of the asset, SEIL stands comfortable in terms of financial flexibility.

Applicable criteria

[Definition of Default]
[Thermal Power]
[Factoring Linkages Parent Sub JV Group]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Financial Ratios – Non financial Sector]
[Infrastructure Sector Ratings]

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power generation

SEIL is currently operating 2,640-MW capacity thermal power plant- P1 (1,320 MW) and P2- (1,320 MW), at Muthukur Mandal, Nellore District, Andhra Pradesh. P1 was completed in FY16 wherein Unit I achieved commercial operation date (COD) on April 11, 2015, and Unit II on September 15, 2015. P2 achieved COD in FY17 with first unit COD on November 17, 2016, and second unit COD on February 21, 2017.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	9,396.28	9,832.32
PBILDT	1,742.41	3,121.99
PAT	621.46	2,280.66
Overall gearing (times)	0.58	0.65
Interest coverage (times)	2.19	4.40

A: Audited; UA: Unaudited; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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
Debentures-Non-convertible debentures^	-	NA	NA	NA	250.00	CARE AA+; Stable

^Not yet placed

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term loan	LT	-	-	-	-	-	1)CARE AA-; Stable (09-Feb-22) 2)Withdrawn (09-Feb-22)
2	Non-fund-based - LT-Bank guarantee	LT	-	-	-	-	-	1)Withdrawn (09-Feb-22) 2)CARE AA-; Stable (09-Feb-22)
3	Fund-based - LT-Working capital limits	LT	-	-	-	-	-	1)CARE AA-; Stable (09-Feb-22) 2)Withdrawn (09-Feb-22)
4	Non-fund-based - LT-Bank guarantee	LT	-	-	-	-	-	1)Withdrawn (09-Feb-22) 2)CARE AA-; Stable (09-Feb-22)
5	Debentures-Non-convertible debentures	LT	250.00	CARE AA+; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple

Annexure-5: Lender details

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

Note on complexity levels of 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:

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