SJVN Limited (Revised)

September 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,053.50	CARE AA+; Stable	Assigned
Long-term bank facilities	6,833.30	CARE AA+; Stable	Reaffirmed
Short-term bank facilities	500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed ratings of long-term and short-term bank facilities of SJVN Limited (SJVN). CARE Ratings has also assigned a rating of 'CARE AA+; Stable' to incremental term-loan facilities. Ratings of SJVN Limited (SJVN) derives comfort from low sales risk from its long-term power purchase agreements (PPAs) for its ~98% operational capacity on consolidated basis as on August 31, 2024. The cost-plus tariff structure per the Central Electricity Regulatory Commission (CERC) tariff guidelines for its operational hydro capacity (1,912 MW), which ensures cost recovery with fixed return on equity, adds strength to ratings. Ratings favourably factor 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. Ratings also factor in its comfortable financial risk profile on consolidated basis, marked by healthy profitability margins and strong liquidity profile although debt levels have increased in the last few years to fund under-construction projects of the group. Ratings draw strength from majority ownership by the Government of India (GoI), which has provided adequate financial flexibility to SJVN in the past. GoI has guaranteed World Bank loan for Rampur project (outstanding ₹1,055 crore as on June 30, 2024).

However, rating strengths are constrained by execution risks, including time and cost overruns associated with its large projects in the implementation stage (including projects under special purpose vehicles [SPVs]) and exposure to vagaries of the merchant market in view of non-tie-up of the portion of capacity in the implementation stage. Ratings also take cognisance of counterparty risk associated with weak-to-moderate financial profile of state distribution utilities, which are key counterparties in the company's PPA.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly improving credit profile of off-takers, leading to improving average collection period.
- Timely commissioning of under-implementation plants with execution of PPAs with off-takers having an acceptable credit profile and at a favourable tariff.

Negative factors

- Diluting GoI's support philosophy towards SJVN or reducing GoI shareholding to below 51%.
- Significantly delaying receipt of payments from counterparties beyond 180 days, weakening liquidity profile.
- Significantly lower-than-envisaged operational profile or reducing tariff or increasing borrowing cost or operating cost, leading to an adverse impact on coverage metrics.
- Significant time and cost overruns in projects under implementation, leading to higher-than-projected total debt to profit before interest, lease rentals, depreciation, and taxation (TD/PBILDT).

Analytical approach: Consolidated

Ratings have been assigned on consolidated basis considering common name with majority subsidiaries, credit guarantee (CG) for term loan of SJVN Arun and linkage with subsidiaries considering similar line of business/diversification goals of the group. Ratings factor in SJVN's strategic importance to the GoI and its important role for the Indian power generation sector. Subsidiaries/joint ventures (JVs) that have been consolidated are listed in **Annexure 6**.

Outlook: Stable

The 'stable' outlook reflects SJVN's ability to sustain operational performance of the current operational portfolio, leading to steady gross cash accruals (GCA), while maintaining a reasonable average collection period.

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

Detailed description of key rating drivers:

Key strengths

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 the GoI. Majority stake in SJVN is held by the GoI (55.00% as on June 30, 2024). By virtue of its strong parentage, apart from equity support, the company also enjoys decent access to domestic and global debt markets.

The GoI is also involved in appointment of the Board and senior management and setting up SJVN's business plan annually. SVN's recognition as a 'Navratna' Category-I central public sector enterprise (CPSE) provides its management with significant autonomy in taking financial decisions. GoI's support to the company is evident from guarantee for debt availed for Rampur project. Going forward, changes in the government stance towards this company or reduction in its strategic importance will be a key rating sensitivity.

Steady cash flow with assured returns based on CERC-determined tariffs

On a standalone basis, SJVN's operational hydro power capacity (excluding 60 MW Naitwar Mori HEP) is tied up in long-term PPAs with beneficiary states that derive its revenue based on the cost-plus mechanism. The tariff for SJVN's hydro power stations is determined by CERC, ensuring recovery of cost (determined on normative operating parameters) and post-tax return on equity (RoE) at 16.50%. Notably, 50% of the annual fixed cost (AFC) is recoverable on achieving design energy, while the balance is recoverable on achieving normative annual plant availability factor (NAPAF). Thermal power project under SJVN Thermal has a long-term PPA for entire capacity with Bihar discoms, while renewable projects have long-term PPAs with state distributions utilities/central counterparties. Capacity of 900 MW hydro power project remains un-tied. Tying up of capacity at remunerative tariff shall remain a key monitorable.

Strong operating efficiency of hydro power stations

In FY21 (refers to April 01 to March 31), FY22 and FY23, SJVN's operating hydro power stations, Nathpa Jhakri HEP and Rampur HEP, generated more than their respective annual design energy. In FY24 both projects had a shortfall in achieving design energy, which was attributable to lower hydrology across the country. PAF for these plants stood at over 100% in FY21, FY22, FY23 and FY24, as against the NAPAF of 90% and 85% for Nathpa Jhakri HEP and Rampur HEP, respectively, leading to recovery of annual fixed charges and entitling them for availability-based incentive income. PAF and generation have been healthy for both hydro and operational renewable projects. Since majority of the group's operational renewable capacity is recently commissioned, it does not have sufficient track record. However, generation and availability for the operational period has been satisfactory.

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. Overall gearing and PBILDT interest coverage moderated to 1.44x and 3.82x as on March 31, 2024, respectively (FY23: 1.02x and 5.38x, respectively) considering debt-funded capex. Given the sizeable pipeline of under-implementation projects, CARE Ratings expects SJVN's leverage to increase going forward and timely commissioning of key assets without further cost over-run shall remain a key monitorable. Major projects under construction include 1320 MW thermal power project under SJVN Thermal, 1000 MW solar power project under SJVN Green and 900 MW hydro power project under SJVN Arun.

Key weaknesses

Counterparty credit risk

SJVN's power off take for majority the operational capacity is with State DISCOMs having weak-to-moderate credit profile, which exposes it to counterparty credit risk Higher level of aggregate transmission and commercial (AT&C) losses, rising power purchase costs, and absence of cost reflective tariff regimes have put a strain on the financial position of some of state distribution utilities. 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.

However, since implementation LPS Rules 2022 notification by MoP on June 03, 2022, average collection period significantly improved from 93 days in FY21 to 31 days in FY24.

Execution and funding risks pertaining to projects under implementation

The company has 5,277 MW of projects under construction, which comprises ~1,761 MW of hydro projects, 1,320 MW of thermal projects, and 2,196 MW of renewable energy projects. The company has projects ~11 GW in pipeline, which are in planning/survey stage. The company has projected to incur over ₹25,000 crore capex in FY25 and FY26. Projects under implementation are expected to be financed in a debt-to-equity ratio of 70:30 or 80:20, leading to moderation in leverage metrics. The company has also securitised a portion of receivables of Nathpa Jhakri HEP to fund equity portion of under construction projects, leading to further leveraging.

CARE Ratings notes delay in implementation of 1,320 MW thermal plant from earlier envisaged scheduled commercial operation date (SCOD) from September 2023 to March 2025. CARE Ratings notes that delay in project execution will lead to higher project cost than originally envisaged, exposing the company to funding risk. CARE Ratings also takes note of expected delay in implementation of 900 MW Arun-3 Power Project from envisaged date of April 2025 to December 2025. However, the delays are partially mitigated through availability of debt tie up for revised cost for both the projects and the company's extensive experience in implementing complex power projects.

CARE Ratings notes that majority equity requirement for 5,277 MW under construction projects till March 2024 has been infused. Portion of remaining equity, which is to be deployed in the next two years, shall be pumped through yearly surplus cash accruals, undrawn portion of loan availed through securitization of receivables of Nathpa Jhakri, and healthy cash and bank balances available with the group.

SJVN has also obtained board approval on August 13, 2024, for securitisation of receivables and divestment of stake in SGEL. Timely completion of these monetisation activities shall remain a key monitorable.

Liquidity: Strong

There is significant headroom between projected GCA for FY25 and FY26 against scheduled debt repayment for SJVN. The company's free cash and bank balance stood at ~₹1,595 crore as on July 31, 2024. Utilisation of fund-based working capital limits stood moderate at ~25% for 12-months ending May 2024. Although the company faces refinancing risk in FY27 due to large maturity of external commercial borrowings (ECBs) and non-convertible debentures (NCDs), considering modest 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.

Environment, social, and governance (ESG) risks

The company's ESG profile is expected to derive comfort from 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. The board comprises 50% 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
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Infrastructure Sector Ratings
Short Term Instruments
Wind Power Projects
Thermal Power
Solar Power Projects

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power Generation

SJVN (formerly known as Satluj Jal Vidyut Nigam Limited), a 'Navratna' company was incorporated on May 24, 1988, as a JV of the GoI and the GoHP. As on June 30, 2024, the GoI and the GoHP held 55.00% and 26.85%, respectively, in SJVN. SJVN has an installed capacity of 2,465.5 MW on standalone basis as on June 30, 2024, 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) and renewable energy assets aggregating to 390 MW under SJVN Green Energy Limited (SGEL), and a grid connected solar plant of 1.3 MW. It operates an 86-km 400 kV DC line across the India-Nepal border through the JV mode. SJVN is setting up 1320 MW thermal power project under SJVN Thermal and 900 MW hydro power project under SJVN Arun.

Brief Financials (₹ crore) – (Consolidated)*	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	2815.19	2577.35	958.47
PBILDT	2100.77	1746.23	755.59
PAT	1359.30	911.44	355.95
Overall gearing (times)	1.02	1.44	NA
Interest coverage (times)	5.06	3.82	5.29

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results; *Financials reclassified 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 January 25, 2024. Additionally, the ratings have been withdrawn by the CRA.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	100.00	CARE AA+; Stable
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
Fund-based - LT-Term Loan		-	-	September 30, 2039	2053.50	CARE AA+; Stable
Fund-based - ST-Term loan	-	-	-	7-364 days	300.00	CARE A1+
Fund-based - ST-Working Capital Limits	-	-	-	-	200.00	CARE A1+
Non-fund-based - LT-Bank Guarantee	-	-	-	-	600.00	CARE AA+; Stable
Non-fund-based - LT-BG/LC	-	-	-	-	100.00	CARE AA+; Stable

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	1537.00	CARE AA+; Stable	-	1)CARE AA+; Stable (21-Aug-23)	1)CARE AA+; Stable (29-Mar-23)	-
2	Fund-based - LT-Term Loan	LT	2000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (21-Aug-23)	1)CARE AA+; Stable (29-Mar-23)	-
3	Non-fund-based - LT-Bank Guarantee	LT	600.00	CARE AA+; Stable	-	1)CARE AA+; Stable (21-Aug-23)	1)CARE AA+; Stable (29-Mar-23)	-
4	Fund-based - LT-External Commercial Borrowings	LT	2496.30	CARE AA+; Stable	-	1)CARE AA+; Stable (21-Aug-23)	1)CARE AA+; Stable (29-Mar-23)	-
5	Fund-based - LT-Cash Credit	LT	100.00	CARE AA+; Stable	-	1)CARE AA+; Stable (21-Aug-23)	-	-
6	Non-fund-based - LT-BG/LC	LT	100.00	CARE AA+; Stable	-	1)CARE AA+; Stable (21-Aug-23)	-	-
7	Fund-based - ST-Working Capital Limits	ST	200.00	CARE A1+	-	1)CARE A1+ (21-Aug-23)	-	-
8	Fund-based - ST-Term loan	ST	300.00	CARE A1+	-	1)CARE A1+ (21-Aug-23)	-	-
9	Fund-based - LT-Term Loan	LT	2053.50	CARE AA+; Stable				

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	SJVN Green Energy Limited (SGEL)	Full	Subsidiary
2	SJVN Thermal Private Limited (STPL)	Full	Subsidiary
3	SJVN Arun-3 Power Development Company Private Limited (SAPDC)	Full	Subsidiary
4	SJVN Lower Arun Power Development Company Private Limited	Full	Subsidiary
4	Cross Border Power Transmission Company Ltd	Proportionate	Joint Venture
5	SGEL Assam Renewable Energy Ltd	Full	Step down subsidiary

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