SJVN Thermal Private Limited

September 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	8,520.92	CARE BBB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in the rating for bank facilities of SJVN Thermal Private Limited (STPL) factors in the strong parentage of SJVN Limited (SJVN, rated 'CARE AA+; Stable/ CARE A1+') with an established track record of business experience in the hydro power sector and support from professional and highly qualified management team of SJVN.

The rating continues to derive strength from the low sales risk emanating from the long-term power purchase agreement (PPA) for 85% of the capacity with Bihar discoms where the tariff will be based on the Central Electricity Regulatory Commission (CERC) guidelines imparting fixed return and stable cash flow. The rating continues to draw comfort from the presence of long-term fuel supply arrangement (FSA) with Central Coalfields Limited (CCL) for 4.976 MTPA, which will be sufficient for meeting coal requirement at 85% plant load factor (PLF). The rating also takes cognisance of the key approvals which are in place and the involvement of reputed engineering, procurement, and construction (EPC) contractors and project management consultants, reducing project execution risk.

However, the rating is constrained by the execution risk associated with the under-construction project and delays witnessed in the past. The commercial operation date (CoD) for Unit-1 and Unit-2 has been further extended to December 2024 and March 2025, respectively, per management, from May 2023 and September 2023 originally envisaged owing to slow progress under Balance of Plant (BoP) areas, delay in reediness of switchyard and challenges in land acquisition for railway siding and water corridor. Per management, alternate arrangement for the same are in place and will expedite the project progress. CARE Ratings assesses the inordinate delay in execution of the project will lead to higher project cost than originally envisaged exposing the company to funding risk. However, the same is mitigated to some extent by presence of stand-by credit facility per the existing sanction. Timely infusion of equity and tie up for additional debt over and above the sanctioned limits continues to remain a critical monitorable.

Considering the cost-plus nature of the 1320-MW thermal power project, approval of project cost by Central Electricity Regulatory Commission (CERC) without major disallowance remains critical for recovery of investments made by the company and the same would remain a key monitorable for the company. Ratings are also constrained by the pre and post implementation risks associated with large-sized greenfield project with no past experience in thermal power space of the parent entity (SJVN). The rating is also constrained by counter party credit risk associated with Bihar discoms which have weak credit profile. However, the risk is mitigated to some extent by payment mechanism envisaged in PPA in the form of revolving letter of credit facility to be opened in favour of STPL.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Timely completion and commencement of the project.
- Post implementation, satisfactory performance of the plant, as envisaged with company earning sufficient cash accruals to meet its debt repayment obligations.

Negative factors

- Deteriorating credit profile of the off-taker or dilution in its support philosophy towards STPL
- Delay in estimated CoD and cost overrun not approved by CERC leading to under recovery in cost
- Weaker than-envisaged debt coverage indicators for the project.

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

Analytical approach: Standalone
Ratings are assigned on standalone basis after duly factoring in parent support from SJVN considering financial, managerial, and operational linkage and shared name.

Outlook: Stable
The stable outlook is considering the expectation of the company to commission the project without material time and cost overruns. The outlook is supported by the satisfactory revenue visibility, given the presence of a long-term PPA and the anticipated steady receipt from its off-takers.

Detailed description of key rating drivers

Key strengths

Part of a strong promoter with experience in power generation

STPL is a wholly owned subsidiary of SJVN, which is a Navratna Category-I central public sector enterprise (CPSE) under the Ministry of Power, Government of India, and is a joint venture (JV) between Government of India (55.00% holding as on June 30, 2024) and Government of Himachal Pradesh (26.85% holding as on June 30, 2024). Apart from operating its existing hydro/solar/wind power capacity of 2,376 MW, it is also implementing hydroelectric/ solar projects in Uttarakhand, Himachal Pradesh, Gujarat, Uttar Pradesh, and in neighbouring countries of Nepal and Bhutan, a thermal power project in Bihar and a power transmission project in Nepal which are currently at under-construction stage. SJVN's cash flow has been steady in the past with satisfactory average collection period, tempered by increasing leverage.
Given STPL's relative size and potential to provide revenue diversification, complete ownership by parent with strong board representation including the Chairman and the reputation risk for SJVN associated with distress in subsidiary, CARE Ratings expects STPL to benefit from the financial and operational linkages with its parent.

Low sales risk due to long-term power off-take arrangement

The company has signed PPA with Bihar discoms for 25 years from COD for 85% of the proposed capacity of 1320 MW (two units of 660 MW each). The balance capacity will be allocated to other states dynamically by the Ministry of Power. The tariff would be based upon CERC guidelines which ensures recovery of cost at normative plant availability and fixed return on equity, thus providing stable cash flow. The tariff per CERC norms comprises Capacity Charge and Energy Charge. Capacity Charge is linked to plant availability and comprises return on equity, interest on term loan, depreciation, interest on working capital, and operation and maintenance expenses. Since the capacity charge largely depends on the final capital cost approved by the regulator, extent of approval of capital cost tariff determination process will be important.

Presence of FSA mitigates fuel supply risks to an extent

STPL's FSA with CCL for 20 years with annual contracted quantity (ACQ) of 4.976 million tonne per annum is estimated to be sufficient to meet the plant's coal requirement at 85% PLF. CARE Ratings notes that the actual ACQ materialisation and grade under this linkage is to be seen. The price at which coal will be supplied shall be notified by CIL from time to time. Although the proposed presence of railway siding significantly improves logistics and cost competitiveness, the fairly large distance from the supplying mines may lead to higher energy charge and lower position in merit order.

Low permitting risk - key approvals in place

In terms of major permits, clearance from Ministry of Environment, Forest and Climate Change, Ministry of Civil Aviation and Bihar State Pollution Control Board is in place. For water allocation, memorandum of understanding (MoU) was signed with the Water Resource department of Bihar. The company has acquired the entire land for the main plant. Per the management, approximately 82% of the required land is under possession.

Project funding risk mitigated by financial closure

STPL achieved financial closure for the project in March 2021. The total project cost is to be funded in debt-equity ratio of 70:30. The company had a sanctioned debt of ₹8,448.46 crore (including standby credit facility [SCF] of ₹1,023.94 crore). However, in FY23, the company swapped its lenders for the favourable structure of the debt with the long tenor and lower lending rate for a revised sanctioned debt of ₹8,520.96 crore (including Standby Credit Facility of ₹1,096.11 crore). The sanctioned term stipulates sponsor support undertaking which also covers infusion of entire promoter's contribution prior to disbursement of SCF and entirely meet higher-than-envisaged cost overrun, if applicable. Approximately 81% of the promoter's planned committed equity has already been infused till June 30, 2024. CARE Ratings notes that the revised project cost will be higher as compared to lender appraised project cost, which exposes the company to funding risk for the cost overrun. However, the risk is mitigated to some extent by presence of standby credit facility. The company's ability to arrange funds (debt and equity) for cost and time overrun timely remains a key rating monitorable.

Involvement of reputed EPC contractors for project execution

The main plant work has been awarded to L&T Limited at a fixed price agreement. The contracts executed have in-built insurance clauses. STPL has appointed NTPC Limited (rated 'CARE AAA; Stable/ CARE A1+') as its project management consultant (PMC) for main plant works (excluding railway infrastructure). Rites Limited has been appointed as PMC for rail infrastructure works. Involvement of reputed EPC contractors for the project execution having vast experience in their respective fields reduces the risk of timely completion of the project.

Key weaknesses

Large size of the project with parent having no past experience in thermal power space

STPL's project capacity (1,320 MW) is large as compared to SJVN's current operational capacity (2376 MW). Moreover, around 91% of SJVN's operational capacity comprises hydro power capacity. The company's ability to execute the project without major cost and/or time overrun and satisfactory operations post COD remain a key monitorable.

Project timelines are revised due to delays in operations

The project was scheduled for commissioning in FY24 (refers to April 01 to March 31). However, the same has been revised for Unit-1 and Unit-2 to December 2024 and March 2025, respectively. As on June 30, 2024, the financial progress is approximately 83%. Civil work for boiler for Unit I has been completed and for Unit II is at 96%. Sizable portion of structural and pressure parts for Unit I and II has also been completed. The slower-than-anticipated progress in the balance of plant areas constrains the rating strength and thus is monitorable. The project witnessed slow traction in COVID-19 lockdowns due to lack of many resources (manpower, equipment, consumables such as industrial oxygen, among others, agitation for land acquisition). The onus for arranging power evacuation infrastructure by Bihar state transmission company (transco) (and not with STPL) possess post-commissioning risk.

CARE Ratings estimates further cost overrun given multiple delays in commissioning of the project. Any cost overrun would expose the company to funding risk. However, the same is mitigated to some extent by presence of additional line of funding available per sanction terms. Considering the cost plus nature of PPA, approval of project cost by CERC without major disallowance remains key for recovery of investments made by the company.

Weak credit profile of counter-parties, though partly offset by secured payment mechanism

The credit profile of the Bihar discoms is weak. The higher level of (aggregate transmission and commercial) AT&C losses and the rising power purchase costs have put a pressure on the financial position of its off-takers. This exposes STPL to counter-party credit risk. However, per the terms of PPA, the beneficiary would be required to establish and maintain a revolving Letter of Credit (LC) equivalent to 105% of the monthly bill under the tripartite agreement with the Reserve Bank of India (RBI).

Land acquisition for rail and water corridor is still pending

STPL is required to acquire land for water pipeline corridor (78.4 acre) and for rail infrastructure (147.26 acre). A sizable portion is pending for acquisition. There is resistance from landowners for demanding higher compensation at revised rate. The matter of land compensation has been transferred to Distt. Administration for resolution of Land Acquisition, Rehabilitation and Resettlement Authority (LARRA) court. The same continues to remain a monitorable going forward. Alternatively, the company has developed contingency coal transport arrangements from Gati Shakti Terminal which is 5 km away from the main plant. Also, the company is constructing alternate pipeline for supply of water to the plant for which contract has been awarded to L&T and construction work has also started. Successful completion of construction of alternate infrastructure within stipulated timeline key for commissioning of the project.

Liquidity: Adequate

The company is a wholly owned subsidiary of SJVN, a strong parent entity having sufficient cash accruals and cash and liquid investments to meet its project funding requirements. The extent of equity infusion till June 2024 and the provision for SCF adds comfort. Once the plant is operational, the company is expected to generate sufficient cash flows to meet its debt service requirements. Revolving LC required to be opened in favour of STPL as a payment security mechanism will provide comfort in case of delay in receipt of revenue.

Environment, social, and governance (ESG) profile

Despite sizeable land already possessed by the project, social risk associated with possession of the remaining land persists. The environmental risk is reduced to some extent with the implementation of the flue gas desulphurisation components (which is part of the project). The governance risk is largely reduced by the strong parentage.

Applicable criteria

Definition of Default
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
Thermal Power
Infrastructure Sector Ratings
Project stage companies

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power Generation

Plant was incorporated in 2007 as a special purpose vehicle as Buxar Bijlee Company Private Limited (BBCPL), a subsidiary of Bihar Power Infrastructure Company (BPIC), which was a JV of Bihar State Electricity Board (BSEB; Government of Bihar) and IL&FS Infrastructure Development Corporation Limited. BBCPL was incorporated to set up 1,320-MW super critical thermal power plant (2 units x 660 MW). In July 2013, SJVN took over BBCPL and changed its name to STPL in October 2013. The project cost (including interest in construction [IDC]) is estimated at ₹10,439 crore (January 2018 price level), which is expected to be funded in a debt: equity ratio of 70:30.

Brief Financials (₹ crore)*	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	0.00	6.10
PBILDT	-1.41	0.02
PAT	-1.16	-0.91
Overall gearing (times)	1.56	2.27
Interest coverage (times)	0.25	0.00

A: Audited; Note: these are latest available financial results; *Per CARE Ratings' Methodology

Status of non-cooperation with previous CRA: STPL has not cooperated with ICRA which has classified it in non-cooperative category vide press release dated March 28, 2024, due to lack of adequate information regarding its performance.

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Term loan-Long term	-	-	-	01/01/2042	8520.92	CARE BBB+; 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	Bonds	LT	-	-	-	-	-	1)Withdrawn (22-Sep-21)
2	Term loan-Long term	LT	8520.92	CARE BBB+; Stable	-	1)CARE BBB+; Stable (15-Feb-24) 2)CARE BBB+; Stable (02-Jan-24)	1)CARE BBB+; Stable (03-Oct-22)	1)CARE BBB+; Stable (22-Sep-21)

LT: Long 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	Term loan-Long term	Simple

Annexure-5: Lender details

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

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:

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