Chenab Valley Power Projects Limited

December 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10,168.77 (Enhanced from 3,800.00)	CARE BBB+; Stable	Reaffirmed
Long-term / Short-term bank facilities	300.00	CARE BBB+; Stable / CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Chenab Valley Power Projects Limited (CVPPL) factor in low sales risk owing to long-term power purchase agreements (PPAs) for 40 years from commercial operation date (COD) for the entire 2,164 MW capacity under construction with state distribution utilities. Cost-plus tariff structure for projects, per Central Electricity Regulatory Commission (CERC) tariff guidelines, ensures cost recovery with fixed return subject to plant operational performance in line with normative parameters adds strength to ratings. Ratings favourably factor in progress in financial closure of the projects since the last rating exercise and timely equity contributions from joint venture partners. Support from the Government of India (GoI) in the form of grants for equity contributions, subordinate debt for Pakal Dul and entire debt for Kwar project further strengthens ratings. Ratings favourably factor in strong parentage due to majority shareholding of NHPC Limited (NHPC, rated CARE AAA; Stable), the largest hydro power generating company in the country. Ratings also draw comfort from adequate financial and managerial support envisaged from NHPC. Ratings also factor in receipt of key approvals.

However, ratings are constrained by execution risk associated with hydro power projects as evident from the time and cost overrun in the under construction projects. Expected COD of Pakal Dul and Kiru is September 2026, while expected COD of Kwar project is December 2027. The company's ability to commission these projects without major cost and/or time overruns shall be a key rating monitorable. Considering cost-plus nature of the hydro 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. Strengths are also tempered by moderate counterparty credit risk considering exposure to state distribution utilities and hydrology risks associated with run-of-river plants.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Timely completion and commencement of the projects without cost and time overruns.
- Built-up of the track record and a satisfactory plant availability level post initial stabilisation period.

Negative factors

- Deterioration in credit profile of the promoter NHPC or dilution in its support philosophy towards CVPPL.
- Inordinate delay in commissioning the project, leading to high cost overrun, impacting debt coverage indicators.
- Significant deterioration in credit profile of off-takers.
- Major disallowance of capital cost by CERC.

Analytical approach: Standalone, with notch up considering its parent company, NHPC.

Outlook: Stable

The stable outlook factors in revenue visibility given presence of long-term PPAs under cost plus mechanism, expected commissioning of under construction projects per schedule, satisfactory operational performance post COD and timely receipt of payments from counterparties.

Detailed description of key rating drivers:

Key strengths

Low sales risk; regulated returns likely to provide steady operating cash flows

The entire power generated from the three under construction projects of CVPPL have signed long term PPAs for 40 years from COD with state distribution utilities on cost plus basis, mitigating off-take risk to a large extent. The allocation of power among the counter parties shall be decided by the Ministry of Power from time to time. The tariff shall be determined per CERC tariff regulations. Annual Fixed Cost (AFC) shall comprise of five components namely interest on term loan, interest on working capital,

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

depreciation, operation and maintenance (O&M) expenses and post-tax return on equity (ROE). 50% of AFC will be recoverable upon achieving the normative annual plant availability factor (NAPAF) as determined by CERC, while the balance will be recoverable on achieving the design energy. CARE Ratings Limited (CARE Ratings) notes that full cost recovery upon meeting the normative parameters and the earning of fixed return is likely to yield stable cash flows for the project.

Advancement in financial closure

During the year, company has successfully achieved the financial closure for entire debt requirement of Kiru Hydro Electricity Project (HEP). The total project cost is to be funded in debt-equity ratio of 70:30. The company has a sanctioned debt of ₹4,018 crore (including a standby credit facility of ₹280 crore). Per the management, financial closure for Pakal Dul HEP is expected in the near term for 50% of project cost, while 20% of project cost shall be funded by subordinate debt provided by GoI at concessional rate of 1% per annum with moratorium of seven years from COD. For the Kwar HEP, no external debt is anticipated, as the entire debt will be sourced from the GoI on favourable terms. Hence, the financial closure of the under construction projects is at advanced stage.

Key approvals in place

The management has cited that all necessary approvals are in place for three hydro-electric projects Pakal Dul, Kiru and Kwar.

Part of a strong promoter having leadership position in hydro power generation in India

NHPC was holding 55.29% shares in CVPP as on September 30, 2024. NHPC is a 'Navratna', which is the largest hydro power generating company in the country. NHPC's developmental and operational expertise in hydro power business is characterised by its spread across multiple states and its long-term PPA with multiple counterparties. Moreover, majority plants have been operating at better-than-normative conditions in the last three years.

Adequate support envisaged from NHPC

For the project, NHPC has ploughed sizable equity commitment upfront. While the management has cited that NHPC may not provide explicit financial supporting stance (in the form of corporate guarantee, and shortfall undertaking among others), given the reputation risk associated with distress in the JV, CARE Ratings notes that NHPC is likely to provide need-based support. Other JV partners Jammu & Kashmir State Power Corporation Limited (JKSPDCL) has also infused sizable equity. Majority board of directors of CVPP are officially nominated by NHPC. Moreover, experienced management has also been deputed from NHPC to CVPP for smooth implementation of the project.

Government's support on hydro power projects

The skewed thermal-hydro mix, increase in peaking shortages, frequency variations and large untapped hydro potential in India have driven supportive policy formulation by Government towards development of hydro power. GoI has also notified budgetary support for infrastructure associated with hydro power projects (₹1 crore per MW for HEP above 200 MW and ₹1.5 crore per MW for HEP below 200 MW). Ministry of Power has notified hydro purchase obligation (HPO) mandating purchase of certain percentage of power from hydro power projects, mitigating demand risk to some extent. GoI has extended support to CVPPL's projects in form of grant towards equity contribution of JKSPDCL, sub-ordinate debt for Pakal Dul, entire debt for Kiru as highlighted above.

Key weaknesses

Significant portion of physical progress is pending

CVPP is implementing three hydro power projects with total estimated project cost in excess of ~₹22,535 crore The physical progress across Pakal Dul, Kiru and Kwar was 61.3%, 44.7% and 17.0% respectively as on October 31, 2024, basis initial estimated project cost. Previously, progress of the works had been hampered considering adverse geological condition. The Kuru and Pakal-Dul project witnessed cost overruns. CVPP is also setting up 930 MW Kirthai-II HEP project which is under clearance stage. CARE Ratings will continue to monitor timely completion of the project within envisaged cost and time.

Counterparty credit risk

The company has signed long-term PPAs for its entire under construction capacity of 2,164 MW with distribution utilities of Chhatisgarh, Gujarat, Jammu and Kashmir and Uttar Pradesh, where allocation will be decided by the Ministry of Power. The company is exposed to counterparty credit risk since state distribution utilities of Chhattisgarh, Uttar Pradesh and Jammu & Kashmir have weak-to-moderate credit risk profile.

Hydrological risks associated with run-of-the-river power generation

The company's under-construction projects have run-of-the-river configuration. Such projects have little or no capacity for energy storage, and hence, cannot match consumer demand with the electricity generation. A run-of-the-river power is thus considered an irregular source of power, as a result of which, it generates much more power, when seasonal river flows are high and much less in drier – winter months.

Liquidity: Adequate

The demonstrated track record of regular equity infusion by the JV partners across company projects and majority shareholder's market standing adds financial flexibility to CVPPL to some extent. Pakal Dul's financial closure, advanced stage of FC for Kiru and tie up of debt with GoI for Kwar is a positive. Once the plant is operational, projected gross cash accrual is adequate in comparison to the projected debt repayment. The revolving LC required to be opened in favour of CVPP as a payment security mechanism by its off-taker is likely to provide comfort from delays in revenue receipt.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Project stage companies
Short Term Instruments
Infrastructure Sector Ratings

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power generation

CVPPL was incorporated on June 13, 2011. It is a joint venture company promoted by NHPC Limited and Jammu and Kashmir State Power Development Corporation Limited (JKSPDCL) with envisaged shareholding of 51:49. The shareholding of NHPC and JKSPDCL is 55.29% and 44.71% respectively as on September 30, 2024. The company is constructing three hydro projects Pakal Dul HEP (1,000 MW), Kiru HEP (624 MW) and Kwar HEP (540 MW) in Jammu and Kashmir (J&K), while one project in J&K, Kirthai-II HEP (930 MW), is under clearance stage. All four projects with total capacity of 3,094 MW have been entrusted upon CVPP on Build, Own, Operate and Maintain (BOOM) basis as part of cascade development of Chenab basin in district Kishtwar

Brief Financials: Not applicable, since it is a project stage entity

Status of non-cooperation with previous CRA: Not applicable

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
Fund-based - LT-Term Loan		-	-	31-03-2038	10168.77	CARE BBB+; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	100.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	200.00	CARE BBB+; Stable / CARE A3+

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	10168.77	CARE BBB+; Stable	-	1)CARE BBB+; Stable (23-Jan-24)	-	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	200.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (23-Jan-24)	-	-
3	Fund-based - LT/ ST-Working Capital Limits	LT/ST	100.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (23-Jan-24)	-	-

LT: Long term; LT/ST: Long term/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-Term Loan	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	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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