Jaypee Powergrid Limited

February 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	200.84 (Reduced from 268.75)	CARE A- (CWP) (Single A Minus) (Under Credit watch with Positive Implications)	Placed on Credit watch with Positive Implications
Total Bank Facilities	**200.84** **(Rs. Two Hundred Crore and Eighty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the rating of JPL on credit watch with positive implications following the announcement by Power Grid Corporation of India Ltd (PGCIL, rated CARE AAA; Stable/ CARE A1+) to purchase 74% shareholding in JPL subject to necessary approvals. The materialization of the transaction will lead to substantial increase in PGCIL's shareholding in this asset from 26% to 100%. CARE would analyse the exact implications of the transaction on the rating after the completion of the transaction.

The rating assigned to the bank facilities of Jaypee Powergrid Limited (JPL) continues to factor in comfort from low business risk due to the project being part of Inter State Transmission System (ISTS) wherein under Point of Connection (PoC) mechanism, billing, collection and disbursement are operated by PGCIL. The rating favourably factors in the existence of long term transmission service agreement (TSA) with a 'cost plus' revenue model, healthy operating performance of the asset and satisfactory payment receipt track record. The rating also factors in the moderately comfortable financial risk profile coupled with full debt service reserve account (DSRA) creation for one quarter comprising of interest and principal servicing. Furthermore, the rating also takes into cognizance the experience of the promoters in power industry.

The rating strengths, however, are constrained on account of weak financial risk profile of Jaiprakash Power Ventures Ltd (JPVL, rated CARE BB-; Stable and holds 74% equity stake in JPL), regulatory risks and counter-party risk associated with the payments from the eventual end customers.

<u>Rating Sensitivities</u>

Positive Factors-Factors that could lead to positive rating action/upgrade:

- Fructification of JPVL's stake sale to PGCIL.
- Significant increase in net cash position of the company

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Line availability below normative parameters on sustained basis or significant increase in operational expenses or higher borrowing cost, thus adversely impacting the cash accrual.
- Any delay in receipt of receivables under PoC pool mechanism for more than 180 days on sustained basis.
- Any adverse change in the regulatory environment of power transmission sector.

Detailed description of the key rating drivers

Key Rating Strengths

Low Business Risk

The company's business model carries relatively low risk and provides steady cash flow generation as JPL's revenues are determined on cost plus basis considering post tax Return on Equity (ROE) of 15.5%, provided operating performance is as per normative parameters. Also, the company is entitled to incentives on achievement of availability above normative parameters. The project is part of PoC mechanism, wherein PGCIL is the collection agency for all ISTS projects. This benefits the project in terms of faster collection of dues and diversification of counter party credit risk as the risk of non-collection/delayed receipt of dues is being shared by all ISTS projects.

Satisfactory operating performance

JPL's project has an operational track record of more than nine years now. The project has achieved line availability 99.94% in 9MFY21 (9MFY20: 99.56%) and 99.50% in FY20. Also, on account of line availability above normative parameters, the company is entitled to incentives (received Rs. 1.02 crore in FY20)

[1] Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Long experience and track record of the promoter
JPL is a 74% subsidiary of JPVL. Also, PGCIL holds 26% stake in JPL. Both the Jaypee group and PGCIL have extensive experience in the power sector, including execution and operation of various projects. PGCIL operates as one of the chief agencies responsible for the planning (in its capacity of Central Transmission Utility (CTU)) and development of the country's nationwide power transmission network, including inter-state networks. Despite the extensive network under its management, PGCIL has been able to maintain system availability at more than 99% (above normative availability), which enables the company to earn incentive income consistently.
Moderately comfortable financial risk profile
Financial risk profile of the company is comfortable given the steady revenue and cash accrual over the years, strengthening coverage metrics with gradual improvement in leverage. Revenue continued to be stable in FY20 in comparison to that in FY19 on account of stable line availability. As a result, gross cash accrual remained stable in FY20 at Rs. 98.68 cr (PY: Rs. 95.12 cr). Lower interest cost on reduced debt led to strengthening of interest cover (from 3.87 in FY19 to 4.26in FY20) as well as reduction in TD/GCA (from 3.17 in FY19 to 2.51 in FY20). Overall gearing has been gradually reducing despite the significant debt reduction over the years. This is due to dividend given by the company in the past. However, networth has shown increasing trend as on March 31, 2020 as compared to that on March 31, 2019.
Low industry risk
Transmission projects are protected from demand risk as the arrangement between the project developer and the beneficiary is regulated by TSA. The annual fixed charge is billed to the beneficiary as a fee for the usage of transmission line as per TSA provided maintenance of line availability above normative parameters. As TSA is usually for the long term and provides the revenue visibility of the project subject to maintenance of operational parameters. On the supply side, the risk is low, as possibility of coming up the additional line on the same transmission network is negligible.
Liquidity: Adequate
The liquidity profile of the company is adequate characterized by cash accrual due to stable operational performance vis a vis its debt obligation, maintenance of DSRA and unencumbered cash balance and presence of fund based working capital limit which has moderate utilization. The company is projected to achieve gross cash accrual of Rs. 91.26 crore during FY21 vis a vis its repayment obligation of Rs. 64.13 crore. The company had cash and bank balance of Rs. 20 crore (equivalent to ~2.78 months of debt servicing) as on February 03, 2021. Additionally, the company is already maintaining DSRA equivalent to 1 quarter of interest and principal repayment. Further, the company has sanctioned working capital facility of Rs. 25 crore which has a moderate utilization of 72.50% during past 12 months ending December'20. JPL did not avail moratorium under the Covid-19 relief package announced by RBI.

Key Rating Weaknesses
Weak financial risk profile of JPVL
Due to haircut on debt along with conversion of unsustainable portion of debt to CCPS/CRPS, the leverage profile of JPVL has improved. However, financial risk profile continues to remain weak due to lower cash accrual and weakened liquidity. This weakness may impact JPL adversely, should the need arise for further equity or any other financial support or upstreaming of cash flows.

Counterparty risk with payments and regulatory risk
The company is exposed to counter party risk associated with the payments from the eventual end customers on account of weak financial profile of majority of the discoms. However, the company has been receiving majority of the payments regularly and benefits from the strong collection efficiency of PGCIL, which acts as an intermediary between JPL and discoms for collection of transmission charges. Furthermore, the company is dependent on actual tariff approved by the CERC for future years; and any shortfall in approved tariff could impact the profitability. The company is also exposed to the risk of any adverse regulatory changes in the future.

Analytical approach: Standalone

Applicable Criteria
Definition of Default
Rating Outlook and Credit Watch
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Infrastructure Sector Ratings
Power transmission
Factoring Linkages Parent Sub JV Group

About the Company

JPL, a 74:26 joint venture company between JPVL and PGCIL, has set up a 224 km long 400 KV transmission line in Himachal Pradesh and Haryana. The project was commissioned on April 1, 2012. The project also includes a LILO (Loop In Loop Out) of 400 KV DC Baspa-Nathpa-Jhakri transmission line for which the COD was declared in June 2011. The transmission network of JPL was originally set up to provide evacuation of the power generated from Karcham Wangtoo hydro power project. However, later on, the project has been accorded status of Inter State Transmission System (ISTS) and can be used for the transmission of electricity from Karcham hydro project along with any future or existing projects in the area. Central Electricity Regulatory Commission (CERC) implemented the inter-state transmission charges and losses regulations in July 2011. Accordingly, PGCIL now functions as the central transmission utility (CTU) responsible for billing, collection and disbursement to all ISTS including JPL.

Brief Financials (Rs. crore)	FY19 (A)*	FY20 (A)
Total operating income	164.85	163.47
PBILDT	147.10	144.29
PAT	52.61	57.28
Overall gearing (times)	0.76	0.57
Interest coverage (times)	3.87	4.26

A: Audited

**FY19 financials were restated by JPL.*

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Annexure 1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Dec-2023	175.84	CARE A- (CWP)
Fund-based - LT-Cash Credit	-	-	-	25.00	CARE A- (CWP)

Annexure 2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	175.84	CARE A- (CWP)	-	1)CARE A-; Stable (27-Mar-20)	1)CARE A-; Stable (26-Mar-19) 2)CARE A-; Stable (03-Apr-18)	1)CARE A-; Stable (10-Apr-17)
2.	Fund-based - LT-Cash Credit	LT	25.00	CARE A- (CWP)	-	1)CARE A-; Stable (27-Mar-20)	1)CARE A-; Stable (26-Mar-19) 2)CARE A-; Stable (03-Apr-18)	1)CARE A-; Stable (10-Apr-17)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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