

Press Release

Teesta Urja Limited

August 24, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 215.00 Cr.
Long Term Rating	ACUITE BBB-/ Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 215.00 crore bank facilities of Teesta Urja Limited. The outlook is '**Stable**'.

Incorporated in 2005, Teesta Urja Limited (TUL) is engaged in hydropower generation and has set up 1,200 MW Teesta Stage III hydroelectric electric project in Sikkim. The project was commissioned in February 2017. TUL has entered into Power Purchase Agreement (PPA) for 35 years with PTC India Limited (PTC) for sale of entire saleable power out of which 70 percent of the power is to be sold under long term basis and balance 30 percent to be sold on a short term basis. PTC has entered into Power Sale Agreement (PSA) with four states, Punjab, Haryana, Uttar Pradesh and Rajasthan. Currently, TUL sells 25 percent of power on a long term basis and 75 percent via merchant sale through IEX. The company is promoted by Government of Sikkim (GoS)/ Sikkim Power Investment Corporation Limited (SPICL), holding 60.08 percent stake currently.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of TUL to arrive at this rating. Acuité has notched up the rating by factoring in the irrevocable and unconditional guarantee to the tune of Rs. 375.00 crore extended by Government of Sikkim (GoS) for the term loan facility by Rural Electrification Corporation Limited (REC) and Power Finance Corporation Limited (PFC). Due to the unconditional and irrevocable guarantee, the rating of TUL is mapped to that of the guaranteeing entity.

Key Rating Drivers

Strengths

- **Strategically important entity and guarantee extended by GoS**

TUL is a strategically important entity for the state of Sikkim for ensuring uninterrupted power generation and is currently 60.08 percent owned by GOS/SPICL. TUL has set up the 1,200 MW Teesta Stage III hydroelectric electric project which is second largest hydropower project in India. Thus, Acuité derives comfort from the implicit support and a moral obligation on GoS to support TUL. Moreover, the Government of Sikkim (GoS) has provided an irrevocable and unconditional guarantee of Rs. 375.00 crore for the term loan facility by REC and PFC. Hence, Acuité derives comfort from the guarantee and its terms as the credit quality of the term loan facility reflects the credit quality of the guarantor.

- **Cost-plus based tariff model and determination of final tariff**

TUL has a cost-plus based tariff model and the tariff rates are determined as per the tariff regulation notified by Central Electricity Regulatory Commission (CERC). TUL has filed the tariff petition with CERC for determination of tariff. Meanwhile, the interim tariff has been granted by CERC for Teesta III Hydroelectric Power Project from February, 2017 to March, 2019 and has been extended further

beyond March, 2019.

Currently, the higher capital cost has been approved and the final tariff is determined by CERC to vide its tariff order dated January, 2020. The levelled tariff rate has been increased to around Rs. 5.17/kWh from Rs.4.05/kWh earlier. Hence, Acuité believes that cost-plus based tariff model will ensure adequate recovery of fixed charges and steady returns. While the COVID lockdown in Q1FY21 may impact the near term revenues due to a decline in short term tariff rate, Acuité believes that TUL will benefit out of higher long term tariff rate going forward.

• **Moderate financial risk profile**

The financial risk profile of the company is moderate, marked by strong net worth, high gearing and modest debt protection metrics. The tangible net worth of the company stood high at Rs.1964.01 crore as on 31st March, 2020 (Provisional) against Rs. 2008.30 crore as on 31st March, 2019. The networth reduced in FY20 due to increase in accumulated losses. The gearing (debt-equity) stood high at 4.96 times in FY2020 (Provisional) against 4.97 times in FY2019. The total debt of the company stood high at Rs. 9742.04 crore as on March 31st, 2020 (Provisional) which consists of long term borrowings of Rs. 9587.04 crore and working capital loan of Rs.155.00 crore. REC has taken over the entire term loan from existing lenders in December 2019 and subsequently, 50 percent of total loan, i.e. Rs.4797.84 crore has been taken over by PFC. Moreover, the interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood modest at 1.52 times and 0.77 times in FY2020 (Provisional). Acuité believes the financial risk profile of the company is expected to improve going forward with lower debt obligations in the medium term and extension of loan tenure to 27.50 years till September, 2046 from 9.75 years earlier.

Weaknesses

• **Non-operationalization of PPA for Punjab and Haryana**

TUL has entered into PPA with PTC India Limited (PTC) for sale of entire saleable power out of which 70 percent is to be sold on a long term basis and balance 30 percent to be sold on a short term basis. PTC has entered into PSA with four states, Punjab, Haryana, Uttar Pradesh and Rajasthan. Currently, PSA with Uttar Pradesh for 200MW and with Rajasthan for 100MW has only been operationalized. However, the state discoms, Punjab and Haryana have not yet commenced procurement of power of 340MW and 200MW respectively, which in turn could result in inadequate cash accruals for TUL. Hence, Acuité believes that the commencement of power offtake under long-term PPA for Punjab and Haryana remain a key rating sensitivity.

• **Susceptibility of power generation to hydrological risk**

The operations of hydropower plants are largely dependent on the monsoon and the spread of the monsoon. As the project is a run-of-the river, well-spread monsoon is expected to support in the higher unit generation and higher cash accruals. The project receives major rainfall during the period from June to October. Average Plant Load Factor (PLF) stood at around 57.4 percent for FY 2019-20 as compared to 40.39 percent for FY 2018-19 and 41.97 percent for FY 2017-18. In fact, PLF of 57.4 percent for FY 2019-20 was higher than the design PLF of 49.60 percent. Though the PLF of TUL is over 40 percent over the past three years, however, any adverse monsoon may severely impact the cash flows and the financial flexibility, though partly mitigated by the GoS support.

Rating Sensitivity

- Commencement of power offtake by Punjab and Haryana
- Adequate power generation in the project
- Deterioration in the existing financial risk profile

Material Covenants

None

Liquidity Profile: Adequate

The company's liquidity is adequate, marked by healthy net cash accruals of Rs.620.49 crore in FY20 (Provisional) against debt repayment of Rs.400.19 crore over the same period. The company's working capital operations are efficiently marked by Gross Current Asset (GCA) of 62 days in FY2020 as against 6 days in FY2019. GCA days has increased due to arrears to be received with respect to the increased tariff rate. The company maintains unencumbered cash and bank balances of Rs.4.82 crore as on March 31, 2020 and the same are expected to be in the system over the medium term. The company has availed moratorium on interest payments on term loan till 31st Aug, 2020.

Outlook: Stable

Acuité believes the company's outlook will remain stable over the medium term on account of the continued support by the Government of Sikkim and cost-plus based tariff model. The outlook may be revised to 'Positive' in case of operationalization of PPA for Punjab and Haryana thereby leading to higher revenues. Conversely, the outlook may be revised to 'Negative' in case of any significant drop in power generation levels, or any significant delay in receivables or any unplanned debt-funded capital expenditure leading to a deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	2127.69	1613.52
PAT	Rs. Cr.	(52.37)	(314.57)
PAT Margin	(%)	(2.46)	(19.50)
Total Debt/Tangible Net Worth	Times	4.96	4.97
PBDIT/Interest	Times	1.52	1.11

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	155.00	ACUITE BBB-/ Stable

					(Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A3 (Assigned)

Contacts

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About Acuité Ratings & Research:

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