

Supplementary Disclosures for Provisional Rating

December 31, 2021

Teesta Urja Limited



| | |
|-----------------------------|---|
| Total Bank Facilities Rated | Rs. 10356.00 Cr |
| Long Term Rating | ACUITE BBB+/Stable (Reaffirmed) |
| Short Term Rating | ACUITE A2 (Reaffirmed) |
| Proposed NCD/Bond | Rs. 11028 Cr |
| Long Term Rating | ACUITE Provisional BBB+/Stable (Assigned) |
| Facilities Rated | - |
| Issuer Rating | IR BBB+/Stable (Assigned) |

Pursuant to SEBI Circular SEBI/ HO/ MIRSD/ MIRSD_CRADT/ P/ CIR/ 2021/ 554 dated 27th April, 2021, please find below the additional disclosures pertaining to Provisional Rating. The previous rating rationale is appended herewith for reference.

Additional Disclosures The rating on the Rs.11028 Cr NCDs is provisional and the final rating is subject to (pending steps/ documentation):

Receipt of final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions.

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

1. Absence of any structured payment mechanism
2. In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

Not Applicable

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued:

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument

Policy of Acuite for Provisional Rating: <https://www.acuite.in/provisional-ratings.htm>

Press Release

Teesta Urja Limited

April 23, 2021

Rating Reaffirmed and Assigned

| | |
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** Refer Annexure for details*

Rating Rationale

Acuité has assigned a long term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** on the Rs. 11,028 Cr. Proposed bond of Teesta Urja Limited (TUL) and has reaffirmed the long term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** and short term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs. 10356.00 Cr. bank facilities of Teesta Urja Limited. Acuité has assigned issuer rating of **'IR BBB+' (read as IR triple B plus)** to TUL. The outlook remains **'Stable'**.

The rating factors significant improvement in the company's business risk profile driven by award of new tenders for procurement of hydro power by Uttar Pradesh Power Corporation Limited (UPPCL) and New Delhi Municipal Corporation (NDMC), which will reduce the company's dependence on merchant power sale and impart revenue stability. Further, acquisition of around 30.16 percent stake in the company by Greenko Power Projects (Mauritius) Limited through Asian Genco TUL Pte. Limited (AGTPL) is likely to improve operational efficiency. Greenko Group is one of the leading renewable energy players in India with a net installed capacity of 6.2 GW across 15 states. Acuité has also reassessed the credit profile of the Government of Sikkim (GoS) and continues to derive strong comfort from the guarantee provided by GoS and shortfall undertaking provided by wholly owned subsidiary of GoS, i.e., Sikkim Power Investment Corporation Limited.

Acuité expects that going forward NCDs or bonds, if issued will be replaced by the existing bank loans.

About the company

Incorporated in 2005, Teesta Urja Limited (TUL) is promoted by Government of Sikkim (GoS)/ Sikkim Power Investment Corporation Limited (SPICL) holding 60.08 percent stake. The company is engaged in hydro power 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 short term basis. PTC has entered into Power Sale Agreement (PSA) with four states, Punjab, Haryana, Uttar Pradesh and Rajasthan. However, pending the operationalization of PPA for Punjab and Haryana, TUL currently sells 25 percent of power on long term basis to Uttar Pradesh and Rajasthan and 75 percent via merchant sale through Indian Energy Exchange (IEX).

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 Cr. extended by Government of Sikkim (GoS) for the term loan facility by Rural Electrification Corporation Limited (REC) and Power Finance Corporation Limited (PFC) and also the shortfall undertaking provided by SPICL, an entity owned by GoS. Acuité has undertaken a reassessment of the credit profile of GoS based on its revised criteria for evaluating state governments and the latest fiscal data from the state.

Key Rating Drivers

Strengths

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

TUL is a strategically important entity for the state of Sikkim for ensuring uninterrupted power generation and is 60.08 percent owned by GOS/SPICL. TUL has set up the 1,200 MW Teesta Stage III hydroelectric electric project, which is the second largest hydro power project in India. Moreover, Government of Sikkim (GoS) has provided an irrevocable and unconditional guarantee of Rs. 375.00 Cr. for the term loan facility from REC and PFC. Further, Sikkim Power Investment Corporation Limited (SPICL), a wholly owned subsidiary of GoS has given an irrevocable and unconditional guarantee to cover any shortfall in project cash flows and debt servicing for the entire facilities. Acuité derives comfort not only from the moral obligation of GoS to support TUL but also from the GoS guarantee.

- **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 had filed the tariff petition with CERC for determination of tariff. Meanwhile, the interim tariff had been granted by CERC for Teesta III Hydroelectric Power Project from February, 2017 to March, 2019 and had been extended further beyond March, 2019. However, the higher capital cost has been approved and the final tariff has been determined by CERC vide its tariff order dated January, 2020. The levelized tariff rate has been increased in a significant manner to around Rs. 5.19/kWh from Rs.4.05/kWh earlier. Acuité believes that cost –plus based tariff model will ensure adequate recovery of fixed charges and steady returns. The company has achieved total revenues of Rs. 2097.75 Cr. in FY20 against Rs. 1613.52 Cr. in FY19 on account of higher generation and sale of power. While the COVID lockdown has

impacted the revenues in Q1FY2 and led to decline in short term tariff rate, the company has booked revenues of around Rs. 1481 Cr. till Dec, 2020 (Provisional).

- **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.1916.52 Cr. as on 31st March, 2020 against Rs. 2008.30 Cr. as on 31st March, 2019. The networth reduced in FY20 due to increase in accumulated losses. The gearing (debt -equity) stood high at 5.16 times in FY2020 against 4.97 times in FY2019. The total debt of the company remains high at Rs. 9881.39 Cr. as on March 31st, 2020 which consists of long term borrowings of Rs. 9,726.39 Cr. and working capital loan of Rs.155.00 Cr. REC has taken over the entire term loan from existing lenders in December 2019 and subsequently, 50 percent of the outstanding term loan, i.e. Rs.4797.84 Cr. has been acquired by PFC. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood modest at 1.51 times and 0.75 times in FY2020. Nevertheless, Acuité believes that the financial risk profile of the company will improve going forward with extension of loan tenure to 28 years till March, 2047 from 9.75 years earlier and therefore limited debt repayment obligations in the medium term.

Weakness

- **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 long term basis and balance 30 percent to be sold on short term basis. PTC has entered into PSA on a back to back basis, with four states, Punjab, Haryana, Uttar Pradesh and Rajasthan. Currently, PSA with Uttar Pradesh for 200MW and 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.

- **Volatility in short term tariff rate**

Currently, TUL is highly dependent on merchant power sale as it sells around 75 percent via merchant sale through IEX. Due to low demand scenario owing to COVID-19 lockdown, short term tariff rates had fallen drastically in Q1FY21, which led to lower realization for TUL. However, the tariff rates have started showing improvement from H2FY21 due to a healthy recovery in aggregate power demand. Acuité believes that TUL is highly exposed to volatility in tariff rates from sale of power through merchant trading.

However, TUL's dependence on merchant sale is expected to reduce going forward after the commencement of power sale of 265 MW under long -term agreement with Uttar Pradesh Power Corporation Limited (UPPCL) and 142 MW with New Delhi

Municipal Corporation (NDMC). TUL is expected to supply power from May 2021 for 6 months (May – Oct) every year to UPPCL for a period of 25 years at a gross tariff of Rs. 5.57/kWh (after adjustment for transmission charges & losses, the net realization is expected to be Rs.4.05/kWh (levelized for 25 years). TUL is expected to supply power from April, 2021 for a period of 5 years at a tariff of Rs. 3.96/kWh.

Rating Sensitivity

- Commencement of power offtake by Punjab and Haryana
- Stability in power generation
- Any deterioration in existing financial risk profile
- Sustenance in short term tariff rates
- Timely receipt of dues from DISCOMs

Material Covenant

- Approval of GOS/SPICL before any change in shareholding pattern as stipulated by its lenders
- Maintenance of debt service reserve account (DSRA) equivalent to two quarters of debt repayment

Liquidity Profile: Adequate

The company's liquidity is expected to remain adequate as net cash accruals is expected to remain healthy in the range of Rs.340.00 -600.00 Cr. in FY21-23 against total debt repayment of Rs. 51.00-173.00 Cr. over the same period. The company's working capital operations are efficiently managed with Gross Current Asset (GCA) of 55 days in FY2020 as against 6 days in FY2019. GCA days had increased due to arrears to be received with respect to the increased tariff rate. The company had around Rs.369.00 Cr. of fixed deposit as on 15th Jan, 2021. Such cash reserves are expected to be maintained over the medium term. The company had availed moratorium on interest payments for term loans for the quarters ended on 31.03.2020 and 30.06.2020 and the interest dues have been converted into funded interest term loan of around Rs.562.96 Cr which has provided some relief on the liquidity front. Further, presence of debt service reserve account (DSRA) in the form of fixed deposit equivalent two quarters of debt repayment as per sanction terms of lenders provides further comfort.

Outlook: Stable

Acuité believes the company's outlook will remain stable over the medium term on account of the continued support from 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 divestment by the GoS or any unplanned debt funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 2097.75 | 1613.52 |
| PAT | Rs. Cr. | (92.66) | (314.57) |
| PAT Margin | (%) | (4.42) | (19.50) |

| | | | |
|-------------------------------|-------|------|------|
| Total Debt/Tangible Net Worth | Times | 5.16 | 4.97 |
| PBDIT/Interest | Times | 1.51 | 1.11 |

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

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>
- Entities in service sector- <https://www.acuite.in/view-rating-criteria-50.htm>
- State Government Support- <https://www.acuite.in/view-rating-criteria-26.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount | Ratings/Outlook |
|-------------|---------------------------------|------------|-------------|-------------------------------|
| | | | (Rs. Crore) | |
| 23-Feb-2021 | Working Capital Demand Loan | Long term | 94.00 | ACUITE BBB+/Stable (Upgraded) |
| | Working Capital Demand Loan | Long term | 33.00 | ACUITE BBB+/Stable (Upgraded) |
| | Working Capital Demand Loan | Long term | 28.00 | ACUITE BBB+/Stable (Upgraded) |
| | Bank Guarantee | Short Term | 36.00 | ACUITE A2 (Upgraded) |
| | Bank Guarantee | Short Term | 13.00 | ACUITE A2 (Upgraded) |
| | Bank Guarantee | Short Term | 11.00 | ACUITE A2 (Upgraded) |
| | Term Loan | Long term | 5067.89 | ACUITE BBB+/Stable (Assigned) |
| | Term Loan | Long term | 5073.11 | ACUITE BBB+/Stable (Assigned) |
| 24-Aug-2020 | Working Capital Demand Loan | Long term | 155.00 | ACUITE BBB-/Stable (Assigned) |
| | Bank Guarantee | Short Term | 60.00 | ACUITE A3 (Assigned) |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Bank Name | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|-----------------------------|------------------|----------------|----------------|---|-----------------------------|---|
| Working Capital Demand Loan | Not Applicable | Not Applicable | Not Applicable | Punjab National Bank | 94.00 | ACUITE BBB+/Stable (Reaffirmed) |
| Working Capital Demand Loan | Not Applicable | Not Applicable | Not Applicable | Canara Bank | 33.00 | ACUITE BBB+/Stable (Reaffirmed) |
| Working Capital Demand Loan | Not Applicable | Not Applicable | Not Applicable | Bank of Baroda | 28.00 | ACUITE BBB+/Stable (Reaffirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | Punjab National Bank | 36.00 | ACUITE A2 (Reaffirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | Canara Bank | 13.00 | ACUITE A2 (Reaffirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | Bank of Baroda | 11.00 | ACUITE A2 (Reaffirmed) |
| Term Loan | 18-Dec-2019 | 11.40 | 31-Mar-2047 | Rural Electrification Corporation Limited | 5067.89 | ACUITE BBB+/Stable (Reaffirmed) |
| Term Loan | 24-Dec-2019 | 11.40 | 31-Mar-2047 | Power Finance Corporation Limited | 5073.11 | ACUITE BBB+/Stable (Reaffirmed) |
| Proposed Bond (NCD) | Not Applicable | Not Applicable | Not Applicable | - | 11028.00 | ACUITE Provisional BBB+/Stable (Assigned) |
| Issuer Rating | Not Applicable | Not Applicable | Not Applicable | - | - | IR BBB+/Stable (Assigned) |

Contacts

| Analytical | Rating Desk |
|---|---|
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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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