

**Press Release**  
**Teesta Urja Limited**

April 21, 2022



**Rating Upgraded and Upgraded & Withdrawn**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10296.00	ACUITE A-   Stable   Upgraded	-
Bank Loan Ratings	60.00	-	ACUITE A2+   Upgraded
Issuer Rating (IR)	0.00	ACUITE A-   IR   Upgraded & Withdrawn	-
Non Convertible Debentures (NCD)	11028.00	Provisional   ACUITE A-   Upgraded & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	10356.00	-	-
Total Withdrawn Quantum (Rs. Cr)	11028.00	-	-

**Rating Rationale**

Acuite has upgraded the long term rating to '**ACUITE A-**' (read as **ACUITE A minus**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating to '**ACUITE A2+**' (read as **ACUITE A two plus**) from '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 10356.00 Cr. bank facilities of Teesta Urja Limited (TUL). The outlook remains '**Stable**'.

Acuite has upgraded & withdrawn a long term rating of '**Provisional ACUITE A-**' (read as **Provisional ACUITE A minus**) on the Rs. 11028.00 Cr. of proposed non-convertible debentures of TUL. Acuite has also upgraded & withdrawn issuer rating of '**ACUITE A- IR**' (read as **ACUITE A minus Issuer Rating**) to TUL.

The rating has been withdrawn on account of client's request and is in accordance with Acuite's policy on withdrawal of rating.

The rating upgrade is driven by an improvement in the overall business risk profile of the company marked by two new purchase power agreements (PPA) with Uttar Pradesh Power Corporation Limited (UPPCL) and New Delhi Municipal Corporation (NDMC), which in turn reduced the company's dependence on merchant power sale and impart revenue stability. The rating also factors in TUL's yearly plant load factor (PLF), which is consistently higher than the design PLF over the past three years. Moreover, the rating upgrade is also supported by the strong liquidity position of the company. These strengths are, however, partly offset by regulated nature of operations and susceptibility of power generation to hydrological risk.

**About the Company**

Incorporated in 2005, Teesta Urja Limited (TUL) is promoted by Government of Sikkim (GoS) through Sikkim Power Investment Corporation Limited (SPICL), which is holding 60.08 per cent

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 and additional PPA with UPPCL and NDMC, TUL currently sells 41 percent of power on long term basis to Uttar Pradesh and Rajasthan and 55 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 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 Sikkim Power Investment Corporation Limited (SPICL), an entity owned by GoS.

### **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.

##### **Strong business risk profile buoyed by reduction in TUL's dependence on merchant sale**

The company has achieved total revenues of Rs.1872.22 Cr in FY21 against Rs.2096.88 Cr in FY20. The decline in revenue is primarily on account of the pandemic. Further, the lockdown due to COVID-19 has led to decline in short term tariff rate. The company has booked revenues of around Rs. 2,423.25 Cr till February, 2022 (Provisional).

Previously, TUL was highly dependent on merchant power sale as it used to sell around 75 percent via merchant sale through IEX. Hence, the company was highly exposed to volatility in tariff rates from sale of power through merchant trading. However, currently, TUL's dependence on merchant sale has reduced 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).

##### **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.

## **Assured offtake on account of power purchase agreement**

TUL has long term power purchase agreements (PPA) with UPPCL and RRVNPL for 35 years for 200 MW and 100 MW respectively. Additionally, TUL has a long term PPA with UPPCL for 25 years for 265 MW and a short term PPA with NDMC for 3 years for 142 MW. Acuité believes that the long term agreement ensures the availability of a captive market and an assured offtake of the company's power generation.

## **Weaknesses**

### **Moderate financial risk profile**

The company's moderate financial risk profile is marked by a strong networth base, high gearing and average debt protection metrics. The tangible net worth of the company stood at Rs.1691.90 Cr as on March 31, 2021 as against Rs.1916.52 Cr as on March 31, 2020. The networth reduced in FY21 due to adjustment for accumulated losses. Gearing of the company stood high at 6.03 times as on March 31, 2021 as against 5.16 times as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 6.01 times as on March 31, 2021 as against 5.27 times as on March 31, 2020. The average debt protection metrics of the company is marked by Interest Coverage Ratio at 1.35 times as on March 31, 2021 and Debt Service Coverage Ratio at 1.38 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.05 times as on March 31, 2021. Acuité believes that going forward the financial risk profile of the company will improve backed by increasing accruals.

### **Susceptibility of power generation to hydrological risk and regulated nature of operations**

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 better cash accruals. The project receives major rainfall during the period from June to October. Acuité believes that any adverse monsoon may severely impact the cash flows.

TUL continues to be exposed to regulatory uncertainty, given that the revenues are influenced by the regulatory framework governing the power sector. The company operates through a cost-plus return on equity model laid down by CERC. Any change/ reduction in return on equity or a tightening of the CERC norms could result in lower operating cash flows. Acuité believes that the delay in finalisation of the tariff could result in cash flow mismatch in the medium term.

### **Rating Sensitivities**

- Continued support from the Government of Sikkim
- Periodical and timely tariff revision

### **Material covenants**

None

### **Liquidity Position: Strong**

The state government of Sikkim has given irrevocable and unconditional guarantee of Rs. 375.00 Cr for the loans borrowed by TUL from REC and PFC; which provides financial flexibility to the company. Further, the company's liquidity is strong marked by the high amount of cash and bank balances of Rs.1000 Cr as on Dec 31, 2021 (Prov) including debt service reserve account (DSRA) of around Rs. 547.43 Cr. The presence of DSRA in the form of fixed deposit equivalent two quarters of debt repayment as per sanction terms of lenders provides further comfort. Moreover, the fund based limit remains predominantly unutilised. The net cash accruals stood at Rs.467.18 Cr in FY21, against debt repayment obligation of Rs.20.13 Cr for the same time period. However, the current ratio stood moderate at 1.24 as on March 31, 2021. Acuité believes that going forward the liquidity position of the company will improve further backed by the significantly improving accruals.

## Outlook: Stable

Acuité believes that the company will maintain 'Stable' outlook over the medium term due to the assured offtake on account of PPA with UPPCL, RRVPL, and NDMC along with its strategic importance and the support provided by the state government. The outlook may be revised to 'Positive' in case of significant improvement of the financial risk profile, liquidity position and its revenue level. Conversely, the outlook may be revised to 'Negative' in case of any unexpected deterioration in the financial profile, elongation of working capital cycle or any significant pressures on the fiscal position of the state government.

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	1872.22	2097.75
PAT	Rs. Cr.	(208.24)	(92.66)
PAT Margin	(%)	(11.12)	(4.42)
Total Debt/Tangible Net Worth	Times	6.03	5.16
PBDIT/Interest	Times	1.35	1.51

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

Not Applicable

## Any other information

Not Applicable

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>

## Note on complexity levels of the rated instrument

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

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Apr 2021	Working Capital Demand Loan	Long Term	28.00	ACUITE BBB+   Stable (Reaffirmed)
	Issuer Rating	Long Term	0.00	ACUITE BBB+(IR)   Stable (Assigned)
	Bank Guarantee	Short Term	36.00	ACUITE A2 (Reaffirmed)
	Working Capital Demand Loan	Long Term	33.00	ACUITE BBB+   Stable (Reaffirmed)
	Bank Guarantee	Short Term	13.00	ACUITE A2 (Reaffirmed)
	Working Capital Demand Loan	Long Term	94.00	ACUITE BBB+   Stable (Reaffirmed)
	Bank Guarantee	Short Term	11.00	ACUITE A2 (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	11028.00	ACUITE Provisional BBB+   Stable (Assigned)
	Term Loan	Long Term	5067.89	ACUITE BBB+   Stable (Reaffirmed)

	Term Loan	Long Term	5073.11	ACUITE BBB+   Stable (Reaffirmed)
23 Feb 2021	Working Capital Demand Loan	Long Term	94.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
	Bank Guarantee	Short Term	13.00	ACUITE A2 (Upgraded from ACUITE A3)
	Term Loan	Long Term	5067.89	ACUITE BBB+   Stable (Assigned)
	Bank Guarantee	Short Term	36.00	ACUITE A2 (Upgraded from ACUITE A3)
	Bank Guarantee	Short Term	11.00	ACUITE A2 (Upgraded from ACUITE A3)
	Working Capital Demand Loan	Long Term	33.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB-   Stable)
	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	36.00	ACUITE A2+   Upgraded
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE A2+   Upgraded
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A2+   Upgraded
Not Applicable	Not Applicable	Issuer Rating	Not Applicable	Not Applicable	Not Applicable	0.00	ACUITE A-   IR   Upgraded & Withdrawn
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	11028.00	Provisional   ACUITE A-   Upgraded & Withdrawn
Rural Electrification Corporation Ltd.	Not Applicable	Term Loan	18-12-2019	11.40	31-03-2047	5067.89	ACUITE A-   Stable   Upgraded
Power Finance Corporation Ltd.	Not Applicable	Term Loan	24-12-2019	11.40	31-03-2047	5073.11	ACUITE A-   Stable   Upgraded
Punjab National Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	94.00	ACUITE A-   Stable   Upgraded
Canara Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	33.00	ACUITE A-   Stable   Upgraded
Bank of Baroda	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	28.00	ACUITE A-   Stable   Upgraded



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### About Acuité Ratings & Research

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