

Press Release

Teestavalley Power Transmission Limited

June 29, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.1014.55 Cr.
Long Term Rating	ACUITE BBB+/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB+ (read as ACUITE triple B plus)**' on the Rs.1014.55 Cr bank facilities of Teestavalley Power Transmission Limited (TPTL). The outlook remains '**Stable**'.

The rating on TPTL takes into account a gradual improvement in the business risk profile of the company marked by the commissioning of the entire project, latest tariff order approved by the regulatory commission and cent per cent transmission line availability. These factors collectively translated into a noteworthy increase in the revenues levels of the company coupled with healthy profitability margins and a significantly improved liquidity position. Moreover, the rating derives comfort from the fiscal profile of the Government of Sikkim which is expected to provide significant support to TPTL through Teesta Urja Limited (TUL; rated at ACUITE BBB+/Stable/A2), as and when necessary. These strengths are partly offset by the moderate financial risk profile of the company and inherently regulated nature of operations in the electricity transmission business.

About the company

Incorporated in 2006, Teestavalley Power Transmission Ltd. (TPTL) is a Joint Venture between Teesta Urja Limited (TUL) and Power Grid Corporation of India Ltd. (PGCIL), who are holding 69.08 per cent and 30.92 per cent of shares respectively. Central Electricity Regulatory Commission (CERC) had granted transmission license to TPTL and for that purpose, the company has constructed a 400 kV Double Circuit Quad Moose 215 Km Interstate Transmission Line from 1200 MW Teesta-III HEP in Sikkim to PGCIL sub-station at Kishanganj, Bihar. Additionally, the operation and maintenance of the transmission line is being carried out by TPTL itself. The company has achieved its commercial operation date (COD) on 13th February, 2019 and presently has around 100 per cent transmission line availability.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of TPTL to arrive at the rating. However, the rating factors in the support from the Government of Sikkim, through its relationship and holding in TUL which in turn holds majority stake in this entity apart from its strategic importance to the state.

Key Rating Drivers

Strengths

- **Support from the Government of Sikkim, TUL, and PGCIL**

TPTL is a subsidiary of Teesta Urja Limited (TUL), which in turn is a 60.08 per cent owned body of the Government of Sikkim, and a strategically important entity of the power sector infrastructure for PGCIL. The ownership structure of 69.08 per cent shareholding by TUL and 30.92 per cent of shareholding by PGCIL provides adequate financial flexibility. It is an Inter State Transmission System catering to the states of Sikkim, West Bengal and Bihar, covering a total distance of 215 Km. Being the transmission licensee by CERC, TPTL is mandated to ensure the development of an efficient, coordinated and economical transmission network for smooth flow of power in 400 kV Double Circuit Quad Moose Interstate Transmission Line (ISTS line) from 1200 MW Teesta-III HEP in Sikkim to PGCIL sub-station at District Kishanganj, Bihar. TPTL's credit profile is also supported by its access to funds at low cost and its ability to mobilise financial resources from several financial institutions, multilateral development institutions and banks. The rating factors in the financial flexibility of TPTL.

Acuité believes that TPTL, which is a step down subsidiary and a strategically important entity for the state of Sikkim, shall continue to benefit from the financial, operational and management support from the state government as and when required. Further, PGCIL has demonstrated financial support by way of loans to TPTL.

on a regular basis. Any changes in the ownership pattern of TPTL or any event that impinges GoS's overall credit profile shall remain a key rating sensitivity.

- **'Cost plus' tariff mechanism and approval of final capital cost**

The annual transmission charges for the line laid by TPTL is determined by CERC primarily on cost plus method and reviewed annually or under Multi Year Tariff (MYT) regime by CERC. The annual transmission charges determined by CERC are recovered by raising bills through PGCIL, acting as Central Transmission Utility (CTU), based on the monthly availability of the transmission line during the billing period. PGCIL makes billing based on cost approved by CERC in point of connection pool for further recovery from Designated ISTS Customers (DIC). Acuité believes the 'cost-plus' based tariff mechanism will continue to sustain the stable business outlook for the company.

In this regard, TPTL had filed a petition to CERC for tripling-up of control period from FY 2014 to FY2019 and MYT for Control Period from FY2019 to FY2024. In lieu of this, CERC issued various final tariff orders and latest final tariff order in August, 2020, admitting aggregate Capital Cost of Rs.1517.13 Cr, spent on cash basis till FY2019. Presently, TPTL is receiving the revenue based on the Annual Tariff of Rs.289.55 Cr, which will be revised after order of MYT Petition for the control period 2019-24.

- **Strong business risk profile**

The commissioning of the entire project and the recently passed tariff order by CERC has helped to achieve revenue of Rs.299.42 Cr in FY2021 (Provisional) as against a revenues of Rs.300.43 Cr in FY2020 and revenues of Rs.81.53Cr in FY2019. The PAT margins stood at 15.34 per cent FY2021 (Provisional) as against 11.35 per cent in FY2020. The steady profitability margins have translated into healthy ROCE levels for the company of about 14.24 per cent in FY2021 (Provisional) as compared to 14.03 per cent in FY2020 and 3.44 per cent in FY2019.

Weakness

- **Moderate albeit improving financial risk profile**

The company's moderate albeit improving financial risk profile is marked by modest networth, high gearing and modest debt protection metrics. The tangible net worth of the company improved to Rs.213.04 Cr as on March 31, 2021 (Provisional) from Rs.166.91 Cr as on March 31, 2020 from due to accretion of reserves. Previously, the cost of project has increased from Rs.770.80 Cr to Rs.1624 Cr, as a result of multiple cost overruns and time overruns faced by the project due to delay in clearances, ROW issues, Earthquake in Sikkim, court cases, arbitration and the escalation of the project cost. Gearing of the company stood high at 4.83 times as on March 31, 2021 (Provisional) as against 6.84 times as on March 31, 2020. The debt of Rs.1029.11 Cr mainly consists of long term borrowings of Rs.895.18 Cr, current obligations of Rs.104.64 Cr and unsecured loan from PGCIL of Rs.29.29 Cr as on March 31, 2021 (Provisional). The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 5.34 times as on March 31, 2021 (Provisional) as against 7.53 times as on March 31, 2020. The modest debt protection metrics of the company is marked by Interest Coverage Ratio at 2.12 times as on March 31, 2021 (Provisional) and Debt Service Coverage Ratio at 1.13 times as on March 31, 2021 (Provisional). Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.13 times as on March 31, 2021 (Provisional). Acuité believes that going forward the financial risk profile of the company will improve backed by steady accruals.

- **Regulated nature of operations**

The revenues are influenced by the regulatory framework governing the power sector. Revenues of players such as TPTL are determined by Central Electricity Regulatory Commission (CERC). The regulatory commission takes into account key parameters such as the availability of the transmission line, interest paid on term loans and working capital loans, operational and maintenance expenses, depreciation and expected return on capital employed to arrive at transmission tariffs. Acuité believes that significant changes in the regulatory environment will impinge on the credit profile of the company.

Rating Sensitivity

- Timely support from the Government of Sikkim, Teesta Urja Limited and Power Grid Corporation of India Limited
- Periodical tariff revision
- Any significant increase in receivables from PGCIL

- Any deterioration in liquidity position

Material Covenant

None

Liquidity Profile: Adequate

The company's liquidity is adequate marked by net cash accruals of Rs.133.48 Cr in March 31, 2021 (Provisional) as against debt repayment obligation of Rs.103.64 Cr. The company has not availed additional covid loans, however, it has availed partial loan moratorium. The cash and bank balances of the company stood at Rs.38.42 Cr as on March 31, 2021 (Provisional) as compared to Rs.1.05 Cr as on March 31, 2020. However, the current ratio stood below unity at 0.61 times as on March 31, 2021 (Provisional), on account of high other current liabilities due to retention money payable, encashment of bank guarantee and interest accrued on borrowings. Currently, TPTL is able to pay its debt obligations in a timely manner due to the strengthening of the liquidity risk profile. The liquidity position of the company improved on account of the commissioning of the entire project on February, 2019 and the latest tariff order passed by CERC on August 2020. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the company will maintain 'Stable' outlook over the medium term due to the steady cash flows inherent in the power transmission business along with its strategic importance and the support provided by the state Government of Sikkim, Teesta Urja Limited and Power Grid Corporation of India Limited. The outlook may be revised to 'Positive' in case of significant improvement of the financial risk profile and liquidity position, while maintaining its revenue level and profitability. 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.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	300.43	81.53
PAT	Rs. Cr.	34.14	(2.53)
PAT Margin	(%)	11.36	(3.11)
Total Debt/Tangible Net Worth	Times	6.84	11.51
PBDIT/Interest	Times	1.90	1.50

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)

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
Term Loan	01-04-2010	11.70%	30-06-2030	303.47	ACUITE BBB+/Stable (Assigned)
Term Loan	01-04-2010	11.70%	01-01-2031	319.46	ACUITE BBB+/Stable (Assigned)
Term Loan	01-04-2010	11.70%	01-01-2031	116.76	ACUITE BBB+/Stable (Assigned)
Term Loan	01-04-2010	11.65%	01-01-2031	88.02	ACUITE BBB+/Stable (Assigned)
Term Loan	02-04-2016	11.70%	01-03-2031	163.71	ACUITE BBB+/Stable (Assigned)
Proposed Fund Based Facilities	NA	NA	NA	23.13	ACUITE BBB+/Stable (Assigned)

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About Acuité Ratings & Research

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