

Press Release

Madhya Bharat Power Corporation Limited

May 02, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.27	-	ACUITE A2+ Assigned
Bank Loan Ratings	951.73	ACUITE A- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	972.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the **Rs. 972.00 Cr** bank facilities of Madhya Bharat Power Corporation Limited (MBPCL). The outlook is '**Stable**'.

Rationale for assignment

The rating takes into account the steady revenue visibility for MBPCL on account of the long term PPA in place, additional liquidity support given the deferment of free power supply to Government of Sikkim (GoS) for the first 10 years of the project as well as the strong expectation of support from the parent, Sarda Energy & Minerals Limited (SEML). However, the leveraged capital structure and a limited operational track record of nine months act as primary constraining factors in the rating. Lower than expected power generation or significant elongation in the receivable cycle will continue to remain key rating sensitivities.

About the Company

MBPCL is a company based in Raipur, incorporated in the year 1994. The company is a subsidiary of Sarda Energy and Minerals Limited (SEML) which was formed to oversee the construction and operations of a hydroelectric power project. SEML along with its wholly owned subsidiary Sarda Energy Limited (SEL) holds 85 percent stake in the company. MBPCL is operating a 113 MW run-of-the-river hydro-electric power project on Rongni Chu tributary of Teesta River in Sikkim. The commercial operations of the project started in June 2021.

About the Group

SEML incorporated in 1973 is the flagship company of the Sarda Group. SEML produces steel (mining, iron ore, pellet, sponge iron, billets, wire rod mill, eco bricks, ferroalloys). It also manufactures and exports ferroalloys through its 100% subsidiary at Vizag. The Group caters to 40 countries across the globe. The Group has one iron ore mine with total capacity of 1.5 million metric tonne per annum at Rajnandgaon, Chhatisgarh and two coal mines with aggregate capacity of 1.8 million metric tonne per annum at Chhatisgarh and Madhya

Pradesh primarily for captive consumption. The Group also has captive thermal and waste heat plants with total capacity of 161.5MW that cater to 100% of the company's in-house power requirement. Further, the Group also has interests in hydropower projects through special project vehicles. Apart from MBPCL, the group has two operational hydro power plants each at Uttarakhand and Chattisgarh and one under construction power plant on the Rehar River in Chhatisgarh.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of MBPCL. Further, Acuité has also factored the support available from SEML in case of any deficit in cash flows as per the stated posture of management.

Key Rating Drivers

Strengths

- **Low offtake risk marked by long term Power Purchase Agreement (PPA) with Chhattisgarh State Power Distribution Company Limited (CSPDCL):**

MBPCL has set up a 113MW run-of-the-river hydroelectric power project on Rongni Chu tributary of Teesta River in Sikkim. The company has entered into a long term PPA with CSPDCL for the supply of hydel power at cost plus return on equity model for a period of 35 years. The provisional tariff order has considered 85 percent of the total project cost incurred until March 31, 2021 and return on equity of 15.50 percent. The presence of a provisional tariff order, until the receipt of the final order, mitigates the offtake risk and provides long-term revenue visibility. Additionally, as per the provisional order CSPDCL shall compensate the company at the rate of Rs. 6.499/KWh towards free power supply to the home state i.e. GoS for 10 years from the date of commencement of operations and pay Rs. 1.20/kWh for the secondary energy generated and supplied. While the company remains exposed to customer concentration risk, Acuité believes that the long-term revenue visibility supported by the PPA with CSPDCL and the provisional tariff order is a significant credit protection factor.

- **Improved liquidity on account of deferred free power supply to GoS:**

Government of Sikkim (GoS) has agreed to defer a significant part of the free power share reserved for the home state. Nine out of the total twelve percent free power share (to be paid in cash) will be deferred for the initial ten years and will be paid in equal installments from the eleventh year to the twenty fifth year. The power will alternatively be supplied to CSPDCL at a rate no greater than Rs. 6.499/ kWh. As a result, the aggregate outflow of Rs. 24-33 Cr per annum in the first ten years of the project has been reduced to Rs. 6.20-8.28 Cr, thereby providing additional liquidity of Rs. 18-24 Cr annually through FY2022-31. 70 percent of the total outstanding debt is expected to be repaid during this period. From 11th to 25th year, payment towards the nine percent deferred power shall be made in 15 equal instalments of Rs. 14.58 Cr each along with additional 1 percent free power. Acuité expects this arrangement to provide additional liquidity support to the entity during the initial ten year period.

- **Strong financial flexibility and resource mobilization ability on account of support from SEML:**

MBPCL is part of the renewable energy business of the Sarda Group. SEML along with its wholly owned subsidiary SEL holds 85 percent MBPCL. SEML produces steel (mining, iron ore, pellet, sponge iron, billets, wire rod mill, eco bricks, ferroalloys). It also manufactures and exports ferroalloys through its 100% subsidiary at Vizag. The Sarda Group caters to 40 countries across the globe.

The Group diversified into renewable energy sector in early 2000. The company commissioned its first 4.8MW hydro power plant in the year 2008. At present the group has a total operational hydropower capacity of 143 MW and proposed capacity of 25 MW.

MBPCL is operating a run of the river hydro project with total capacity of 113 MW in Sikkim on Rongni Chu tributary of Teesta River. The commercial operations of the project started in June 2021.

SEML, the parent company shall ensure timely repayment of dues in the event of shortfall in cash inflow into the Trust and Retention Account (TRA). In addition, SEML along with other group companies has infused significant unsecured loan of Rs. 97.35 Cr until March 31, 2021.

MBPCL will continue to receive support from SEML on the back of Sarda Group's operational track record and healthy financial position. The Group reported total revenue of Rs. 2198.81 Cr for FY 2021 with average earnings before interest, tax and depreciation (EBITDA) and profit after tax (PAT) margins of 21 percent and 10 percent respectively through 2019-21. The consolidated group net worth and debt as on March 31, 2021 stood at Rs. 2260.61 Cr and Rs. 1715.00 Cr respectively. Of the total debt, Rs. 952.00 Cr is attributable to the Hydro project undertaken by MBPCL. The consolidated net cash accruals of SEML was Rs. 451.47 Cr against repayment obligations of Rs. 112.64 Cr for FY21. Further, the unencumbered cash and bank balance stood at Rs. 97.58 Cr as on March 31, 2021.

Weaknesses

- **Leveraged capital structure on account of significant time and cost overruns in project completion:**

The initial project consisted of 96 MW hydel power plant with total project cost of Rs. 492.32 Cr. However, the project capacity was revised from 96 MW to 115 MW. Later, MBPCL found it feasible to generate 113 MW and the revised project cost increased to Rs. 1453.34 Cr. The time and cost overruns was primarily on account of substantial increase in tunneling cost due to alluvial soil, bankruptcy of its civil contractor thereby causing difficulties in remobilization and disruptions caused by the spread of Covid -19. Presently, the leverage of the entity as on March 31, 2021 stood at 2.16 times with total tangible net worth and total debt of 493.25 Cr and 1065.65 Cr respectively. Total debt includes long-term debt of Rs. 947.96 Cr, accrued interest on term loan of Rs. 20.35 Cr and unsecured loan from promoters of Rs. 97.35 Cr. The company prepaid Rs. 100.00 Cr debt in December 2021. The entire debt has been taken over by IREDA in March, 2022. The current leverage (which includes unsecured loans from promoters) post prepayment and commencement of commercial operations stood 1.84 times. The overall debt service coverage ratio (DSCR) is expected to remain in the range of 1.49-1.97 times during the repayment period from FY2022-2037.

- **Hydrological risks associated with run-of-the-river power generation:**

Run-of-the-river power is intrinsically an unstable source of power, as there is little or no capacity for water storage. However, MBPCL has mitigated this risk to a degree by the construction of a barrage. The construction of the barrage ensures adequate water supply to generate power for minimum 3-4 hours even during lean season of the year. However, the project primarily depends on adequate flow of river water and is dependent on well spread monsoon to support higher unit generation. The project area receives major rainfall during the period from June to November with peak plant load factor (PLF) of about 89 percent in August and low PLF of 7-8 percent in January. Acuite noted that there was no power generation in February and March of FY2022, as the plant was shut in order to fix a structural glitch; however, in regular course it is expected to be inoperative for 25-30 days through the lean season for routine maintenance. MBPCL's average PLF nevertheless, has been about 39 percent for 9 months of FY2022.

Since, revenue is entirely dependent on generation, absence of or volatile power generation in certain months may adversely impact the cash flows and financial flexibility. However, this risk is offset to some extent by the support available from SEML.

- **Customer concentration and limited operational track record:**

The Company is dealing with one customer- CSPDCL, which exposes it to customer concentration risk. Any renegotiation or other changes in the agreement that could reduce the offtake will adversely affect the revenue and the liquidity profile of the company. Further,

the operational efficiency of the plant along with receivable cycle towards payment from CSPCL is yet to be seen over a reasonably long time, since the plant was commissioned in June 2021 and has a limited operational track record.

ESG Factors Relevant for Rating

Renewable energy projects are typically considered environmentally friendly, thereby contributing to the reduction of greenhouse gases (GHGs) including carbon emissions. Hydro power is an older renewable energy technology that contributes significantly to global power generation, and is used for baseload electricity generation, replacing traditional baseload sources such as coal and nuclear power.

However, hydro power projects involving construction of dams are large, require years of construction, involve massive deforestation, divert river flow, and affect local communities. Such large land use can potentially alter the ecosystem and hurt the environment. The run-of-river hydro power plants, because of their lack of large reservoirs have less environmental impact. However, it disrupts the longitudinal connectivity by fragmenting the river. Also, the consequences of climate change can adversely impact power generation from these sustainable sources. The changes can cause greater variability in the water flows and river levels. Ensuring resilience to climate change risk may require future adaptation to relevant technologies, thereby increasing overall maintenance costs.

Rating Sensitivities

- Lower than expected hydel power generation adversely affecting the revenues
- Stretch in the receivable cycle adversely impacting the liquidity profile

Material covenants

- Debt/Equity \leq 3x.
- Debt service reserve account (DSRA), equivalent to one quarter of repayment obligation to be built up by March 31,2023 and equivalent to 2 quarter of repayment obligation to be built by March 31,2024

Liquidity Position: Adequate

The liquidity of the company is adequate marked by healthy cash accruals against scheduled repayment obligations. The company has generated cash accruals of Rs. 183.00 Cr against repayment obligation including interest of Rs. 123.00 Cr in FY2022 (Provisional). The cash accruals and repayment obligations along with interest are expected to be in the range of Rs. 235-240 Cr and Rs. 125-135 Cr in FY2023 and Rs. 230-235 Cr and Rs. 127-139 Cr in FY2024. Further, out of the total sanctioned facility of Rs. 936.73 Cr, the company has undrawn limit of Rs. 107.88 Cr. Additionally, the deferment in the payment of free power supply claim to the GoS provides additional liquidity of Rs. 18-24 Cr during the initial 10-year period, thereby improving the overall DSCR to 1.93 times against 1.86 times. The funding support available from SEML is also expected to provide stability to the liquidity position in the event of any cash flow deficit into the TRA.

Outlook: Stable

Acuité believes that MBPCL will maintain a 'Stable' outlook on account of the low off take risk arising due to the enforcement of the provisional PPA and support from the Group. The outlook may be revised to 'Positive' in case of higher than expected PLF leading to higher cash flow generation. Conversely, the outlook may be revised to 'Negative' in case of any significant drop in power generation levels, or any significant delay in receivables leading to deterioration of its financial risk profile and liquidity.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(1.17)	(1.50)
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	2.16	1.92
PBDIT/Interest	Times	(376.45)	(203.97)

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>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.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:

Not applicable.

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.27	ACUITE A2+ Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A- Stable Assigned
Indian Renewable Energy Development Agency Ltd. (IREDA)	Not Applicable	Term Loan	Not available	Not available	Not available	936.73	ACUITE A- Stable Assigned

***Proposed Bank Guarantee:** Fully interchangeable with Letter of Credit (LC).

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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