



Press Release
MADHYA BHARAT POWER CORPORATION LIMITED
July 25, 2023
Rating Reaffirmed

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

Rating Rationale

Acuite has reaffirmed 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 rating

The rating reaffirmation considers the stability in the overall business operations of MBPCL visible through steady revenue growth on account of the long term PPA in place. The revenues for FY2023 (Provisional) stood at Rs. 252 Cr. against Rs. 194.51 Cr. in FY2022. The rating further derives comfort from additional liquidity support given the 9 % deferment of free power supply to Government of Sikkim (GoS) for the first 10 years of the project as well as the strong support from the parent, Sarda Energy & Minerals Limited (SEML). SEML has invested around Rs. 750 Cr. in MBPCL in the form of Equity & Unsecured lendings. However, the limited operational track record, revenue concentration risk and hydrological risks associated with run-of-the-river power generation 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

Madhya Bharat Power Corporation Limited (MBPCL) is a company based in Raipur, incorporated in the year 1994 in Delhi. 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. Its current board of directors are Mr. Kamal Kishore Sarda, Mr. Jitender Balakrishnan, Mr. Chittur Krishnan Lakshminarayanan, Mr. Vipula Sarda, Mr. Gaurisankar Patra and Mr. Parthasarathi Duttagupta.

About the Group

MBPCL is a subsidiary of Sarda Energy & Minerals Limited (SEML) a flagship company of the Sarda Group was incorporated in 1973 in Mumbai. SEML produces steel (mining, iron ore, pellet, sponge iron, billets, wire rod mill, eco bricks and ferroalloys). It also manufactures and exports ferroalloys and caters to 40 countries across the globe. The Group has one iron ore mine with total capacity of 1.5 million metric tons per annum at Rajnandgaon, Chhattisgarh

and two coal mines with aggregate capacity of 1.8 million metric tons per annum at Chhattisgarh 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 other operational hydro power plants each at Uttarakhand and Chhattisgarh and one under construction power plant on the Rehar River in Chhattisgarh. Its board of members are Mr. Kamal Kishore Sarda, Mr. Pankaj Sarda, Mr. Padam Kumar Jain, Mr. Jitender Balakrishnan, Mr. Rakesh Mehra, Mr. AsitKumar Basu and Mrs. Tripti Sinha.

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

Stabilized business operations along with low offtake risk marked by long term 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 and commenced with its operations in June 2021. The company reported average plant load factor (PLF) of 40% and average plant availability factor (PAF) of 66.60% during July 2021-March 2022 period. However, during FY2023 with operations being stabilized MBPCL reported improved average PAF and PLF of 82.08% and 43.67% respectively. Further, the company has entered into a long term PPA with CSPDCL for the entire 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 tariff order ensures recovery of fixed cost along with stipulated return on equity and is sufficient to ensure adequate cash flow for debt repayment. The presence of a provisional tariff order, until the receipt of the final order, mitigates the offtake risk and provides long-term revenue visibility.

Acuité believes that the long-term revenue visibility supported by the PPA with CSPDCL and the provisional tariff order serves as a significant credit protection factor.

Liquidity comfort on account of deferred free power supply to GoS:

As per the Implementation Agreement entered between MBPCL and GoS for development of 113 MW hydro power project, royalty in the shape of free power was to be levied @ 12% (Twelve percent) of the Deliverable Energy of the Project or money equivalent thereof, as per the discretion of GoS, from the project for the first 15 years of operation and @ 15 % or money equivalent thereof, from 16th to 35th year for the period starting from the COD of the Project. However, GoS has agreed to defer a significant part of the free power share reserved for the home state. 9% out of the total 12% free power share has been deferred for the initial ten years and is to be paid in equal installments from the eleventh year to the twenty fifth year. As a result, the aggregate outflow in the first ten years of the project has been reduced thereby providing additional liquidity through FY2022-2031. 70 percent of the total outstanding debt is expected to be repaid during this period. From 11th to 25th year, payment towards the 9% deferred power shall be made in 15 equal instalments of Rs. 14.58 Cr each along with additional 1 percent free power.

Acuité believes this arrangement shall provide additional liquidity support to the entity during the initial ten year period.

Strong credit profile and support of parent (SEML) along with upfront DSRA and TRA creation

SEML has been into operations since 1973 in the steel industry and produces and exports steel (Sponge Iron, Billets, Ferro Alloys, Mining, Power, Pellets, Iron Ore, Wire Rod Mill, Eco Bricks). It has around 85% stake in MBPCL. Sarda group reported revenues of Rs.4211 Cr. in FY2023(Provisional.) against Rs. 3914 Cr. in FY2022 and Rs.2198 Cr. in FY2021. The three year average EBITDA and PAT margin of the company through FY2021-23 stood at 28% and 17% respectively. Further, the group's gearing stood comfortable at 0.41 times marked by healthy net worth of Rs. 3408 Cr. as on March 31, 2023. The group also has interests in hydropower projects through special project vehicles and has invested in other two operational hydro

power projects apart from MBPCL. SEML has invested more than Rs. 750 Cr. in MBPCL and ensures implicit support in case of any deficit in cash flows as per the stated posture of management. Further, MBPCL has created and maintained FD towards the DSRA worth Rs. 35 Cr. as on March 31, 2023. Additionally, MBPCL has also opened Trust and Retention Account (TRA) as designated account as per the loan agreement for the term loan assistance for the project. As per the same, company shall ensure that all receivables upon their receipt, including insurance proceeds, proceeds of any claim and all cash inflows from the project shall be credited to TRA account only. Similarly, all expenditure and outflows shall be routed only through this account.

Acuité believes strong parent support along with presence of DSRA and TRA allows adequate protection to MBPCL against inadequacy of the funds on the debt servicing date.

Weaknesses

Customer concentration and limited operational track record

The Company has signed a long term PPA to sell its entire capacity 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 CSPDCL 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.

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 average plant load factor (PLF) of about 89 percent and generally low PLF during December to March. MBPCL's average PLF nevertheless, has been about 43% percent for FY2023. 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.

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.
- Credit profile of CSPDCL.

Material covenants

- Debt/Equity \leq 3x.

Liquidity Position Adequate

The liquidity of the company is adequate marked by healthy cash accruals against scheduled repayment obligations. The company has prepaid its debt to the tune of around Rs. 100 Cr. through USL received from parent. Further, the cash accruals and repayment obligations along with interest are expected to be in the range of Rs. 113-115 Cr in FY2024-25 against Rs. 70 Cr obligations during the same period. 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 comfort during the initial 10-year period, thereby improving the overall liquidity profile. 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.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 23 (Provisional) | FY 22 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 252.16 | 194.51 |
| PAT | Rs. Cr. | 4.49 | 4.04 |
| PAT Margin | (%) | 1.78 | 2.08 |
| Total Debt/Tangible Net Worth | Times | 1.90 | 2.14 |
| PBDIT/Interest | Times | 1.95 | 1.66 |

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

Not Applicable.

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|-------------------------------|
| 02 May 2022 | Proposed Cash Credit | Long Term | 15.00 | ACUITE A- Stable (Assigned) |
| | Proposed Bank Guarantee | Short Term | 20.27 | ACUITE A2+ (Assigned) |
| | Term Loan | Long Term | 936.73 | ACUITE A- Stable (Assigned) |

Annexure - Details of instruments rated

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

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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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