



Press Release
SIKKIM URJA LIMITED (ERSTWHILE TEESTA URJA LIMITED)
July 19, 2023
Rating Upgraded

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 A1 Upgraded
Total Outstanding Quantum (Rs. Cr)	10356.00	-	-

Rating Rationale

Acuite has upgraded the long term rating to **'ACUITE A' (read as ACUITE A)** from **'ACUITE A-' (read as ACUITE A minus)** and short term rating to **'ACUITE A1' (read as ACUITE A one)** from **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs. 10356.00 Cr. bank facilities of Sikkim Urja Limited (Erstwhile Teesta Urja Limited). The outlook remains **'Stable'**.

Rationale for Upgrade

The rating upgrade is driven by an improvement in the overall business risk profile of the company supported by better average blended tariff realization resulting into topline growth which stood at Rs. 3082.01 Cr. in FY23 (Prov.). The rating also factors in TUL's yearly plant load factor (PLF), which is consistently higher than the design PLF over the past four years. Moreover, the rating upgrade is also supported by the strong liquidity position of the company and improvement in the financial risk profile on account of improved networth position and lower debt levels due to prepayment of debt to the tune of Rs. 1500 Cr. in FY23 and Rs. 600 Cr. in Q1FY24. These strengths are, however, partly offset by regulated nature of operations, exposure to the vagaries of merchant market and susceptibility of power generation to hydrological risk.

About the Company

Incorporated in 2005, Sikkim Urja Limited (SUL) (erstwhile Teesta Urja Limited (TUL) is promoted by Government of Sikkim (GoS)/ Sikkim Power Investment Corporation Limited (SPICL) 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. SUL 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.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SUL to arrive at this rating. Acuite 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). 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

SUL is a strategically important entity for the state of Sikkim for ensuring uninterrupted power generation and is 60.08 percent owned by GOS/SPICL. SUL 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 SUL but also from the GoS guarantee.

Cost-plus based tariff model and determination of final tariff

SUL 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). SUL 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. 3082.01 Cr in FY23 (Provisional) against Rs.2612.90 Cr in FY22. The improvement in revenue is primarily on account of better average blended tariff realized in FY23 on account of normalization of COVID 19 effect and hence due to higher demands better tariff realized in merchant market.

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. Acuité believes that the long term agreement ensures the availability of a captive market and an assured offtake of the company's power generation.

Continuous improvement in revenue & landed average blended tariff realized

The revenue of the company has shown a growth trend in past three years the revenue of the company grew by 17.95% and stood at Rs. 3082.01 Cr. in FY23 (Prov.) as compared to Rs. 2612.90 Cr. in FY22. The growth in revenue is attributable to the increase in landed average blended tariff realized in past three years from Rs. 3.19/Kw in FY21 to Rs. 4.55/Kw in FY22 to Rs. 5.78/Kw in FY23.

Efficient working capital management

The efficient working capital management of the company is marked by comfortable Gross Current Assets (GCA) of 25 days on 31st March 2023 (Prov.) as compared to 31 days on 31st March 2022. The GCA days are low on account of comfortable inventory levels and debtor days. The inventory holding is comfortable at 10 days on 31st March 2023 (Prov.) as compared to 12 days on 31st March 2022. Further, the debtor days stood low at 13 days in 31st March 2023 (Prov.) as compared to 26 days as on 31st March 2022. Acuité believes that the working capital operations of the firm will remain almost at the same levels as evident from the efficient collection mechanism over the medium term.

Weaknesses

Moderate financial risk profile

A strong network base, moderate gearing and comfortable debt protection metrics mark the company's moderate financial risk profile. The tangible net worth of the company stood at Rs. 3139.73 Cr as on March 31, 2023 (Prov.) as against Rs.1922.86 Cr as on March 31, 2022. The network improved in FY23 (Prov.) on account of profit earned by the company. Gearing of the company improved and stood at a moderate level of 2.52 times as on March 31, 2023 (Prov.) as against 4.95 times as on March 31, 2022 as the company made prepayments of ~ Rs. 543 Cr. in FY22 and ~Rs. 1500 Cr. in FY23 (Prov.) further the company made a prepayment of Rs. 600 Cr. in Q1FY24. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved

and stood at 2.53 times as on March 31, 2023 (Prov.) as against 5.10 times as on March 31, 2022. The comfortable debt protection metrics of the company is marked by Interest Coverage Ratio of 3.08 times as on March 31, 2023 (Prov.) and Debt Service Coverage Ratio at 2.81 times as on March 31, 2023 (Prov.). 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

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 higher cash accruals. The project receives major rainfall during the period from June to October. Average Plant Load Factor (PLF) stood at around 58.33 percent for FY 2023 (Prov.) as compared to 60.14 percent for FY 2022 and 57.26 percent for FY 2021. Though, PLF over the past three years, was higher than the design PLF of 49.60 percent, however, any adverse monsoon may severely impact the cash flows and the financial flexibility. The PAF of the company stood at 92.72% in FY23 (Prov.) as compared to 93.83% in FY22 it is still higher than the normative level of 85%.

Regulated nature of operations

SUL continues to be exposed to regulatory uncertainty, given that the regulatory framework governing the power sector influences the revenues. 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.

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 SUL 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.1078.33 Cr as on March 31, 2023 (Prov.) including debt service reserve account (DSRA) of around Rs. 430.00 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 as during the last two years, company is having surplus cash, hence fund based line of credit has not been utilized. The net cash accruals stood at Rs. 1905.08 Cr in FY23 (Prov.), against debt repayment obligation of Rs. 115 Cr for the same time period. Further, the current ratio stood comfortable at 1.54 times as on March 31, 2023 (Prov.). 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 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	3082.01	2612.90
PAT	Rs. Cr.	1220.52	235.03
PAT Margin	(%)	39.60	8.99
Total Debt/Tangible Net Worth	Times	2.52	4.95
PBDIT/Interest	Times	3.08	2.04

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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
21 Apr 2022	Term Loan	Long Term	5073.11	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Proposed Non Convertible Debentures	Long Term	11028.00	ACUITE Provisional A- (Withdrawn)
	Working Capital Demand Loan	Long Term	33.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Bank Guarantee	Short Term	36.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Issuer Rating	Long Term	0.00	ACUITE A- (IR) (Withdrawn)
	Term Loan	Long Term	5067.89	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Bank Guarantee	Short Term	11.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Bank Guarantee	Short Term	13.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Working Capital Demand Loan	Long Term	94.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Working Capital Demand Loan	Long Term	28.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
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)
		Long		

	Term Loan	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	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	36.00	ACUITE A1 Upgraded (from ACUITE A2+)
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	13.00	ACUITE A1 Upgraded (from ACUITE A2+)
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	11.00	ACUITE A1 Upgraded (from ACUITE A2+)
Rural Electrification Corporation Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5067.89	ACUITE A Stable Upgraded (from ACUITE A-)
Power Finance Corporation Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5073.11	ACUITE A Stable Upgraded (from ACUITE A-)
Punjab National Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	94.00	ACUITE A Stable Upgraded (from ACUITE A-)
Canara Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	33.00	ACUITE A Stable Upgraded (from ACUITE A-)
Bank of Baroda	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	28.00	ACUITE A Stable Upgraded (from ACUITE A-)

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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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