

JSW Hydro Energy Limited

October 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term bank limits	5,247.13 (reduced from 5,977.99)	CARE A+; Stable [Single A Plus; Stable]	Reaffirmed
Short-term bank limits	230.00 (reduced form 400.00)	CARE A1+ [A One Plus]	Reaffirmed
Total	5,477.13 (Rs. Five Thousand Four Hundred Seventy- Seven Crore and Thirteen Lakhs Only)		
Commercial Paper Issue	300.00	CARE A1+ [A One Plus]	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings of bank facilities & instruments of JSW Hydro Energy Limited (JHEL) continues to derive strength from well-established and experienced promoter group in power industry and long-term firm offtake arrangement of entire operational capacity providing favourable medium to long-term revenue visibility.

However, the rating strengths continue to be offset by counter party risk & moderate debt coverage indicators and financial risk profile amidst expected capital expenditure towards Kutehr hydro project.

Rating Sensitivities

Positive rating sensitivities

- Improvement in the financial risk profile with Total Debt to PBILDY below 3.00 times on sustained manner and Significant improvement in counter party risk profile

Negative rating sensitivities

- Any significant cost overrun in envisaged capex plans
- Any significant deterioration in counter party risk profile
- Rating downgrade of JSW Energy Limited (JEL, rated CARE A+; Stable/CARE A1+)

Detailed description of the key rating drivers

Key Rating Strengths

Well established and experienced promoter group in power industry

Incorporated in 1994, JEL is the holding company for JSW group's power business. As of March 31, 2020 JSW group's consolidated operational capacity stood at 4.5 GW.

JEL has qualified, professional and experienced management team with significant experience in the power sector. JEL also provides operation & maintenance services for power plants of the group companies and project management services for the power plants being set up by the group. JEL has successfully set up and is operating 860 MW thermal power plant at Vijaynagar, Karnataka, and a 1,200 MW imported coal based plant at Ratnagiri, Maharashtra. JEL, through JSW Energy (Barmer) Limited (subsidiary of JEL) owns and operates a 1,080 MW lignite based power plant in Barmer, Rajasthan. JEL has presence in renewable segment through operations of hydro project capacity of 1,300 MW in Himachal Pradesh and 10 MW solar capacities across various locations.

Long-term firm offtake arrangement of entire capacity under regulated framework providing stable operational performance

The Baspa project (300 MW) and Karcham project (1,000 MW) commenced commercial operations in June 2003 and September 2011 respectively. These projects have largely met normative PAF prescribed (>85%) by the Central Electricity Regulatory Commission (CERC) since Commercial Operation Date (COD). The entire installed capacity of the company is tied – up. Both the project plants are covered under Two-Part tariff, wherein any shortfall in the design energy revenue would be met through tariff increase in subsequent year.

Baspa project has long term Power Purchase Agreement (PPA) with Himachal Pradesh State Electricity Board (HPSEB) till FY2043 which can be further extended to a period of 20 years. Karcham Wangtoo project has PPA with PTC India Ltd. (PTC (excluding 12% free power) till FY2046. PTC in turn has signed back to back Power Sale Agreement with the distribution utilities of Rajasthan (104 MW), Uttar Pradesh (200 MW), Haryana (376 MW) and Punjab (200 MW).

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

The tariff for Baspa power station is determined as per the PPA with HPSEB. The tariff is recovered on cost plus basis with assured post-tax return on equity of 16% p.a. The Plant has been accorded 'Must Run' status by Government of Himachal Pradesh and HPSEB.

The tariff for Karcham Wangtoo is decided by CERC guidelines as applicable from time to time. It is in accordance with the terms of Settlement Agreement reached between PTC and JPVL. The tariff is determined by referring to Annual Fixed Cost (AFC), which comprise of interest on loan, interest on working capital, depreciation and operation and maintenance expenses and post-tax Return on Equity (ROE) at 16.50%. The 50% of AFC is recoverable upon achieving the design energy, while the balance is recoverable on achieving the Normative Annual Plant Availability Factor (NAPAF) (85%) which has been prescribed for each hydro power station by CERC.

The project cost and tariff approval for Baspa project (as per the PPA) is in place and HPSEB is making regular payments as per the terms and rates prescribed in the PPA and Multi Year Tariff Order. Currently the Multi Year Tariff Order for FY20-24 has been received for the Baspa project. The PPAs governed by regulated nature of the tariffs provide stable cashflow visibility.

Key Rating Weaknesses

Counter party risk

JHEL has long term PPA with HPSEB for Baspa project and long term PPA with PTC India Ltd. for Karcham project. PTC in turn has signed back to back contracts with DISCOMs of Rajasthan, Uttar Pradesh, Haryana and Punjab. As a result, the company's revenue visibility is exposed to the vagaries of financial risk profile of these entities. However, both the projects are classified "Must Run" status by HERC thereby ensuring payment of dues by state discoms. Receivable level of the company increased from Rs. 198.59 crore as on March 31, 2019 to Rs. 308.15 crore as on March 31, 2020.

Moderate debt coverage indicators and financial risk profile amidst expected capital expenditure

JEL expects to revive its Kutehr hydro project of capacity of 240 MW. The company has incurred around Rs. 300 crore as on date on the project. The company is in talks with Discoms for power off-take from project; post finalisation of offtake arrangement the project work will restart. Overall gearing ratio marginally improved from 3.56 times as on March 31, 2019 to 3.04 times as on March 31, 2020 on account of reduction of debt. Interest coverage ratio of the company marginally improved to 1.96 times in FY20 as compared to 1.78 times in FY19 on account of lower interest & finance charges. Total Debt to PBILDT of company continues to be above 5.00 times as March 31, 2020.

Liquidity: Adequate

JHEL has free cash and cash equivalent of Rs. 203.84 crore as on March 31, 2020. In addition to it the company has unutilized fund based working capital limits of Rs. 75 crore provide a liquidity support to an extent towards annual debt obligations of around Rs. 810 crore in FY21. With gearing of 3.04 times as on March 31, 2020, JHEL has limited gearing headroom to raise additional debt for its capex.

Average collection days of the company increased from 61 days as on March 31, 2019 to 72 days as on March 31, 2020. However, operating cycle of the company was negative as on March 31, 2020.

Analytical approach: Consolidated

CARE revises analytical approach from Standalone to Consolidated on account of Kutehr project being undertaken in a subsidiary (where JHEL holds 100% stake) formed in FY20.

Applicable Criteria

[CARE's criteria on assigning Outlook to Credit Ratings](#)

[CARE's policy on Default Recognition](#)

[Factoring Linkages in Ratings](#)

[CARE's methodology for Short-term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for Private Power sector](#)

About the Company

JHEL operates two hydro power projects in Himachal Pradesh. These two projects were acquired by JEL from Jaiprakash Power Ventures (JPVL) in September, 2015. Post acquisition, Himachal Baspa Power Company Limited became wholly owned subsidiary of JEL. Further, the name was changed to JSW Hydro Energy Limited.

Brief Financials (Rs. crore)-Consolidated	FY19 (A)	FY20 (A)
Total operating income	1261.02	1268.18
PBILDT	1087.94	1078.72
PAT	79.41	83.51
Overall gearing (times)	3.56	3.04
Interest coverage (times)	1.78	1.96

A: Audited CARE has adjusted financials of JHEL for analytical purpose.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March, 2030	5172.13	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	75.00	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	230.00	CARE A1+
Commercial Paper- Commercial Paper (Standalone)	-	-	-	300.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	-	-	-	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	5172.13	CARE A+; Stable	1)CARE A+; Stable (10-Sep-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Apr-20)	1)CARE AA- (Under Credit watch with Negative Implications) (17-Oct-19) 2)CARE AA-; Stable (03-Oct-19)	1)CARE AA-; Stable (05-Oct-18)	1)CARE AA-; Stable (02-Feb-18) 2)CARE A+; Stable (21-Sep-17)
3.	Fund-based - LT-Cash Credit	LT	75.00	CARE A+; Stable	1)CARE A+; Stable (10-Sep-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Apr-20)	1)CARE AA- (Under Credit watch with Negative Implications) (17-Oct-19) 2)CARE AA-; Stable (03-Oct-19)	1)CARE AA-; Stable (05-Oct-18)	1)CARE AA-; Stable (02-Feb-18) 2)CARE A+; Stable (21-Sep-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
4.	Non-fund-based - ST-BG/LC	ST	230.00	CARE A1+	1)CARE A1+ (10-Sep-20) 2)CARE A1+ (Under Credit watch with Negative Implications) (23-Apr-20)	1)CARE A1+ (Under Credit watch with Negative Implications) (17-Oct-19) 2)CARE A1+ (03-Oct-19)	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (02-Feb-18) 2)CARE A1+ (21-Sep-17)
5.	Commercial Paper- Commercial Paper (Standalone)	ST	300.00	CARE A1+	1)CARE A1+ (10-Sep-20) 2)CARE A1+ (Under Credit watch with Negative Implications) (23-Apr-20)	1)CARE A1+ (Under Credit watch with Negative Implications) (18-Dec-19) 2)CARE A1+ (17-Oct-19) 3)CARE A1+ (03-Oct-19)	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (21-Mar-18)

Annexure-3: N.A.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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