

India Ratings Assigns Jaigad PowerTransco's Bank Loans 'IND AA'/Stable

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India Ratings and Research (Ind-Ra) has rated Jaigad PowerTransco Limited's (JPTL) bank loans as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan	-	-	June 2026	INR463.5 (outstanding on 25 May 2021)	IND AA/Stable	Assigned
Fund-based working capital limit	-	-	-	INR150	IND AA/Stable	Assigned

According to the waterfall mechanism and financial covenants stipulated in the financing documents, JPTL can distribute surplus cash flow only on meeting the stipulated covenants and restricted payments conditions.

The ratings draw strength from strong revenue visibility of the project by way of regulated tariff based on normative parameters, stable achievement of target availability since commencement of operations, lower debt outstanding with prepayment of debt, comfortable coverage indicators and adequate liquidity.

KEY RATING DRIVERS

Low Revenue Risk; Stable Operations: The project's revenue is regulated in nature, where the tariff is determined by the Maharashtra Electricity Regulatory Commission (MERC) based on Multi Year Tariff Regulations 2019. Under the framework, the aggregate revenue requirement (ARR) for a transmission licensee is arrived based on the normative operation and maintenance (O&M) expense, depreciation, interest on loans and return on equity. The regulation features truing up of revenue, which involves comparing the normative parameters factored in while approving the revenue requirement and the actuals. Subsequently, the surplus/gap is adjusted in the ARR for the forthcoming years. MERC, in its order dated 30 March 2020, has notified the ARR for FY21-FY25. The target transmission system availability to recover the entire ARR is 98% and incentives are available for availability up to 99.75%.

The average availability of the transmission system was 99.32% for FY11-FY21. In FY21, the average monthly availability stood at 99.77%. The agency does not foresee any challenges in terms of achieving the target availability, given the stable track record and low operating complexity of the transmission asset.

Liquidity Indicator – Adequate. The company's liquidity is adequate with strong forward looking average debt service coverage ratio (DSCR). Prepayment of term loan from the surplus has significantly reduced the company's interest cost, resulting in strong coverage indicators. Furthermore, the company's debtor position is comfortable with receivable period of 54 days in FY20, reflecting strong collection. In the past, the project has not resorted to using any working capital on account of surplus liquidity. JPTL had availed a fund-based working capital limit of INR150 million in September 2020.

Comfortable Debt Structure: The rated debt comprises term loan and working capital limit. The term loan is repayable in 52 structured quarterly instalments ending in 1QFY31. The company prepaid its term loan, thus reducing the outstanding significantly; the remaining term loan will be repaid by June 2026 leaving a tail period of seven years and eight months. The debt structure also features an unfunded debt service reserve account of INR75 million, equivalent to one quarter of principal and interest obligation, which will be available when the borrower is unable to meet its debt repayment commitments on its own. The financing agreements further features a minimum DSCR of 1.1x and any upstreaming of cash flow is subject to meeting of the stipulated covenants.

Experienced Sponsor: JSW Energy Limited (JEL; 'IND AA-/Stable'), which owns 74% stake in JPTL, is engaged in power generation and transmission, primarily in Karnataka, Maharashtra, Rajasthan, and Himachal Pradesh. The company has its presence across power sectors including generation, power transmission, mining, power plant equipment manufacturing and power trading. JEL has a total generation capacity of 4,559MW, of which 3,158MW is thermal power, 1,391MW is hydropower and 10MW solar power.

Maharashtra State Electricity Transmission Company Limited (MSETCL) owns the balance 26% stake in JPTL. MSETCL is a state-owned entity incorporated in June 2005 after the unbundling of the erstwhile Maharashtra State Electricity Board. It operates 681 extra high voltage substations and 48,321 circuit kms of transmission lines with a transformation capacity of 128,990 mega-volt ampere.

Moderate Counterparty; Concentration Risk: The aggregate yearly revenue requirement of all the transmission licensees is the total transmission system cost (TTSC) of intra-state transmission system. This will be recovered from the transmission system users (TSUs) in proportion of base transmission capacity rights of each TSU. The state transmission utility will administer the payments between TSUs and the transmission licensees. Furthermore, any shortfall in the recovery of TTSC from the TSUs will be proportionately shared among the licensees.

The major user for the intrastate transmission system in Maharashtra is Maharashtra State Electricity Distribution Company Limited (MSEDCL), posing the concentrated nature of counterparty risk. However, MSEDCL is a state-owned entity and its track record of stable collections over FY18-FY20 mitigates this risk to a considerable extent. MSEDCL contributes around 84% to JPTL's revenue and the balance is from other distribution companies and open access users in Maharashtra.

Moderate O&M Risk: The O&M of transmission lines is carried out in-house while the bays located at the sub-

station are managed by MSETCL. The company has signed an O&M agreement with MSETCL. The underlying transmission assets have demonstrated high availability since the commencement of operations in FY11.. The project, consisting of only transmission lines, has high reliability and low maintenance complexity, given the well-established technology and long design life of such assets. Ind-Ra believes the experience of JPTL and MSETCL to be adequate in O&M of transmission assets. Ind-Ra also takes comfort from the maintenance of a contingency reserve as required under the regulations, which could be used to restore the asset in case of any force majeure event.

Financial Performance: The company reported a total income of INR548.3 million in 9MFY21 (FY20: INR819.5 million) with an EBITDA margin of 92.8% (93.5%).

RATING SENSITIVITIES

Positive: A sustained improvement in counterparty credit profile could lead to a positive rating action.

Negative: Future developments that could, individually or collectively, lead to a negative rating action are:

- any adverse regulatory action materially affecting cash flows,
- any increase in the receivable days causing liquidity stress,
- a significant fall in availability in transmission line, leading to a reduction in ARR,
- DSCR reducing below 1.5x,
- deterioration in the credit profiles of the counterparty and the sponsor.

COMPANY PROFILE

JPTL is a joint venture between JEL and MSETCL to facilitate power evacuation from JEL's operational 1,200 MW power plant in Jaigad, Ratnagiri district, Maharashtra as well as other power projects in the region and also transfer power from generation units to New Koyna and Karad. JPTL was awarded the transmission license by MERC on 8 February 2009, which authorised the company to establish, operate and maintain two transmission lines Jaigad -New Koyna (55 km - 400 kV Double Circuit Quad transmission line) and Jaigad-Karad (110 km - 400 kV Double Circuit Quad transmission line) for a period of 25 years.

FINANCIAL SUMMARY

Particulars (INR million)	FY20	FY19
Total income	819.5	829.9
Total operating expense	53.2	48.1
EBITDA	766.3	781.8
Tangible net worth	2,155	1,873.4
Total debt	1,141.5	1,743.8
Source: JPTL		

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Term loan	Low
Fund-based working capital limit	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Applicable Criteria

Rating Criteria for Infrastructure and Project Finance

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