

## Teesta Urja Limited

January 07, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loans	4096.49	4096.49	[ICRA]D; Reaffirmed
<b>Total</b>	<b>4096.49</b>	<b>4096.49</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating action continues to take into account the continued delays in debt servicing by TUL, which has developed the 1200-MW Teesta III hydro-power project in Sikkim, on account of significant under-recovery of costs owing to delay in operationalisation of power purchase agreements (PPAs) and high repayment obligations. Though the project was commissioned in February 2017, and Central Electricity Regulatory Commission (CERC) has issued an interim order allowing provisional tariff, project has commenced the sale of power to only one offtaker under its long-term PPAs. As per the PPA signed with PTC India Limited (PTC), 70% of the power is to be sold on a long-term basis. As a result, the power being generated is being sold in the power exchange/short-term bilateral transactions, which has resulted in subdued cash flows for the company. Significant risks remain pertaining to the approval of capital cost by the regulator, considering the substantial time and cost overruns witnessed in the project. These will ultimately have a bearing on the tariff, which is to be determined on a cost-plus basis and on the affordability/attractiveness of the power so generated. The final debt-to-equity mix is 79:21 has led to high financial risk in the project.

The company has a strong parentage as the Government of Sikkim (GoS) holds ~60% stake. It is also supported by other strong investors such as PTC and has NHPC Limited as the project management consultant. Firm offtake arrangements for 100% power and presence of deemed generation clauses provide cushion against hydrological and silting risks. Going forward, the improvement in debt servicing due to approval of capital cost, determination of final tariff, commencement of power offtake and restructure of debt obligations will be the key rating sensitivities.

### Outlook: Not applicable

### Key rating drivers

#### Credit strengths

**Strong parentage and experienced management** – GoS holds ~60% stake and has been instrumental in bringing in the equity capital for completion of the project. NHPC Ltd. is the project management consultant, which is another source of comfort.

**Commercial operations of project on track** – Funding and execution risks have reduced post commissioning of the project in February 2017.

## Credit challenges

**Delays in debt servicing** – The delay in interest during construction at the pre-commissioning phase was on account of delayed sanction of cost overrun funds. However, high debt funding and inadequate tariff realisation has resulted in continued delays post commissioning as well.

**Power offtake under long-term PPA yet to start** – Even though TUL has a firm PPA for its entire generation capacity, the state discoms (barring UP discom) did not commence procurement of power, which in turn resulted in inadequate cash accruals. Further, uncertainty regarding the quantum of project cost approved by the regulator poses challenges for the company to generate sufficient cash flows to service its debt obligations.

## Liquidity position

The company's liquidity position remains weak with inadequate cash flows (led by under-recovery of tariff and weak offtake) available for debt servicing and lack of fund infusion from promoters.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	The debt raised for the infrastructure project assets of SPV owned by the rated holding company is non-recourse to the latter; hence, ICRA has not consolidated the debt in these SPVs; however, in line with its limited consolidation approach, ICRA has factored in the rated entity's support to fund the equity component of the investment in these infrastructure projects, any cost overruns and debt servicing support in the initial stage of operations

## About the company

TUL is a special purpose vehicle (SPV) incorporated on March 11, 2005 for the development of the 1,200-MW Teesta Stage III hydroelectric electric project. The company has become a GoS enterprise with the state government holding a 60.08% stake. Other investors in the company include Asian Genco Pte Limited (24.98%), PTC India Limited (PTC; 5.62%), Indus Clean Energy (India) Private Limited (5.18%), Athena Projects Private Limited (2.72%) and APPL Power Private Limited (1.42%). All six units were commissioned in February 2017 and the budgeted project cost is Rs. 13,965 crore. TUL has signed a PPA for sale of 100% of saleable power with PTC, which will sell 70% of the total generation on a long-term basis and the rest on a short-term basis.

In FY2018, the company reported a net loss of Rs. 701.5 crore on an operating income (OI) of Rs. 1305.8 crore compared with a net loss of Rs. 57.5 crore on an OI of Rs. 44.5 crore in the previous year.

### Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	44.5	1305.8
PAT (Rs. crore)	-57.5	-701.5
OPBDIT/OI (%)	23.8%	74.7%
RoCE (%)	0.7%	2.9%
Total Debt/TNW (times)	3.4	4.5
Total Debt/OPBDIT (times)	966.7	10.8
Interest Coverage (times)	0.1	0.7

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

Instrument	Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016
				January 2019	November 2017	August 2017	June 2016	October 2015
1 Fund-based – Term Loans	Long Term	4096.49	3621.00	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan I	February 2007	-	December 2028	1772.04	[ICRA]D
NA	Term Loan II	July 2007	-	December 2028	868.79	[ICRA]D
NA	Term Loan III	June 2007	-	December 2028	476.11	[ICRA]D
NA	Term Loan IV	March 2007	-	March 2029	441.78	[ICRA]D
NA	Term Loan V	April 2007	-	December 2028	220.27	[ICRA]D
NA	Term Loan VI	June 2007	-	December 2028	237.51	[ICRA]D
NA	Term Loan VII	May 2007	-	March 2029	79.99	[ICRA]D

Source: Teesta Urja Limited

### Annexure-2: List of entities considered for consolidated analysis

Not applicable

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