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India Ratings Downgrades Jhajjar Power's Guaranteed NCDs; Affirms Existing Ratings at 'IND AA-'/Stable

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India Ratings and Research (Ind-Ra) has taken the following rating actions on Jhajjar Power Ltd's (JPL) debt facilities:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)#	-	-	-	INR4,760	IND AA (CE)/Stable	Downgraded
NCDs#	-	-	-	INR1,000	IND AA+(CE)/Stable	Downgraded
Rupee term loan (RTL)	-	-	March 2032	INR6,752.23 (reduced from INR7,687)	IND AA-/Stable	Affirmed
Foreign currency loan	-	-	1 November 2023	INR4248.06 (USD51.98 reduced from USD66)**	IND AA-/Stable	Affirmed
Working capital facility	-	-	-	INR12,500	IND AA-/Stable	Affirmed
Commercial papers (CPs)*	-	-	30-365 days	INR8,000	IND A1+	Affirmed
Unsupported rating	-	-	-	-	IND AA-/Stable	Affirmed
NCDs#	-	-	-	INR800 (reduced from INR1,200)	IND AA-/Stable	Affirmed

*Sublimit of the working capital facility

#Details in annexure

**USD/INR rates as per hedge agreement provided by the management

Analytical Approach: The ratings remain supported by the strong operational and strategic links between JPL and its sponsor, Apraava Energy Private Ltd (AEPL, 'IND AA+'/Stable).

For the rating of the INR1,000 million NCDs, Ind-Ra has factored in the pre-default corporate guarantee (CG) from AEPL. The rating will move in line with the ratings of AEPL, and any deterioration in the credit quality of the guarantor will impact the rating assigned to these NCDs.

The NCDs worth INR4,760 million are supported by the credit enhancement (CE) provided by its 100% parent and sponsor AEPL in the form of an unconditional and irrevocable first loss default guarantee (FLDG - credit enhancement (CE)) sizing 50% of the NCDs outstanding. The FLDG covers both principal and interest payments on the NCDs. Besides, the company would maintain a debt service reserve account (DSRA), equivalent to the immediately succeeding semi-annual debt service (principal and interest) on the NCDs in the form of a bank guarantee (BG) or cash (DSRA BG). Should the DSRA be provided in the form of a BG, it will be from a bank or a financial institution rated 'IND AA+' or above. The FLDG will be reduced by the principal component accumulated in the DSRA, so that at any point of time, the total CE (including FLDG and DSRA) will be equivalent to 50% of the NCD outstanding. Ind-Ra rates the INR4,760 NCDs a notch below the rating of AEPL as the FLDG covers only 50% of the NCDs outstanding. Any deterioration in the credit quality of the guarantor will impact the rating assigned to these NCDs.

The downgrade of the NCDs follows changes in the credit quality of the guarantor AEPL as the bonds have a first loss default corporate guarantee from AEPL. The rating will move in line with the ratings of AEPL, and any deterioration in the credit quality of the guarantor will impact the rating assigned to these NCDs.

The affirmation follows JPL’s stable operational and financial performance in FY23, in line with Ind-Ra’s base case projections; the ratings remain supported by the strong operational and strategic links between JPL and its sponsor, AEPL.

Key Rating Drivers

CE Rating Backed by FLDG/CG from AEPL: The CE rating assigned to the company’s NCDs worth INR4,760 million is backed by the support from AEPL in the form of an unconditional and irrevocable FLDG, such that the principal part of the debt service, along with the FLDG covers 50% of the outstanding NCDs at any point of time. Similarly, the NCDs worth INR1,000 million based on the pre-default CG from AEPL for the full NCD amount. AEPL has been recently downgraded on account of a change in Ind-Ra’s rating approach whereby the credit assessment is carried out based on consolidated credit profile of the company and its subsidiaries compared to the erstwhile top-down approach which had reflected its strong linkages with its parent – CLP Holdings Limited (CLPHL; Fitch Ratings Ltd, Issuer Default Rating: ‘A’/Stable). AEPL has been de-classified as a subsidiary of CLPHL from 2022 post additional stake sale of 10% to Caisse de dépôt et placement du Québec (CDPQ) and is now classified as a 50:50 JV.

Stable Plant Operations: According to the management, the plant availability factor (PAF) remained above the normative level (80%) at 86% in FY23 and 81% in FY22. The plant load factor (PLF) improved to 71% in FY23 and 67% in FY22 (FY21: 42.14%), backed by healthy power demand. As the capacity charges are based on the PAF and not the PLF, JPL’s credit profile remains unaffected by the actual power offtake. The full capacity charges are payable on the achievement of the normative level for any fiscal year, as per the terms and conditions of the power purchase agreement (PPA). Furthermore, the stable power offtake demonstrates an adequate financial viability of the variable cost of power from JPL for the power procurers.

Take-or-Pay with Fuel Cost Pass-through Offtake Arrangement: The project benefits from the division of the tariff into fixed capacity charges and energy charges, with a full cost pass-through in fuel cost at an agreed net heat rate. The capacity charges are based on the PAF. The project would recover 100% of the capacity charges at a normative availability, making the project immune to the variable cost of production (except the caps specified on the station heat rate and auxiliary consumption), reducing its revenue risk to a large extent, in Ind-Ra’s opinion.

Demonstrated Parent Support: Ind-Ra believes AEPL is financially and operationally strong enough to continue extending support to JPL, should a cash-flow mismatch arise at the project level. AEPL is held directly or indirectly 50% by CLP Holdings (Fitch Ratings Ltd Issuer Default Rating of ‘A’/Stable) and the balance 50% by Caisse de depot et placement du Quebec (Fitch Ratings Ltd Issuer Default Rating of ‘AAA’/Stable). Ind-Ra expects the parent’s support to continue, given the history of support provided by CLP Holdings to its subsidiaries across the world, and by AEPL to its subsidiaries in India, including JPL, in FY13 and FY14.

Liquidity Indicator - Adequate: According to the management, JPL had liquid cash of INR2,649 million on 30 April 2023, equivalent to about 3.80 months of estimated debt servicing in FY24. The availability of a debt service reserve for two quarters of debt servicing (except the NCDs worth INR1,000 million, for which the reserve stipulation is for three months of coupon payments) in the form of BGs is also a positive for the project. JPL’s proven ability to raise short-term funds through CPs (and roll over the same) within the overall sanctioned working capital limits of INR9,500 million sanctioned by lenders, coupled with the availability of unutilised working capital limit (just around 39% utilisation including CPs at end-April 2023, as per the data provided by the management), strengthens the project’s liquidity profile.

Stable Debtor Position: According to the management, at end-April 2023, the total debtor outstanding was INR7,469 million. The management stated that the plant has been receiving payments from all the off-takers within 30 days of the due date. JPL has tied up higher working capital limits of INR9,500 million compared to its utilisation of INR3,500 million at end-April 2023. According to the management, the company is also likely to receive around INR11,323.2 million towards the past disputed debtor payment April 2023 onwards in six equal monthly instalments from the discom, of which the company had received two instalments at end-May 2023.

Minimal Fuel Supply Risk: JPL has a long-term fuel supply agreement with Central Coalfields Limited. In 2013, Coal India Limited partially shifted the linkage to its other coal subsidiaries, mainly to increase coal materialisation under the linkage to JPL. Post this, JPL entered into fuel supply agreements with Central Coalfields for the annual contracted quantity of 3.048 million tonnes (mt), Northern Coalfields Ltd (0.5mt), Eastern Coalfields Ltd (0.5mt) and Bharat Coking Coal Ltd (0.889mt). The presence of a full linkage coal tie-up for running the plant at a PLF of 70%-75% minimises the project's fuel-supply risk.

Ind-Ra's estimates the company's coal inventory to be about 25 days at end-April 2023 and therefore, expects the availability to remain above normative level in FY23, backed by a PAF of over 86% during FY23. Any increase in the landed cost of coal should not impact the financials, as the same will be pass-through, as per the terms and conditions of the PPA. JPL does not rely on imported coal to recover full capacity charges and only uses domestic coal for power generation, resulting in lower variable costs and improved merit order status.

Foreign Currency Denominated Loans Adequately Hedged: The project is exposed to currency risk, as a major part of the term debt is denominated in foreign currency. The principal amount of the loan is fully hedged by a mix of principal-only swaps, forwards contracts and by out-of-money options with reputed counterparties. The interest rate risk and foreign currency risk on interest payment was also fully hedged till 31 October 2023 through the interest rate swap contracts and currency options respectively. Ind-Ra considers JPL's hedging arrangement for the foreign currency-denominated debt to be adequate.

Moderate Structural Features: JPL's RTL and foreign currency loan are repayable structured quarterly instalments ending March 2032 (INR 4,000 million has been recently availed from Power Finance Corporation for the repayment of unsecured loans) and 1 November 2023, respectively. Its bonds worth INR4,760 million (which are in two equal series to be redeemed on 30 April 2025 and 30 April 2026, respectively) have been backed by AEPL in the form of an unconditional and irrevocable FLDG for 50% of the NCDs outstanding. The NCDs worth INR1,000 million, which have been backed by a pre-default CG, have a bullet maturity on 27 July 2023. Its NCDs worth INR 1,200 million are repayable in two tranches of INR400 million and INR800 million in April 2023 and April 2024, respectively. Ind-Ra expects the refinancing of bullet repayments to be well ahead of maturity, given the demonstrated ability to refinance and the financial strength of the sponsor. This is also aided by the additional sanction of INR 3,000 million from Power Finance Corporation for refinancing the bonds and RTLs. Overall, Ind-Ra considers the overall debt structure of JPL to be moderate.

Rating Sensitivities

Unsupported Rating

Negative: The following events, individually or collectively, can lead to a negative rating action:

- plant availability falling below the normative level of 80.0% for a sustained period of time, leading to a deduction in fixed tariff

- delays in payment from the offtakers beyond 90 days of raising invoice for a sustained period of time, leading to a stressed liquidity profile for the project

- station heat rate above the normative level of 2,396kcal/kwh during any financial year, leading to a loss on coal cost

- delays in the refinancing of bullet payments at least three months ahead of maturity

- absent sponsor support in case of a shortfall

Positive: Sustained operational and financial performance better than Ind-Ra's base case can result in a rating upgrade.

CE Ratings

Negative: Any weakening of links with sponsor-cum-guarantor (AEPL), any transgression from the stipulated structure or the reduced effectiveness of FLDG/CG mechanism for the CE NCDs can lead to a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on JPL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

JPL is a special purpose vehicle that was incorporated to build, maintain and operate a 1,320MW (2 X 660MW) coal-fired supercritical technology-based thermal power plant in Jhajjar, Haryana. About 35% of the project cost of INR60.08 billion was financed through equity and the balance through debt (both rupee and foreign currency). Both the units achieved full commencement of commercial operations on 29 July 2012.

The rights to build, own and operate the power plant was awarded to the CLP group at a levelised tariff of INR2.996/kWh in a competitive bid (Case 2) conducted by Haryana offtakers for the supply of power for 25 years. According to the obligations under the bid, Haryana procurers and the government of Haryana have acquired the land, obtained environmental clearances, allocated water required and secured a coal linkage from CIL's subsidiaries.

Uttar Haryana Bijli Vitran Nigam, Dakshin Haryana Bijli Vitran Nigam and Tata Power Trading Company Limited have contracted to offtake 45%, 45% and 10%, respectively, of the overall capacity of the plant.

FINANCIAL SUMMARY

Particulars (INR million)	**FY23**	**FY22**
Total income	49,138.37	34,559.76
Operating Expenses	38,340.65	28,479.33
EBITDA	10,797.69	6,080.43
Net profit	9,207.11	-687.94
Net worth	33,894.98	24,591.77
Short-term borrowings*	14,143.73	4,525.80
Long-term borrowings	10,315.16	16,402.71
Total borrowings	24,458.89	20,928.51
Total borrowings/net worth (x)	0.72	0.85
Total borrowings/EBITDA (x)	2.27	3.44
Source: JPL annual reports *Including current maturity of long-term borrowing		

Non-Cooperation with previous rating agency

Not applicable.

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook				
	Rating Type	Rated Limits (million)	Rating	21 October 2022	25 October 2021	19 February 2021	7 August 2020	23 July 202(
RTL	Long-term	INR 6,752.23	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stal
Foreign currency loan	Long-term	INR4248.06	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stal
Working capital facility	Long-term	INR12,500	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stal
CPs*	Short-term	INR8,000*	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+
NCDs	Long-term	INR4,760	IND AA(CE)/Stable	IND AA+ (CE)/Stable	IND AA+ (CE)/Stable	IND AA+ (CE)/Stable	IND AA+ (CE)/Stable	IND AA+ (CE)/Stable
Unsupported rating	Long-term	-	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stal
NCDs	Long-term	INR800	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stal
NCDs	Long-term	INR1,000	IND AA+ (CE)/Stable	IND AAA(CE)/Stable	IND AAA(CE)/Stable	IND AAA(CE)/Stable	IND AAA(CE)/Stable	Provisional IN AAA(CE)/Stal

*sublimit of working capital limit

Annexure

I

Financial Covenants

All senior debt instruments of JPL have following common financial covenants:
debt service coverage ratio of 1.2x
fixed-asset coverage ratio of 1.25:1
debt-to-equity ratio of 65.34:34.66 (except for 72:28 for INR2,230 million and INR1,000 million NCDs)

II

Instrument Type	Date of Issuance	ISIN	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCDs	9 April 2015	INE165K07019	9.99	30 April 2025	INR2,380	IND AA (CE)/Stable
NCDs	9 April 2015	INE165K07019	9.99	30 April 2026	INR2,380	IND AA (CE)/Stable
Total					INR4,760	
NCDs	26 July 2016	INE165K07035	9.91	28 April 2023	INR400	WD*
NCDs	26 July 2016	INE165K07043	9.91	30 April 2024	INR8,00	IND AA-/Stable
Total					INR800	
NCDs	27 July 2020	INE165K07076	8.1	27 July 2023	INR1,000	IND AA+(CE)/Stable
Total					INR1,000	

*Ind-Ra is no longer required to maintain the rating as the facility has been paid. This is consistent with Ind-Ra's Policy on Withdrawal of Ratings.

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument type	Complexity Indicator
RTL	Low
Foreign currency loan	Low
Working capital facility	Low
CPs	Low
NCDs	Low

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

Contact

Primary Analyst
Sudhir Viswanathan
Associate Director
India Ratings and Research Pvt Ltd
Harmony Square 3rd Floor, Door No. 48 & 50 Prakasam Street T Nagar Chennai - 600017

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Bharath Kumar Reddy A
Senior Analyst
+91 44 43401704

Chairperson
Dr. Sunil Kumar Sinha
Principal Economist and Senior Director Public Finance
+91 124 6687255

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

APPLICABLE CRITERIA

Rating Criteria for Partial-Credit Guarantee Backed Debt

Rating Criteria for Infrastructure and Project Finance

Evaluating Corporate Governance

The Rating Process

Short-Term Ratings Criteria for Non-Financial Corporates

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