Shree Maheshwar Hydel Power Corporation Limited

July 06, 2020

Ratings

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debentures	99.20 (Rupees Ninety Nine Crore and Twenty Lakhs Only)	**CARE BB+ (CE)^; Stable; ISSUER NOT COOPERATING* [Double B Plus (Credit Enhancement); Outlook: Stable; ISSUER NOT COOPERATING*)**	Issuer not cooperating; Revised from CARE AAA (CE)^; Stable [Triple A (Credit Enhancement); Outlook: Stable] Based on best available information

Details of instruments/facilities in Annexure-1

^Backed by unconditional and irrevocable default payment guarantee from Power Finance Corporation (PFC, rated CARE AAA; Stable/CARE A1+). The guarantee operates through a trustee-administered structured payment mechanism for timely transfer of the required funds for repayment of principal and interest to debenture holders.

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated March 31, 2018, placed the rating of Shree Maheshwar Hydel Power Corporation Limited (SMHPCL) under the 'issuer non-cooperating' category as SMHPCL had failed to provide the surveillance fees for the rating exercise as agreed to in its Rating Agreement. SMHPCL continues to be non-cooperative despite repeated requests for fees and submission of information through letter/email dated June 24, 2020 & July 02, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The revision in the rating is pursuant to Securities and Exchange Board of India (SEBI)'s circular no. SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dated January 3, 2020, regarding 'Strengthening of the rating process in respect of Issuer Non-Cooperation (INC) ratings'. SEBI has in this circular mentioned that "If an issuer has all the outstanding ratings as non-cooperative for more than 6 months, then the CRA shall downgrade the rating assigned to the instrument of such issuer to non-investment grade with INC status."

The NCDs are continue to be backed by unconditional and irrevocable default payment guarantee from PFC. The guarantee operates through a trustee-administered structured payment mechanism for timely transfer of the required funds for repayment of principal and interest to debenture holders. The payment of interest and principal on the said NCDs has been timely as communicated by the debenture trustee periodically.

Detailed description of the key rating drivers

At the time of last rating on September 30 2019, the following were the rating strengths and weaknesses of guarantor I.e. PFC (updated for the available information):

Key Rating Strengths

Government ownership and status of nodal agency

As a public financial institution, PFC enjoys patronage from and support of GoI because of the pivotal role it plays in financing power projects of both the state and private sector, thereby being instrumental in strengthening the power infrastructure of the country. PFC continues to be a strategically important entity for the government as it is the nodal agency for various GoI's schemes such as Ultra Mega Power Project (UMPP) scheme that is aimed at meeting India's power requirement with each UMPP having a capacity of 4,000 megawatts (MW) or above and the R-APDRP scheme (subsumed into Integrated Power Development Scheme (IPDS)) that is aimed at strengthening and up-gradation of sub transmission and distribution network. Additionally the Ministry of Power (MoP) has initiated tariff-based competitive bidding process for development and strengthening of transmission system through private sector participation. PFC Consulting Limited (PFCCL), a wholly owned subsidiary of PFC, has been nominated as 'Bid Process Coordinator' by Ministry of Power, Govt. of India for the development of independent transmission projects.

Diversified resource profile

As a quasi-sovereign financial institution, PFC is able to manage a well-diversified resource profile and can mobilize funds at cost effective rates from various sources such as external commercial borrowings (ECB), domestic financial institutions, long

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

**Issuer did not cooperate; Based on best available information* term bonds, bank loans, commercial paper, infrastructure bonds and tax free bonds. Since it's a non-deposit accepting NBFC, it has accepted no public deposits and no perpetual debt instruments were issued by PFC in fiscal 2019. End December 2019; PFC's borrowings stood at Rs 289,264 crore, up 16% Y-o-Y or +2% Q-o-Q. The resource profile remained well diversified with 64% of funds emanating from bonds, followed by loans from banks forming another 17% and foreign currency borrowings at 14%. The share of commercial paper remained low at just 1% of total borrowings. For the quarter ending Dec 31, 2019, the company's average borrowing costs (annualized) stood at 7.8%. Overall the share of foreign currency borrowings has been gradually rising and formed 10% of total borrowings end fiscal 2019 as against 8% in fiscal 2018 and 4% two years ago. End December 2019, the share of foreign borrowings stood at 14%. To mitigate foreign exchange risks, PFC has hedged 67% of the foreign currency portfolio with residual maturity up-to five years. In 9M ended December 2019, the company raised Rs 63,790 crore of funds, of which 75% were domestic raised and remaining 25% were foreign borrowings. In Q3, PFC raised USD 250 million for five year tenure.

Adequate capitalization
As on Dec 31, 2019, PFC's Tier 1 and total CAR remained adequate at 14.37% and 19.32% respectively, up from 11.73% and 17.09% respectively reported as on March 31, 2019, though down from 16.98% and 19.99% respectively reported end fiscal 2018. On account of Ind AS adoption from Q1, FY19, PFC's net worth declined by around Rs.3,000 crore (primarily on account of expected credit loss or ECL adjustment) and as a result PFC's overall Tier-1 and CAR capital reduced in fiscal 2019 though remains well above the regulatory minimum requirement of 10% and 15% respectively.

Stable profitability metrics
End fiscal 2019, PFC reported net profit of Rs 6,953 crore on total income (net of interest expenses) of Rs 9,459 crore as against net profit of Rs 4,387 crore on total income (net of interest expenses) of Rs 8,606 crore an year ago. While there was some margin contraction with net interest margin at 3.07% end fiscal 2019 as against 3.19% for fiscal 2018, the overall profitability was supported by provision reversals. For the quarter ended December 31, 2019, PFC's net profit stood at Rs 1680 crore, down 19.3% Y-o-Y from Rs 2084 crore reported corresponding quarter last year. Overall, the company reported 7% Y-o-Y rise in net interest income to Rs 2619 crore on the back of 12% Y-o-Y loan growth. Also, in view of stabilizing asset quality concerns, there was further reversal in provisioning expenses. However, the strong core results were partially offset by rise in expenses.

Key Rating Weaknesses
Growth in credit portfolio with moderation in asset quality
End fiscal 2019, PFC's loan book stood at Rs 314,667 crore, up ~13% Y-o-Y that further increased to Rs 3,32,962 crore as on Dec 31, 2019. The growth in government sector loans (83% of loans outstanding as on March 31, 2019) remained high with such loans up 14% Y-o-Y, while the private sector loans grew by 5% during the year. In the last couple of years, the share of government sector exposure has constituted majority of PFC's loan portfolio and hovering at around 83% while the share of private sector loans has remained around 17-18%.

PFC is exempted from following single entity/group exposure norms and concentration limits that are applicable to nonbanking finance companies. Subsequently PFC faces high concentration risk with advances to top 20 borrowers constitution 60% of total loans outstanding as on March 31, 2019 as against 58% as on March 31, 2018 and 62.5% end fiscal 2017 . Overall, in the last four years till March 31, 2019, the loan book has grown at a four year CAGR of 10%, of which the generation loans grew at a four year CAGR of 7%, while the transmission loans were up 17% (mainly due to lower base). The share of loans towards generation continues to form largest chunk though its share has come down to 71% end March 31, 2019, as against 76% two years ago. End December 31, 2019, PFC's gross loan book stood at Rs 332,692 crore, up 12% Y-o-Y or 2% Q-o-Q. The trend in composition of loan book remains broadly same with government sector contributing to 83% of loans while the share of private sector loans remains unchanged at 17%. For the nine months ending December 31, 2019, the total disbursements stood at Rs 47,246 crore, up 4.6% Y-o-Y, of which ~57% are towards generation, ~33% in distribution and ~10% in transmission.

PFC's reported asset quality metrics continue to be weak with gross non-performing assets (GNPA) and NNPA at 9.39% and 4.55% as on March-19 as against 9.57% and 7.39% reported a year ago. With the reduction in net NPA, PFC's provision coverage ratio (CARE adjusted) have improved to 49% as on March 31, 2019 as against 23% a year ago. Of the total loans, 82% are government sector loans where the servicing of loans is regular and there is no stress. Of the private sector exposure constituting the remaining 18% (as on March 31, 2019), about half of the loans are stressed. So the weakness in loans remains confined to PFC's private sector loan portfolio. Also, the company's book is majorly secured (63%) by either tangible assets or guaranteed by banks/government. The share of guaranteed portfolio has doubled during the year, while the remaining fifth of loans remain unsecured. End Dec 2019, the reported GNPA and NNPA stood at 8.3% and 3.9% respectively and reported a CARE adjusted provision coverage ratio of 53%.

Analytical approach: Credit enhancement in the form of unconditional and irrevocable default payment guarantee from Power Finance Corporation (PFC).

Applicable Criteria
Policy in respect of Non-cooperation by issuer
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Infrastructure Sector Ratings
Rating Methodology – Private Power Producers
Financial ratios – Non-Financial Sector
Criteria for Rating Credit Enhanced Debt

About the Company (SMHPCL)
SMHPCL is setting-up 400 MW (10x40MW) Maheshwar Hydro Power Project on the river Narmada at Maheshwar near Mandleshwar, Madhya Pradesh. The project was initially conceived for setting up by the Narmada Valley Development Authority (NVDA). Later, it was transferred to erstwhile Madhya Pradesh State Electricity Board (MPSEB) in 1980, before awarding it to S Kumars group (the group) as an Independent Power Project. The group created a Special Purpose Vehicle (SPV) in 1993 in the name of SMHPCL for execution of the project. The project entailed a total estimated cost of ~Rs. 3,939cr (originally Rs. 2,760 cr) to be funded in a debt to equity mix of 70:30. The long-term Power purchase agreement (PPA) for the project was signed in 1994 with erstwhile MPSEB (succeeded by M.P. Power Management Co Ltd as holding company for all discoms in M.P). The work on the project which started in the year 1998-99 was stalled in September 2001 due to withdrawal of certain lenders impacting the financing of the project. Consequently, SMHPCL approached Power Finance Corporation (PFC) for sanction of debt and the work on the project was started again in November 2005.

Brief Financials of SMHPCL are not available as the project is currently on hold.
About the guarantor (PFC)
PFC was set up in the year 1986 as a Financial Institution (FI) dedicated to power sector financing. The corporation was notified as a public financial institution in 1990 under the Companies Act, 1956. Until 1996, PFC lent exclusively to the public sector entities. Since 1996, it has expanded its customer profile to include private sector power utilities and projects. In the year 2010, RBI had classified the company as 'Infrastructure Finance Company (NBFC-ND-IFC)'. The product portfolio of PFC includes financial products and services like rupee term loan, short-term loan, equipment lease financing and transitional financing services, etc, for various power projects in generation, transmission and distribution sector. PFC's clients mainly include central power utilities, state power utilities, private power sector utilities (including independent power producers), joint sector power utilities and power equipment manufacturers.

Brief Financials- PFC (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	25,980	28,851
PAT	4,387	6,953
Interest coverage (times)	1.34	1.52
Total assets	2,75,360	3,40,794
Net NPA (%)	7.39	4.55
ROTA (%)	1.63	2.26

A: Audited

Status of non-cooperation with previous CRA: NA
Any other information: NA
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
Debentures-Non Convertible Debentures (ISIN- INE875F07013, INE875F07021, INE875F07039)	August 01, 2007	9.75%	March 2022	99.20	CARE BB+ (CE); Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE AAA (CE); Stable; ISSUER NOT COOPERATING* on the basis of best available information

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.	Debentures-Non Convertible Debentures	LT	99.20	CARE BB+ (CE); Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE AAA (CE); Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE AAA (CE); Stable; ISSUER NOT COOPERATING* (30-Sep-19)	1)CARE AAA (SO); Stable; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE AAA (SO); Stable (07-Apr-17)
2.	Term Loan-Long Term	LT	451.00	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE D; ISSUER NOT COOPERATING* (30-Sep-19)	1)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE D (07-Apr-17)

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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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