

CIN: L40101HP1988GOI008409



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एसजेवीएन लिमिटेड

SJVN Limited

(A Joint Venture of GOI & GOHP)

A Mini Ratna & Schedule "A" Company

SJVN/CS/93/2014- 1859

Date: 18-07-2014

NSE Symbol: SJVN-EQ

National Stock Exchange of India Limited

Exchange Plaza
Bandra Kurla Complex,
Bandra East,
Mumbai-400051, India.

Sub: Revision in Credit Rating

Sir,

In compliance with the Clause 36 of listing agreement we inform you that India Ratings & Research (Ind-Ra) has assigned us a Long Term Issuer Rating of "IND AA+" with stable outlook. The agency has also assigned the company's INR 4,000 million term loans an "IND AA+". Also find enclosed herewith a copy of the press release issued by the Ind-Ra in this regard.

You are requested to kindly take the same on record.

Thanking you,

Yours faithfully,

(Soumendra Das)
Company Secretary

Encl: As above

Ind-Ra Assigns SJVN Limited 'IND AA+'; Outlook Stable

Ind-Ra-New Delhi-14 July 2014: India Ratings & Research (Ind-Ra) has assigned SJVN Limited (SJVNL) a Long Term Issuer Rating of 'IND AA+'. The Outlook is Stable. The agency has also assigned the company's INR4,000m term loans an 'IND AA+' rating.

KEY RATING DRIVERS

Operations Under Cost-Plus Model: SJVNL operates its hydro power plants under the cost plus RoE framework outlined by the Central Electricity Regulatory Commission (CERC), which ensures reasonable recovery of costs along with a 16.5% return on equity. Moreover, foreign exchange rate variation risks can also be passed-through to off-takers thus protecting SJVNL. The company's upcoming projects will also operate on the same model thus de-risking the business model. The framework ensures cash flow stability and predictability. Additionally, CERC has approved a D/E ratio of 50:50 for the Natpha Jhakri Hydro Power Station (NJHPS) (normative: 70:30) thus leading to higher cash flows over the life of the project.

Efficient Operations: SJVNL has operated NJHPS efficiently as reflected through higher availability (FY14: 105.8%, FY13: 105.1%), higher generation (108.7%, 102.5%) and lower auxiliary consumption than normative levels. This has led to a strong capacity incentive, secondary energy income and unscheduled interchange (UI) income, which totalled INR2.8bn during FY14 (FY13: INR2.5bn). However, CERC 2014-2019 guidelines have increased NJHPS' normative availability factor to 90% from 82%, which would lead to a decline in incentive income by INR0.6bn from FY15.

Strong Linkages with Parent: SJVNL plays a pro-active role in furthering the government of India's (Gol, 64.5% shareholder) cross-border hydro power development objectives. It also operates India's single-largest hydro power plant (1,500MW NJHPS) and operationalisation of its Rampur Hydro Electric Power plant (RHEP, 412MW) makes it the country's second-largest hydro power generator.

Weak Counterparty Profile: SJVNL supplies power to state-owned distribution companies (discoms), whose financial profiles remain weak. The risk manifests itself in high receivables (FY14: INR3.7bn, FY13: INR3.6bn), impacting cash flow from operations. However, SJVNL has minimised the risk through using letters of credit, incentives such as discounts on prompt payments, regulating power supply to defaulting entities and relying on multiple counterparties.

Limited Hydrological Risk: NJHPS has tried to minimise the impact of silt present in the Satluj river by installing a deep de-silting chamber, coating under-water parts and maintaining a spare inventory. Additionally, installation of advanced warning systems, improvements in gate designs and presence of upstream plants minimise NJHPS' contingent risk. Moreover, asset damage and loss of profit insurance would cover any eventual loss. Also, the company has cash balances of INR24bn to tide over any liability from a plant shut-down due to floods or an extended duration of high silt flow as witnessed in 2005 and 2011.

Asset Diversification Underway: Although SJVNL has commissioned RHEP, both hydro projects are located on the Satluj. Also, both projects would operate in tandem as RHEP is a down-stream project while NJHPS is located upstream. Shutting down NJHPS thus would necessitate closing down RHEP, resulting in non-generation of power from both the plants simultaneously.

The company has, however, set up a 47.6MW wind project in Maharashtra to diversify asset, fuel and location risks. It intends to set up more wind power projects and is one of the partners for setting up a 4,000MW solar power project in Rajasthan. It is also considering setting up a 1,320MW thermal power plant in Buxar, Bihar, along with hydro power projects in Bhutan (Kholangchhu: 600MW and Wanchu: 570MW) and Nepal (900MW). SJVNL may also invest in projects in Himachal Pradesh (667MW) and Uttarakhand (363MW) which at this time appear slow moving. That being said, cash flows would remain dependent upon the existing hydro power projects as construction and operationalisation of the upcoming projects would be spread over three to four years.

RHEP's Performance could be Subdued: Ind-Ra believes RHEP's performance could be muted over FY15. This is because hydro-electric projects take time to stabilise, leading to an under-recovery in energy charges. The project has also seen significant cost and time overruns. The overall project cost has increased to INR34bn from INR20bn and any dis-allowance on the capital cost will lead to lower annual fixed charges and thus lower-than- expected cash flows.

Comfortable Liquidity: SJVNL has healthy cash balances of INR24bn and would have no outstanding project loans for NJHPS by FYE15. Also, net leverage was negative 0.18x in FY13 (FY12: negative 0.05x) and cash flow from operations was INR13.9bn (INR14.3bn). Moreover, there is a high degree of certainty in future cash flows, given the regulated nature of operations, a track record of high availability and a non-existent fuel price risk. SJVNL's equity contribution towards the upcoming projects could deteriorate the cash reserves and net leverage. However, the leverage is likely to stay in the category median as the upcoming projects would be spread over three to four years.

Support to Entities: Ind-Ra has considered SJVNL's standalone profile while arriving at the ratings, assuming that its contribution to JVs and subsidiaries is limited to equity participation. The debt at the subsidiary and JV levels has been assumed to be non-recourse to the parent. However, SJVNL's execution ability for projects under JVs and subsidiaries and its support to them in case of time and cost overruns would remain a key rating sensitivity. SJVNL is executing projects on its own balance sheet (1,030MW projects in Himachal Pradesh and Uttarakhand), through JVs (Bhutan projects) and through subsidiaries (Nepal and SJVNL Thermal Power Limited).

RATING SENSITIVITIES

Negative: Deterioration in operating performance, accumulated receivables, higher-than-expected capital expenditure and/or funding of the subsidiary with recourse to the parent could be negative for the ratings.

COMPANY PROFILE

SJVNL is a power generator with two hydro power plants (NJHPS and RHEP) in Himachal Pradesh and one wind power project (47.6MW) in Khirvire, Maharashtra. The company reported revenues of INR18.7bn in FY14 (FY13: INR16.8bn), EBITDA of INR16.0bn (INR14.5bn) and PAT of INR11.1bn (INR10.5bn).

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Applicable criteria, 'Corporate Rating Methodology', dated 12 September 2012, are available at www.indiaratings.co.in.

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