CareEdge RATINGS

Kanchanjunga Power Company Private Limited

March 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	11.00	CARE A-; Positive / CARE A2	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	0.80	CARE A2	Reaffirmed
Non-convertible debentures	99.50	CARE A-; Positive	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings of Kanchanjunga Power Company Private Limited (KPCPL) continue to factor in the successful track record of operations of over eight years of KPCPL's hydro plant in Himachal Pradesh. The ratings continue to derive comfort from the flexibility available to KPCPL in sale of power on short-term and medium-term basis which is aided by its small hydro-electric plant status and robust power demand. The ratings also draw comfort from KPCPL's stable plant load factor (PLF) and timely collection track record, its improving financial risk profile characterised by satisfactory net debt and debt coverage indicators. This is due to healthy generation with decent spread between the average sales realization and cost of generation coupled with the management's continued intent to maintain liquidity buffer. Furthermore, the experience of the promoters in operating hydro power projects is a credit positive as well.

The strengths in the ratings, are however constrained by KPCPL's leveraged capital structure and its operations being restricted to a single-asset single-site thus prone to event risk. While the generation has been satisfactory in the past, the ratings continue to remain sensitive to hydrological risk in the plant leading to volatility in its cash flows. Moreover, the project continues to bear interest fluctuation risk. While CARE notes that the current short-term nature of sales tie up gives it an upside potential, it also exposes it to some sales risks in the long run, when supply-demand situation is not as favourable as currently.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Signing of long-term PPA at current tariff or better with discoms that have satisfactory credit profile
- Sustained higher-than-envisaged generation or significant reduction in overheads, leading to better-than-base-case coverage metrics.
- Net debt by PBILDT improving to below 3.4x.

Negative factors

- Significantly lower-than-envisaged generation levels or increase in the borrowing cost or operating cost leading to adverse impact on coverage metrics.
- Significant delay in the receipt of payment from beneficiaries, moderating the liquidity profile of the company.
- Inability of the company to refinance the debt at favourable terms.

Analytical approach: Standalone

Outlook: Positive

CARE Ratings has revised the outlook from 'Stable' to 'Positive'. This is on account of anticipated improvement in profitability drive by better tariff realization due to robust power demand along with improving liquidity buffer thus improving the net leverage of the company. The outlook may be revised to Stable in case there is no significant improvement in net leverage of the company.

Detailed description of the key rating drivers

Key strengths

Steady generation and collection profile

The plant has completed more than eight years of operation and generation has been broadly steady post restoration after flood in FY19 (refers to the period April 1 to March 31). Capacity utilisation factor (CUF) in FY23 stood 45.05% (FY22: 45.76%). The generation has marginally moderated due to weaker hydrology. Furthermore, generation during 9MFY24 (refers to the period

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

April 1 to December 31) stood at CUF 52.99% as compared to 53.09% in 9MFY23. Generally, the company has been receiving payments for the billed invoices in a timely manner during 9MFY24.

Moderately comfortable debt coverage indicators with presence of debt service reserve account (DSRA)
The NCD has an elongated tenor. Coupled with lower rate of interest, the average debt service coverage ratio (DSCR) is projected over 1.5x till the penultimate year i.e FY33. The company has higher loan repayment in FY30 and in FY34, for which the company is expected to maintain sufficient cash buffer. Furthermore, comfort is also drawn from the stipulation of DSRA in the form of bank guarantees (BGs) equivalent to one quarter of debt servicing.

Promoters experience in developing hydel power projects
KPCPL is a special purpose vehicle (SPV) promoted by Mr Rohit Saraf, who, along with his family members, has a track record of successfully operating various small hydro power projects including 4.20 MW Punjab Hydro Power Private Limited. All the projects in the group are generating positive cash flows.

Industry outlook
Hydro power provides many advantages in terms of grid balancing ability due to relatively quicker ramp up/down, lower emission, lower raw material supply risk etc. The hydro power installed capacity as well as generation is less than 15% of the overall share in the country currently. This is despite substantial hydro power potential. Project implementation is a challenge due to legal, regulatory issues, evacuation and difficulties in financing. Moreover, geological and climatic risks tend to have more impact on small hydroelectric plants. The Ministry of Power and the Ministry of New and Renewable Energy have taken several initiatives to promote development and off-take power under the ambit of renewable source which augurs well for small plants like KPCPL.

Key weaknesses

Uncertainty associated with off-take volume and tariff
The absence of power purchase agreement (PPA) post March'24 exposes the revenue of KPCPL to the vagaries of merchant volume and tariff. Comfort has been drawn from successful track record of KPCPL having high realizations through merchant market over the past several years. The company has several options which includes renewal of current PPA or selling to the local discom at average power purchase cost at ex-bus. CARE Ratings expects sufficient profitability of the company in the medium term, due to the strong power demand. Nevertheless, the ability of the company to book envisaged realizations or secure PPA at similar tariff in future would be monitorable.

Leveraged capital structure
KPCPL's capital structure is leveraged as a result of erosion of net-worth and high project debt given that plant is operational for eight years only leading to lower amortisation of debt. Furthermore, the erosion of net-worth is largely attributable to aggressive depreciation policy adopted by the company coupled with extraordinary expenses incurred on account of repairing of plant post floods. Despite lower generation expected in FY24 net debt to PBILDT, which stood at 3.58x in FY23 (PY: 6.39x), is still expected to improve.

Interest rate fluctuation risk
The NCD availed for the project is floating in nature, thereby exposing the firm to the risk of any change in the cost factors. The interest cost being the primary cost component on a cash basis, any adverse movement in interest rates would impact the overall debt-servicing ability of the SPV.

Hydrological risks associated with run-of-the-river power generation
Run-of-the-river power project has little or no capacity for energy storage and therefore is dependent on the flow of river water for power generation. It thus generates much more power during times when seasonal river flows are high and much less during drier months. Furthermore, KPCPL's operations are restricted to a single plant which exposes it to the risks arising out of single-site nature of operations.

Liquidity: Adequate
The projected gross cash accrual (GCA) of the company vis-à-vis its debt repayment for FY24 and FY25 is comfortable. The company had a free cash and liquid investments of ₹28.40 crore as on February 14, 2024. The company has also maintained requisite DSRA of one quarter of debt servicing obligations in the form of BG. Going forward CARE Ratings expects KPCPL to maintain unencumbered cash and liquid investments of 1.5 times of its annual repayment obligations at all times.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Infrastructure Sector Ratings
Short Term Instruments
Withdrawal Policy

About the company and industry

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Generation

KPCPL has set up a hydro power project of 24 MW (3X8 MW) at Baragaon, Himachal Pradesh. The company is promoted by Rohit Saraf. KPCPL has been provided the rights to build, own, operate and transfer (BOOT) the project for a period of 40 years from the commercial operation date of the project. As per the terms of implementation agreement entered into between KPCPL and Government of Himachal Pradesh, the company would be required to pay royalty of 15% of the net generation to the Government of Himachal Pradesh for 12 years from the commercial operations date (COD) followed by 21% for next 18 years and 33% for balance agreement period beyond 30 years. The project successfully commenced operations on November 30, 2015, with unit I&II achieving COD on October 13, 2015, and unit III achieving COD on November 30, 2015.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	35.44	42.73	40.15
PBILDT	17.18	25.51	27.26
PAT	-6.37	13.61	9.99
Overall gearing (times)	NM	NM	NA
Interest coverage (times)	1.54	2.56	3.86

A: Audited; UA: Unaudited; NA: Not applicable; NM: Not Meaningful; Note: 'the above results are latest financial results available' analytically adjusted as per CARE Ratings' methodology

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN#	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE117N07089	02.06.2022	Linked to MCLR	31.10.2029	36.00	CARE A-; Positive
Debentures-Non Convertible Debentures	INE117N07097	02.06.2022	Linked to MCLR	31.10.2033	61.00	CARE A-; Positive

Name of the Instrument	ISIN#	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE117N07105	02.06.2022	Linked to MCLR	31.10.2024	2.50	CARE A-; Positive
Fund-based - ST-Bank Overdraft		-	-	-	0.80	CARE A2
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	11.00	CARE A-; Positive / CARE A2

#ISIN INE117N07055 and ISIN INE117N07071 have been redeemed.

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	11.00	CARE A-; Positive / CARE A2	-	1)CARE A-; Stable / CARE A2 (20-Mar-23)	1)CARE A-; Stable / CARE A2 (28-Mar-22)	1)CARE A-; Stable / CARE A2 (02-Mar-21)
2	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (20-Mar-23)	1)CARE A-; Stable (28-Mar-22)	1)CARE A-; Stable (02-Mar-21)
3	Fund-based - ST-Bank Overdraft	ST	0.80	CARE A2	-	1)CARE A2 (20-Mar-23)	1)CARE A2 (28-Mar-22)	1)CARE A2 (02-Mar-21)
4	Debentures-Non Convertible Debentures	LT	99.50	CARE A-; Positive	-	1)CARE A-; Stable (20-Mar-23)	1)CARE A-; Stable (28-Mar-22)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Complex
2	Fund-based - ST-Bank Overdraft	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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