No. CARE/DRO/RR/2022-23/1108
Shri Amit Kumar Agarwal
Chief Financial Officer
Kanchanjunga Power Company Private Limited
KPCPL Power House, Patnikuhal Shila
Halan II Road, Tehsil Manali
District Kullu
Himachal Pradesh - 175129

April 13, 2022

Confidential

Dear Sir,

Credit rating of Kanchanjunga Power Company Private Limited for Rs. 249.80 crore

Please refer to our letter dated March 25, 2022 on the above subject.

1. The rationale for the rating is attached as **Annexure-I**.

2. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by April 15, 2022, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

Gaurav Singh

Gaurav Singh
Lead Analyst
gaurav.singh@careedge.in

Agnimitra Kar

Agnimitra Kar
Assistant Director
agnimitra.kar@careedge.in

Encl.: As above

Annexure I
Rating Rationale
Kanchanjunga Power Company Private Limited

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term / Short-term Bank Facilities	12.00 (Enhanced from 5.00)	CARE A-; Stable / CARE A2 (Single A Minus; Outlook: Stable/ A Two)	Reaffirmed
Short-term Bank Facilities	0.80 (Enhanced from 0.10)	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**12.80 (Rs. Twelve crore and eighty lakh only)**		
Non-convertible Debentures	115.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned
Non-convertible Debentures	122.00 (Reduced from 123.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Long-term Instruments	**237.00 (Rs. Two hundred thirty-seven crore only)**		

Details of instruments/facilities in Annexure-1

The company is in the process of refinancing its existing debt through raising of non-convertible debentures (NCDs) of Rs.115.00 crore. The existing NCD shall be fully repaid through refinanced NCD and surplus cash at the company's level, and hence at no point in time, the total outstanding debt would exceed Rs.134.80 crore.

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd has assigned the rating of 'CARE A-; Stable' to the proposed NCD of Rs.115.00 crore while reaffirming the rating for the bank facilities and for the outstanding NCD of Kanchanjunga Power Company Private Limited (KPCPL). The ratings continue to derive strength from its promoters and their experience in operating hydro power projects. The ratings favourably factor in the operational track record of the hydro plant for more than six years. 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 debt coverage indicators and adequate liquidity position. CARE Ratings Ltd takes note of the availability of letter of intent (LOI) (for conversion to power purchase agreement [PPA]) of two years at remunerative tariff.

The rating strengths continue to remain constrained by the sales risk emanating from short-term power tie-up. The ratings are also constrained by KPCPL's leveraged capital structure and its operations being restricted to a single site. The ratings also factor in the inherent hydrological risk associated with run-of-the river hydro power projects.

Key Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- 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.

Negative Factors - Factors that could lead to negative rating action/downgrade

- Significantly lower-than-envisaged generation levels or increase in the borrowing cost or operating cost leading to adverse impact on coverage metrics.
- Inability to extend the short-term PPA in line with existing tariff in a timely manner.
- Significant delays in receipt of payment from the off-taker.
- Significant increase in the investments in group companies adversely impacting the net debt position of the company.

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

Detailed description of the key rating drivers

Key Rating Strengths

Steady generation and collection profile

The plant has completed more than six 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 FY21 was 48.15% (PY: 52.49%). The generation has moderated due to less water availability in Sanjoin Nalla. CUF was 54.03% during 9MFY22 (refers to the period April 1 to December 31) as compared with CUF of 59.19% during 9MFY21. The company is generating weekly bills and getting payments in weeks' time from its off-taker, New Delhi Municipal Council (NDMC) (through PTC India Ltd (PTCIL)) and Indian Energy Exchange Ltd (IEX) till October 2021. The average collection period of the company continues to be comfortable.

Reduction in transmission charges along with expectancy of insurance claim

The annual transmission charges paid by KPCPL for utilisation of a particular line in the state has reduced post receipt of favourable order from Central Electricity Regulatory Commission (CERC). Furthermore, KPCPL has raised the matter with Appellate Tribunal for Electricity (APTEL) to recognise this line under inter-state transmission system which may further reduce the transmission charge.

Moreover, KPCPL has filed claim for material damage and loss of profit with respect to flood in September 2018 with an insurance company and the management expects to receive the claim during FY23. The update on insurance along with significant approval of claim by the insurance company is to be seen.

Moderately comfortable debt coverage indicators with stipulation of debt service reserve account (DSRA)

The door-to-door tenor of the proposed NCD is elongated by four years. Coupled with lower rate of interest, there is improvement in the projected debt service coverage ratio (DSCR). 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 two quarters of debt servicing.

Resourceful promoters with 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 such as 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 hydro electric 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 Rating Weaknesses

Sales risk due to availability of short-term power supply arrangement

During FY21, the company supplied power to NDMC through PTCIL and at IEX till October 2021. The absence of long-term PPA exposes the revenue of KPCPL to the vagaries of short-term power market. Comfort has been drawn from successful track record of KPCPL in securing short-term PPA over the past years coupled with availability of LOI (for conversion to PPA) for two years at remunerative tariff. The company has opportunities for selling short-term power in the northern states under the ambit of non-solar renewable purchase obligation. Nevertheless, the ability of the company to secure PPA at similar tariff would be a key 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 6 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 flood. Furthermore, the total debt to GCA (TDGCA) and total debt/ PBILDT also remained elevated in FY21. With improved cash flow going forward, same is expected to improve.

Interest rate fluctuation risk; recent reduction provides comfort in the short/medium-term
The existing and refinanced 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 FY23 and FY24 is comfortable. The company had a free cash and bank balance of Rs.0.23 crore and investments in the form of mutual funds amounting to Rs.19.53 crore as on December 31, 2021. The company has also maintained requisite DSRA of two quarters of debt servicing obligations in the form of BG.

Analytical approach: Standalone

Applicable Criteria
[Definition of Default]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Infrastructure Sector Ratings]
[Power Generation Projects]
[Short Term Instruments]

About the Company
KPCPL has set up a hydro power project of 24 MW (3X8 MW) at Baragaon, Himachal Pradesh. The company is promoted by Mr 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.

Financial Performance – (Standalone)

(Rs. Crore)

For the period ended/as on March 31	2020 (12m, A)	2021 (12m, A)	H1FY22 (Prov.)
Working Results			
Total Operating income	43.47	41.64	32.29
PBILDT	26.57	22.75	22.88
Interest	13.61	12.74	5.74
Depreciation	21.83	18.55	7.09
PBT	-14.53	-9.79	10.33
PAT (after deferred tax)	-10.81	-2.82	10.33
Gross Cash Accruals	7.30	9.19	NA
Financial Position			

For the period ended/as on March 31	2020 (12m, A)	2021 (12m, A)	H1FY22 (Prov.)
Equity Capital	20.14	20.14	NA
Networth	3.78	0.96	NA
Total capital employed	109.30	170.96	NA
Key Ratios			
Growth			
Growth in Total income (%)	48.56%	-3.02%	NA
Growth in PAT (after deferred tax) (%)	NM	NM	NA
Profitability			
PBILDT/Total Op. income (%)	61.14	53.95	70.85
PAT (after deferred tax)/Total income (%)	-24.86	-6.69	31.99
ROCE (%)	-0.79	1.88	NA
Solvency			
Debt Equity ratio (times)	NM	NM	NM
Overall gearing ratio(times)	NM	NM	NM
Interest coverage(times)	1.95	1.79	NM
Term debt*/Gross cash accruals (years)	17.53	13.39	NA
Total debt*/Gross cash accruals (years)	17.53	13.39	NA
Liquidity			
Current ratio (times)	2.05	1.60	NA
Quick ratio (times)	1.65	1.32	NA
Turnover			
Average collection period (days)	8	9	NA
Average inventory (days)	40	43	NA
Average creditors (days)	71	52	NA
Operating cycle (days)	-22	-0	NA

A: Audited; Prov.: Provisional; NA: Not Available; NM: Not Meaningful
*Debt doesn't include Redeemable Preference Shares subscribed by promoter group

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating history for last three years: Please refer Annexure-2
Details of rated facilities: Please refer Annexure-3
Complexity level of various instruments rated for this company: Annexure-4
Covenants of rated instrument/facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-5

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	12.00	CARE A-; Stable / CARE A2
Fund-based - ST-Bank Overdraft		-	-	-	0.80	CARE A2
Debentures-Non Convertible Debentures	INE117N07014	February 16, 2018	10.75%	October 2028	57.00	CARE A-; Stable
Debentures-Non Convertible Debentures	INE117N07022	February 16, 2018	10.75%	May 2029	19.00	CARE A-; Stable
Debentures-Non Convertible Debentures	INE117N07030	February 16, 2018	10.75%	July 2029	18.00	CARE A-; Stable
Debentures-Non Convertible Debentures	INE117N07048	February 16, 2018	10.75%	October 2029	28.00	CARE A-; Stable
Debentures-Non Convertible Debentures	-	-	8.25%	October 2033	115.00	CARE A-; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	12.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2 (02-Mar-21)	1)CARE BBB+; Stable / CARE A3+ (06-Jan-20)	1)CARE BBB+; Stable / CARE A3+ (07-Jan-19) 2)CARE BBB+ / CARE A3+ (CWD) (04-Oct-18)
2	Debentures-Non Convertible Debentures	LT	122.00	CARE A-; Stable	-	1)CARE A-; Stable (02-Mar-21)	1)CARE BBB+; Stable (06-Jan-20)	1)CARE BBB+; Stable (07-Jan-19) 2)CARE BBB+ (CWD) (04-Oct-18)
3	Fund-based - ST-Bank Overdraft	ST	0.80	CARE A2	-	1)CARE A2 (02-Mar-21)	-	-
4	Debentures-Non Convertible Debentures	LT	115.00	CARE A-; Stable				

Annexure-3: Details of Rated Facility

1. Short Term Facilities

1.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	Induslnd Bank Ltd.	0.70
2.	Axis Bank Ltd.	0.10
	Total	**0.80**

Total Short Term Facilities : Rs.0.80 crore

2. Long Term / Short Term Facilities

2.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	Induslnd Bank Ltd.	7.00
2.	Axis Bank Ltd.	5.00
	Total	**12.00**

Total Long Term / Short Term Facilities : Rs.12.00 crore

2.B. Non Convertible Debenture

Particulars	ISIN No	Date of Issuance	Maturity Date	Amount (Rs. Crore)
NCD Series 1A	INE117N07014	Feb 16, 2018	October 31, 2028	57.00
NCD Series 1B	INE117N07022	Feb 16, 2018	May 31, 2029	19.00
NCD Series 1C	INE117N07030	Feb 16, 2018	Jul 31, 2029	18.00
NCD Series 1D	NE117N07048	Feb 16, 2018	Oct 31, 2029	28.00
	Sub Total			**122.00**
Particulars	**ISIN No**	**Date of Issuance**	**Maturity Date**	**Amount (Rs. Crore)**
Instrument I	-	March 31, 2022	Oct 31, 2024	15.50
Instrument II	-	April 30, 2022	Oct 31, 2033	99.50
	Sub Total			**115.00**
	Grand Total			**237.00**

Non-convertible Debenture: Rs.237.00 crore

Total Facilities (1.A+2.A+2.B) : Rs.249.80 crore

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of 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

Note on complexity levels of the rated instrument: CARE 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.

Annexure-5: Detailed explanation of covenants of the rated instrument/facilities:

Non-convertible Debenture	Detailed explanation
A. Financial covenants	
Debt to EBITDA	An overall total debt to EBIDTA ratio of not more than 3.5x from FY22 onwards.
Debt service coverage ratio	Debt service coverage ratio (DSCR) of not less than 1.15x from FY22 onwards.

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(This follows our brief rationale for the entity published on March 28, 2022)

About CARE Ratings:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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