No. CARE/DRO/RR/2022-23/1109
Shri Amit Kumar Agarwal
Chief Financial Officer
Bhilangana Hydro Power Limited
Bhilangana-III, Power House
Village & Post Office- Ghuttu
Tehsil- Ghansali,
Dist. Tehri Garwal
Uttarakhand - 249155

April 13, 2022

Confidential

Dear Sir,

Credit rating of Bhilangana Hydro Power Limited for Rs. 267.27 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
Bhilangana Hydro Power Limited

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	12.47	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short-term Bank Facilities	1.00	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**13.47 (Rs. Thirteen crore and forty-seven lakh only)**		
Non-convertible Debentures	120.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Non-convertible Debentures	133.80 (Reduced from 141.30)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Total Long-term Instruments	**253.80 (Rs. Two hundred fifty-three crore and eighty lakh 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.120 crore. The existing NCD shall be fully repaid through refinanced debt and surplus cash at the company's level, and hence at no point in time, the total outstanding debt would exceed Rs.147.27 crore.

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd has revised the long-term rating of Bhilangana Hydro Power Limited (BHPL) as well as assigned long-term rating of 'CARE A+; Stable' to the proposed NCD of Rs.120 crore while reaffirming the short-term rating.

The ratings factor in the significant improvement in financial risk profile characterised by healthy coverage metrics and net debt driven by sustained higher generation. The ratings also factor in its competitive cost of generation and the availability of letter of intent (LOI) (for conversion to power purchase agreement [PPA]) of two years at remunerative tariff. The ratings draw comfort from the refinancing of the existing NCD with longer tenor and at reduced interest.

Furthermore, the ratings continue to derive strength from its strong promoter group with their experience in operating hydro power projects.

The rating strengths, however, continue to remain constrained by the sales risk emanating from the volume of power off-taken as well as the tariff on short-term basis. The ratings are also constrained by BHPL'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 or better tariff with offtakers that have satisfactory credit profile.

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

- Significantly lower-than-envisaged average capacity utilisation factor (CUF) or decline in the tariff or increase in the borrowing cost or operating cost, leading to adverse impact on coverage metrics.
- Significant delay in the receipt of payment from the off-taker, moderating the liquidity profile of the company.
- Non-maintenance of un-encumbered cash and cash equivalents of at least Rs.50 crore.

Detailed description of the key rating drivers

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

Key Rating Strengths

Significant improvement in the financial risk profile

Gross cash accrual (GCA) of BHPL remained comfortable at Rs.44.64 crore in FY21 (refers to the period April 1 to March 31; PY: Rs.51.08 crore) and Rs.41.15 crore in 9MFY22 (refers to the period April 1 to December 31). High profitability has led to continued improvement in net debt and overall gearing. This is on account of close to P-75 generation of the plant, relatively lower operating cost and healthy average unit realisation even on merchant sales. The interest cover and total debt to GCA (TDGCA) remained comfortable at 4.30x and 3.17x, respectively (PY: 3.89x and 2.82x).

Favourable terms of the proposed NCD leading to better debt protection metrics

The door-to-door tenor of the proposed NCD is elongated by four years. Coupled with the lower rate of interest, there is improvement in projected debt service coverage ratio (DSCR). The company has higher loan repayment during the last year for which the company is expected to maintain sufficient cash buffer. Furthermore, comfort is also drawn from the stipulation of debt service reserve account (DSRA) in the form of bank guarantees (BGs) equivalent to one quarter of debt servicing.

Established track record along with satisfactory operational performance

The company has track record of 10 years for operating the 24-MW hydro power project. The operational performance of the company was strong in FY21, clocking CUF of 77.92%. The generation has moderated in FY21 vis-à-vis FY20 (which was 82.80%) on account of lower hydrology. CUF during 9MFY22 was 91.75% as compared with CUF of 94.42% during 9MFY21.

Strong promoter group with experience in operating hydel power projects

BHPL is a special purpose vehicle (SPV) promoted by Mr Sanjiv Saraf & Associates (promoter of Polyplex Corporation Ltd). Over the years, the group has successfully implemented small hydro power projects, namely, Kotla Hydro Power Private Limited (total installed capacity of 3.75 MW), Kotla Renewables Private Limited (total installed capacity of 3.1 MW) and Abohar Power Generation Private Limited (total installed capacity of 5.30 MW).

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 BHPL.

Key Rating Weaknesses

Uncertainty associated with off-take volume and tariff

The company is currently selling power on merchant basis. The absence of long-term PPA exposes the revenue of BHPL to the vagaries of merchant volume and tariff. Comfort has been drawn from successful track record of BHPL in securing short-term PPA over the past multiple years coupled with availability of LOI (for conversion to PPA) for two years at remunerative price. The company has opportunities for selling power on short-term basis in the northern states under the ambit of non-solar renewable purchase obligation. Nevertheless, the ability of the company to rollover/secure PPA at similar tariff in future would be a key monitorable.

Leveraged capital structure

Due to higher investments in subsidiaries and accumulated losses in the past on account of aggressive depreciation policy, BHPL's adjusted networth base is low as compared to the debt level. However, there has been improvement during FY21.

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 company to the risk of any change in 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 BHPL.

Hydrological risks associated with run-of-the-river power generation

Run-of-the-river power is considered an un-firm source of power, as a run-of-the-river 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, BHPL's operations are restricted to single plant which exposes it to the risks arising out of single site nature of operations.

Liquidity: Strong

The company has strong liquidity profile marked by healthy cash generation vis-à-vis scheduled debt repayments. Its debt repayment is broadly a balloon structure with lumpy repayment due in FY34. The liquidity profile of the company is also supported by un-encumbered cash and liquid investments of Rs.111.45 crore as on December 31, 2021. Furthermore, the company has maintained DSRA in the form of BG equivalent to one quarter interest and principal obligations. The liquidity profile is further aided by acceptable collection track record by counterparty in the past.

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

BHPL is a special purpose vehicle (SPV) promoted by Mr Sanjiv Saraf & Associates. The SPV was promoted for setting up of a 24-MW (3 X 8 MW) run-of-the-river small hydro project located on Bhilangana river in District Tehri, Uttarakhand. The project was originally awarded to the Polyplex group on build, own, operate and transfer (BOOT) basis in September 2003 by the Government of Uttarakhand (GoU). Subsequently, the developer entered into a project development agreement (PDA) with GoU on November 21, 2003. In January 2006, BHPL (an SPV), was created to implement the project. In April 2012, all the three units of 8 MW had achieved commercial operations.

Financial Performance - Standalone

(Rs. Crore)

For the period ended/as on March 31	2020	2021	9M FY22
	(12m, A)	(12m, A)	(Prov.)
Working Results			
Total Operating income	87.17	82.09	69.56
PBILDT	61.01	60.96	50.38
Interest	15.69	14.17	9.72
Depreciation	19.17	16.02	9.45
PBT	36.50	32.39	31.20
PAT (after deferred tax)	37.04	28.62	31.70
Gross Cash Accruals	51.08	44.64	41.15
Financial Position			
Equity Capital	19.63	19.63	NA
Networth	103.60	120.39	NA
Total capital employed	247.40	261.69	NA
Key Ratios			
Growth			
Growth in Total income (%)	18.26	-5.82	NM
Growth in PAT (after deferred tax) (%)	85.49	-22.73	NM

For the period ended/as on March 31	2020 (12m, A)	2021 (12m, A)	9M FY22 (Prov.)
Profitability			
PBILDT/Total Op. income (%)	69.99	74.25	72.33
PAT (after deferred tax)/Total income (%)	42.49	34.86	45.31
ROCE (%)	19.82	17.65	NA
Solvency			
Debt Equity ratio (times)	1.39	1.17	NA
Overall gearing ratio(times)	1.39	1.17	NA
Interest coverage(times)	3.89	4.30	NA
Term debt*/Gross cash accruals (years)	2.82	3.17	NA
Total debt*/Gross cash accruals (years)	2.82	3.17	NA
Liquidity			
Current ratio (times)	19.59	37.96	NA
Quick ratio (times)	18.44	36.06	NA
Turnover			
Average collection period (days)	12	33	NA
Average inventory (days)	71	89	NA
Average creditors (days)	16	12	NA
Operating cycle (days)	67	21	NA

A: Audited; Prov.: Provisional; NA: Not Available; NM: Not Meaningful
*Debt excludes Redeemable Preference Shares subscribed by the 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-Bank Guarantee		-	-	-	11.47	CARE A+; Stable
Non-fund-based - LT-Letter of credit		-	-	-	1.00	CARE A+; Stable
Fund-based - ST-Bank Overdraft		-	-	-	1.00	CARE A1
Debentures-Non Convertible Debentures	-	-	8.25%	March 2034	120.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE453I07138	February 09, 2018	9.09%	December 2022	5.6	CARE A+; Stable
Debentures-Non Convertible Debentures	INE453I07146	February 09, 2018	9.09%	March 2024	13.90	CARE A+; Stable
Debentures-Non Convertible Debentures	INE453I07153	February 09, 2018	9.09%	March 2026	20.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE453I07161	February 09, 2018	9.09%	March 2030	94.30	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-Bank Guarantee	LT	11.47	CARE A+; Stable	-	1)CARE A; Stable (26-Feb-21)	1)CARE A; Stable (07-Jan-20)	1)CARE A; Stable (07-Jan-19)
2	Non-fund-based - LT-Letter of credit	LT	1.00	CARE A+; Stable	-	1)CARE A; Stable (26-Feb-21)	1)CARE A; Stable (07-Jan-20)	1)CARE A; Stable (07-Jan-19)
3	Debentures-Non Convertible Debentures	LT	133.80	CARE A+; Stable	-	1)CARE A; Stable (26-Feb-21)	1)CARE A; Stable (07-Jan-20)	1)CARE A; Stable (07-Jan-19)
4	Fund-based - ST-Bank Overdraft	ST	1.00	CARE A1	-	1)CARE A1 (26-Feb-21)	-	-
5	Debentures-Non Convertible Debentures	LT	120.00	CARE A+; Stable				

Annexure-3: Details of Rated Facility
1. Long Term Facilities

1.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	IndusInd Bank Ltd.	6.47
2.	Axis Bank Ltd.	5.00
	Total	**11.47**

1.B. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	Axis Bank Ltd.	1.00
	Total	**1.00**

Total Long Term Facilities: Rs.12.47 crore

1.C. Non-Convertible Debenture

Particulars	ISIN No	Date of Issuance	Maturity Date	Amount (Rs. Crore)
NCD Series 3B	INE453I07138	February 09, 2018	December 31, 2022	5.6
NCD Series 3C	INE453I07146	February 09, 2018	March 31, 2024	13.90
NCD Series 3D	INE453I07153	February 09, 2018	March 31, 2026	20.00
NCD Series 3E	INE453I07161	February 09, 2018	March 31, 2030	94.30
	Sub Total			**133.80**
Particulars	**ISIN No**	**Date of Issuance**	**Maturity Date**	**Amount (Rs. Crore)**
Instrument I	-	March 31, 2022	March 31, 2024	20.20
Instrument II	-	April 30, 2022	March 31, 2034	99.80
	Sub Total			**120.00**
	Grand Total			**253.80**

Total Non-Convertible Debenture: Rs. 253.80 crore

2. Short Term Facilities

2.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	IndusInd Bank Ltd.	0.90
2.	Axis Bank Ltd.	0.10
	Total	**1.00**

Total Short Term Facilities : Rs.1.00 crore

Total Facilities (1.A+1.B+1.C+2.A) : Rs.267.27 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-Bank Guarantee	Simple
4	Non-fund-based - LT-Letter of credit	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 Debentures	Detailed explanation
A. Financial covenants	
Total debt to equity	Overall total debt to Equity (including unsecured promoter loans) ratio of not more than 4:1
Debt service coverage ratio	Debt service coverage ratio of not less than 1.20x

Contact us

Media Contact
Name: Mradul Mishra
Contact no. - +91-22-6754 3573
Email ID - mradul.mishra@careedge.in

Analyst Contact
Name: Agnimitra Kar
Contact No.: +91-9916158396
Email ID: agnimitra.kar@careedge.in

Relationship Contact
Name: Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careedge.in

(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.
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CONTACT

CARE Ratings Ltd.
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone: +91-22-6754 3456

REGIONAL OFFICE

AHMEDABAD
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Phone : +91-79-4026 5656

ANDHERI – MUMBAI
CARE Ratings Limited
A Wing - 1102 / 1103, Kanakia Wall Street,
Andheri Kurla Road, Chakala, Andheri (E),
Mumbai - 400 093

BENGALURU
Unit No. 205-208, 2nd Floor, Prestige Meridian 1,
No. 30, M.G. Road, Bengaluru, Karnataka - 560 001
Phone : +91-80-4662 5555

CHENNAI
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002
Phone : +91-44-2849 7812 / 0811

COIMBATORE
T-3, 3rd Floor, Manchester Square,
Puliakulam Road, Coimbatore - 641 037
Phone : +91-422-433 2399 / 450 2399

HYDERABAD
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029
Phone : +91-40-4010 2030

KOLKATA
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071
Phone : +91-33-4018 1600

NEW DELHI
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055
Phone : +91-11-4533 3200

PUNE
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 016
Phone : +91-20- 4000 9000

CIN - L67190MH1993PLC071691