India Ratings & Research
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India Ratings Downgrades Sterlite Power Grid Ventures and its NCDs to 'IND A'; Places on RWN

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India Ratings and Research (Ind-Ra) has downgraded Sterlite Power Grid Ventures Limited's (SPGVL) Long-Term Issuer Rating to 'IND A' from 'IND A+' and placed the rating on Rating Watch Negative (RWN). The Outlook was stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Rating Watch	Rating Action
Fund-based working capital facilities	-	-	-	INR1.3 (reduced from INR3.75)	IND A/RWN/IND A1/RWN	Downgraded; placed on RWN
Non-fund-based working capital facilities	-	-	-	INR6.75 (increased from INR6.5)	IND A/RWN/IND A1/RWN	Downgraded; placed on RWN
Commercial paper*	-	-	Up to 365 days	INR1	WD	Withdrawn
Non-convertible debentures (NCDs)^	-	-	-	INR11.5	IND A/RWN	Downgraded; placed on RWN

* The issuer is not proceeding with the instrument as envisaged
Details in Annexure

The RWN follows the proposed merger between SPGVL and its parent Sterlite Power Transmission Limited (SPTL, 'IND BBB'/RWE). Ind-Ra believes the merger could adversely impact the credit profile of the merged entity in relation to the standalone profile of SPGVL. The merger has been approved by the board of directors of both companies, post which SPGVL will cease to exist. The merger is contingent on the lenders' approval and is pending in the National Company Law Tribunal.

KEY RATING DRIVERS

Time and Cost Overruns in Existing Projects: The rating downgrade factors in the cost and time overruns in the fixed-price projects executed by SPGVL, which have resulted in significantly lower-than-expected revenues and absolute EBITDA. During 9MFY20, SPGVL's revenue and EBITDA declined to INR9.6 billion and negative INR1.5 billion, respectively (FY19: INR23 billion, INR0.8 billion). SPGVL's existing four under-construction projects, namely Khargone Transmission Limited (KTL), Gurgaon - Palwal Transmission Limited (GPTL), NER-II Transmission Limited (NER) and Goa-Tamnar Transmission Limited (GTTL), witnessed slow execution in FY20 and the agency expects it to be delayed vis-à-vis' the previous expected timelines. Construction of GPTL was completed as of FYE20 and the company expects to sell it in 1QYF21, although Ind-Ra estimated the construction and sale to be completed in FY20 itself.

SPGVL has signed definitive agreements with the India Grid Trust (IndiGrid, 'IND AAA'/Stable) for the sale of three assets - KTL, GPTL and NER-II - with a locked-in acquisition price, post their successful commissioning for INR65 billion. The delay in project completion also impacts the timelines of sale of these projects, thereby delaying SPGVL's deleveraging plans. The delay in the execution of NER project was due to a delay in the disbursement of funds by the lenders on account of the liquidity crisis in non-banking finance companies. However, execution of the project has picked up and the company expects to sell it to IndiGrid in 4QFY21 within the framework agreement timelines. KTL construction is delayed due to additional work required to be done as per government order ensuing increased costs. GTTL project is delayed due to delays in receiving forest clearances. Ind-Ra believes the company's EBITDA for FY21, too, could remain lower than the previous expectations, given the challenging macro-environment and increased project costs in KTL (a part of which has already been booked in 9MFY20). SPGVL's profitability also remains contingent upon the timely approvals for the execution of its GTTL project along with no cost overruns.

Deterioration in Credit Profile: SPGVL's debt comprised NCDs of INR11.5 billion (FY19: INR11 billion; FY18: INR13 billion) and short-term debt of INR1.3 billion (INR0.9 billion; INR3 billion), as on 9MFY20. Ind-Ra, in its previous analysis, had continued to assume that the EBITDA at SPGVL would be sufficient to service the interest payments on the NCDs and the working capital requirements, while the NCDs' principal servicing would be dependent on the sales of assets to IndiGrid.

Any excess cash flow left, after servicing the interest and NCDs' repayments, was considered available for equity infusion. Given the valuation of the assets to be sold is locked in, the visibility on the cash flow availability was high; however, the drop in the EBITDA, during 9MFY20, means the company might have to rely on the asset sale cash flows to pay the interest which could lead to equity availability mismatch.

Ind-Ra expects the company's interest coverage (EBITDA/gross interest expense) to remain below 1x for FY20 (FY19: 0.6x; FY18: 1.6x). The sale consideration to IndiGrid is, however, likely to vary depending on the changes on the account of borrowing cost of the Indigrid for acquisition of assets.

However, the agency believes any delay in the monetisation of assets beyond the expected timelines without an improvement in EBITDA could impact SPGVL's cash flow availability and result in further rating pressure. SPGVL's net leverage (net debt/EBITDA) increased to 12.4x at FYE19 (FYE18: 5.2x) due to the poor operating performance. Ind-Ra will closely monitor the operating performance and monetisation of assets. Any further increase in the long-term debt from the existing INR11.5 billion for equity investments would be credit negative for the ratings.

Brazil Assets No Longer A Drag on Capital Requirement: SPGVL finalised the sale of its two completed Brazil assets (Arcovarde and Vineyard) in 3QFY20, out of which it has realised sale proceed of Arcovarde and is likely to realise proceeds of Vineyard in 1QFY21. Further, SPGVL has also completed the sale of Novaestrado, an asset in Brazil, which was in preliminary stages of construction, the proceeds of the sale have been realised. The value creation in Brazil has been on account of sharp reduction in cost of capital compared to the cost of capital prevalent at the time of bidding. Through these divestments, SPGVL expects to realise net proceeds of INR10 billion, of which it has realised INR7 billion as of FYE20. SPGVL has an equity requirement to the tune of INR13.5 billion for rest of the projects, which now is likely to be met through the cash generated from the asset sale. Although the management has said the gains can be repatriated to domestic business for equity investments, Ind-Ra believes the same could be limited, given the cash balances would be sufficient to fund the equity of the future projects. Any further equity infusion from the domestic business to Brazil without any repatriation would be credit negative for the ratings. In March 2020, SPGVL received dividends worth INR520 million, and the same are expected to be reimbursed to SPTL.

Liquidity Indicator-Adequate: SPGVL's average utilisation of its fund-based working capital limits was 60% for the 12-months ended February 2020. SPGVL had cash balance of INR970 million, as of December 2019, (FY19: INR687 million, FY18: INR41 million). The company receives advance payments for its under-construction projects. SPGVL has no scheduled debt repayments due in FY20 and FY21; however, the NCDs' debt repayments are linked to the asset sale to IndiGrid. Ind-Ra believes interest servicing in the absence of EBITDA profit in FY20 would be done through sale proceeds from the existing assets. The management expects the EBITDA to increase going forward on account of limited cost and time overrun, which should be sufficient to cover the interest cost on the working capital debt and the interest on the NCDs. In line with its business model of build-and-sale, SPGVL managed its liquidity in FY20 primarily through the sale of special purpose vehicles (SPVs) namely, NRSS XXIX Transmission Limited; Odisha Generation Phase II Transmission Limited and ENICL ('IND AAA/Stable'). The sale proceeds of the first two have already been realised and utilised for equity infusion in the ongoing projects; reduction in working capital along with redemption of redeemable preference shares to its parent SPTL. SPGVL also sold ENICL to IndiGrid on 24 March 2020 for a net consideration of around INR10.2 billion. The sale proceeds post debt repayment, estimated at around INR2 billion, would be used for interest servicing along with equity infusion in the assets.

New Projects' Equity to Put Pressure on Capital Structure: SPGVL won three new projects during 9MFY20. SPGVL requires equity to the tune of INR14.75 billion for the completion of these projects over FY21-FY23. SPGVL had already infused around INR1.5 billion, till 31 January 2020, and would require INR6 billion-7 billion to be infused during FY21 itself. In the absence of any equity tie up, the equity infusion in these projects would remain dependent on the completion and sale of assets to IndiGrid during FY20, or raising fresh debt in SPGVL. Additionally, the sale of the assets to IndiGrid has mandatory debt repayment clauses linked to the sale and hence, the proceeds left after the debt is repaid can only be utilised for future equity requirements of SPGVL, which might not suffice given the equity required for new projects.

The sale of these three assets would release INR20 billion-21 billion (post capital gains tax) while the debt and interest to be serviced stands at around INR14 billion and the balance equity required in new projects INR13 billion, thus lowering the available cover. SPGVL EBITDA has remained negative in 9MFY20, however any EBITDA during FY21 at standalone level in the coming years would be additional support to the cash flows. Ind-Ra projects SPGVL will raise further debt to avoid any timing mismatch and delay in project execution, or raise fresh equity (pure equity rather than hybrid instruments with guaranteed returns to investors) to support the overall credit profile.

RATING SENSITIVITIES

Ind-Ra is likely to resolve the RWN once there is more clarity on the proposed merger with SPTL. The RWN indicates that the ratings may be affirmed or downgraded. A higher-than-expected long-term debt, any further time or cost overruns in the ongoing projects, resulting in higher-than-expected delay and/or lower-than-expected monetisation value of assets as assumed by SPGVL, would also be negative for the ratings.

COMPANY PROFILE

SPGVL is a holding company for transmission projects of the Sterlite Group and executes engineering, procurement and construction works for such projects. SPGVL has subsidiaries which own and operate various SPVs, under which various transmission projects are built on build-own-operate-and maintain basis for concessional periods ranging from 25-35 years. SPGVL designs, finances, constructs and maintains the power transmission systems for these SPVs.

FINANCIAL SUMMARY

Particulars	FY19	FY18

Revenue (INR billion)	23.137	15.788
EBITDA (INR billion)	0.805	1.132
EBITDA margin (%)	3.5	7.2
Interest expenses (INR billion)	1.340	0.727
Source: SPGVL, Ind Ra		

RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	19 August 2019	20 March 2019	25 August 2017
Issuer rating	Long-term	-	IND A/RWN	IND A+/Stable	IND A+/Stable	IND A+/Stable
Fund-based working capital facilities	Long-term/Short-term	INR1.3	IND A/RWN /IND A1/RWN	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+
Non-fund-based working capital facilities	Long-term/Short-term	INR6.75	IND A/RWN /IND A1/RWN	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+
NCDs	Long-term	INR11.5	IND A/RWN	IND A+/Stable	-	-
Commercial paper	Short-term	INR1	WD	IND A1+	IND A1+	IND A1+

ANNEXURE

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Rating Watch
NCDs	INE615S07073	19 July 2019	12.30	28 March 2022	INR3.00	IND A/RWN
NCDs	INE615S07057	20 June 2019	12.30	28 March 2022	INR1.05	IND A/RWN
NCDs	INE615S07065	26 June 2019	12.30	28 March 2022	INR5.50	IND A/RWN
NCDs	INE615S07040	28 March 2019	11.50	28 March 2022	INR1.95	IND A/RWN
Total					INR11.50	

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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Applicable Criteria

Corporate Rating Methodology
Parent and Subsidiary Rating Linkage

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