

## India Ratings Assigns Bhopal Dhule Transmission Company's NCDs Final 'IND AAA'/Stable

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By Divya Charen C

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India Ratings and Research (Ind-Ra) assigned Bhopal Dhule Transmission Company Limited's (BDTCL) non-convertible debentures (NCDs) a final rating as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating	Rating Action
NCDs*	-	-	-	INR7,350	IND AAA/Stable	Assigned

\*The details of the NCDs are given in Annexure.

The final rating is assigned following the receipt of executed financing documents (including debenture trustee deed, trust and retention agreement and sponsor undertakings) conforming to the information already received by Ind-Ra.

### KEY RATING DRIVERS

**Price Risk Mitigated:** The rating reflects the project's minimal price risk as it has received all the required tariff approvals, a sizeable fixed tariff component (around 93% on an average), and has demonstrated consistency in the collection period. Tariff payments to the project company are linked only to the availability of the assets and not to the quantum of power flow, thus avoiding any volume risk stemming from transmission line utilisation. The indexed component will be increased according to Central Electricity Regulatory Commission (CERC) notified rates, which are derived from inflation indices.

**Low Operating Risks:** Transmission projects have high reliability and low maintenance complexity, given the well-established technology and long design life of such assets. The useful life of transmission assets is at least 35 years according to CERC. Average availability since the commissioning of the project is above 99%. The availability of Power Grid Corporation India Limited's (PGCIL) assets across the country has remained above 99% over the last six years, thus mitigating operating risks in the transmission sector, in general. The project is entitled to incentives for maintaining availability above 98%. Furthermore, the transmission service agreement defines force majeure events, and the tariff payments (except for escalable portion) are unlikely to be affected if availability is not met due to force majeure events.

**Low Operating Costs:** The company manages operation and maintenance (O&M) through multiple sub-contracts. An increase in O&M expenses is unlikely to affect BDTCL's cash flows significantly as O&M costs are considerably lower than the revenue generated. Also, the ubiquitous nature of the assets in the country is conducive for obtaining O&M services at competitive prices.

**Revenue Sharing Mechanism Addresses Counterparty Risks:** Ind-Ra attributes low counterparty risks for interstate transmission assets, given the revenue sharing mechanism notified by CERC, which assures stable revenue collection from distribution utilities. PGCIL conducts the co-ordinating function, wherein it collects the interstate transmission tariff, determined through the point of connection mechanism, due from each distribution utility and passes on the same to transmission utilities. Any shortfall in aggregate tariff collection from distribution utilities is shared among all transmission utilities, according to their respective share of transmission revenue in the aggregate transmission tariff.

**Established Tariff Recovery Track Record:** Despite the financial distress of state owned distribution utilities (combined loss of INR633 billion in FY16), the collection period for transmission tariff has been between 40-57 days for PGCIL since the implementation of the revenue sharing mechanism in 2011. The monopoly nature of transmission assets ensures that distribution utilities prioritise payments towards transmission assets to maintain access. The regulations provide for the denial of open access to a defaulting entity and also diversion of power for sale in the short-term market to recover the transmission tariff.

**Acquisition Plans of India Grid Trust:** India Grid Trust (IndiGrid, senior debt rated at 'IND AAA/Stable') is planning to acquire three assets from Sterlite Power Grid Ventures Limited (SPGVL, 'IND A+/Stable'). The acquisition will be funded by raising debt at IndiGrid or any of its subsidiaries (excluding BDTCL). Ind-Ra will monitor for any impact from the planned acquisition.

**Debt Structure:** NCDs have a door-to-door tenor of five years, with 89.3% maturing in April 2022. BDTCL's existing external commercial borrowings (ECBs) will amortise till FY27 in quarterly payments with a bullet (USD15.61 million) in the last quarter. Both principal and interest of ECBs will be fully hedged until the maturity of NCDs. Refinancing risk is mitigated since the asset has about 14 years of balance license period from the date of maturity of NCDs. One quarter debt service is in place as bank guarantee. Waterfall mechanism requires that any interest payment and principal repayment on sub-debt from IndiGrid will be from the distribution account. IndiGrid can distribute quarterly to its unit holders only after obligations to all external lenders in any of its subsidiaries have been met. Thus, BDTCL will also benefit from the cash flows of IndiGrid after servicing of debt in other subsidiaries or in IndiGrid.

## RATING SENSITIVITIES

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**Negative:** Delays in the receipt of payments from the counterparties resulting in lower debt service coverage metrics and inability to achieve the target availability may result in a rating downgrade. Furthermore, any change in the regulatory risk profile would impact the rating.

## COMPANY PROFILE

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BDTCL operates a 944 circuit km transmission line and two 3,000MVA substations. The entire project was commissioned in June 2015. BDTCL reported revenue of INR1,248 million and EBITDA of 1,140 million in 1HFY18.

SPGVL floated an InvIT called IndiGrid in 2017. IndiGrid holds Sterlite Grid1 Limited. Sterlite Grid1 holds two operating transmission assets - BDTCL and Jabalpur Transmission Company Limited. IndiGrid completed an initial public offer and raised targeted funds in May 2017. The proceeds from IndiGrid and rated NCDs were used to retire BDTCL's existing bank loans including the promoter's subordinated debt in BDTCL (excluding ECBs) and JTCL. Outstanding debt as on 30 September 2017 was INR9,730 million including ECBs. SPGVL holds about 20.7% in IndiGrid.

## FINANCIAL SUMMARY

Particulars	FY17	FY16
Revenue (INR million)	2,610	2,459

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EBITDA (INR million)	2,428	2,275
Gross External Debt/EBITDA (x)	6.30	7.01
Source: Company financials		

## RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook
	Rating Type	Rated Amount (million)	Rating	25 May 2017
NCDs	Long term	INR7,350	IND AAA/Stable	Provisional IND AAA/Stable

## ANNEXURE

ISIN	Date of Issuance	Coupon rate (%)	Maturity Date	Size of Issue (million)
INE774N07012	30 May 2017	7.85	30 June 2018	INR120
INE774N07020	30 May 2017	7.85	30 September 2018	INR120
INE774N07038	30 May 2017	7.85	31 December 2018	INR120
INE774N07046	30 May 2017	7.85	31 March 2019	INR120
INE774N07053	30 May 2017	7.85	31 March 2020	INR50
INE774N07061	30 May 2017	7.85	31 March 2021	INR110
INE774N07079	30 May 2017	7.85	31 December 2021	INR150
INE774N07087	30 May 2017	7.85	4 April 2022	INR6,560
<b>Total</b>				<b>7,350</b>

## 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

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[Rating Criteria for Infrastructure and Project Finance](#)  
[Rating Criteria for Availability-Based Projects](#)

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