CRISIL Ratings

Rating Rationale

November 08, 2024 | Mumbai

Mumbai Urja Marg Limited

'CRISIL AA+/Stable' assigned to Non Convertible Debentures

Rating Action

Rs.2450 Crore Non Convertible Debentures	**CRISIL AA+/Stable (Assigned)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL AA+/Stable'** rating to the non-convertible debentures (NCDs) of Mumbai Urja Marg Ltd (MUML).

The rating reflects the expectation of stable revenue profile, given all elements of the project are operational and the steady nature of the transmission business, fixed availability-based tariff as per transmission service agreement (TSA), and cash flow stability under the point of connection (PoC) pool mechanism. The rating also factors in the presence of a structured payment waterfall mechanism, provision for creation of adequate debt service reserve account (DSRA) for peak debt servicing obligations throughout the debt tenure, and requirement of minimum debt service coverage ratio (DSCR) of 1.15 times, to be tested annually.

MUML is an inter-state transmission system (ISTS) project covering Western Region Strengthening Scheme-XIX (WRSS-XIX) and North-Eastern Region Strengthening Scheme-IX (NERSS-IX) spanning across Maharashtra, Gujarat, Assam and Arunachal Pradesh. This is a single project with multiple sub-packages. TSA has been signed for 35 years with fourteen counterparties, all of whom are part of Central Transmission Utility of India Ltd (CTUIL) PoC pool mechanism, thereby providing revenue visibility.

All packages (A, B, C, and D) of MUML were operational as of October 31, 2024. Packages A and D have been operational for over a year. For these two operational packages, line availability and collection efficiency has been healthy, at around 100.0% and 94% on-average respectively, from their respective commercial operation dates (COD) till August 31, 2024. Of the remaining packages, Package B achieved COD on September 6, 2024, and Package C became partially operational on September 28, 2024, and its balance (small portion with 0.47% of tariff) became operationalized on October 19, 2024. As a result, the billing for all the packages is now ongoing.

MUML is refinancing its existing long term external debt and unsecured promotor debt, with proposed NCDs of upto Rs 2450 crore. The project is expected to have a comfortable debt service coverage ratio (DSCR), considering adequate tail period. During the construction phase, the project witnessed cost overruns due to higher-than-expected right of way (ROW) expenses. For part of these costs, the company is already billing and collecting tariff monthly, under change-in-law (CIL); however, CERC final order for the same is still awaited. Considering the impending CERC ratification as well as the uncertainty of any additional debt being possibly taken against these cash flows, the current analysis doesn't factor in the benefit of any upside in tariff. Going forward, quantum and contours of additional debt taken, if any, will remain monitorable. Furthermore, if the pending CERC approval is unfavourable for MUML, the company is expected to ensure sufficient liquidity to mitigate any adverse impact from the same.

The rating also reflects the presence of strong sponsors and the consequent financial flexibility. MUML is a step-down subsidiary of Sterlite Grid Ltd 32 (SGL 32), which in turn is a JV between Sterlite Grid 5 Ltd (SGL 5; majority-held subsidiary of Twinstar Overseas Ltd (Vedanta group company)) and GIC Infra Holdings Pte. Ltd (GIC; via Stredfort End Investment Pte Ltd). SGL 5 (erstwhile part of Sterlite Power Transmission Ltd) houses the Sterlite Power group's infrastructure business, including engineering, procurement and construction (EPC) contracts for construction of power transmission lines and investments in various transmission special purpose vehicles (SPVs) in India and Brazil. SGL 5 is the largest private player in the domestic transmission sector and has an established track record in building and monetizing transmission assets, while GIC is a prominent financial investor in multiple infrastructure platforms in India.

These strengths are partially offset by operations and maintenance (O&M) risk, inherent in transmission assets which may impact their availability, and refinancing risk.

Analytical Approach

CRISIL Ratings has adopted a cash flow-based approach and considered the standalone business and financial risk profiles of MUML to arrive at the ratings.

Key Rating Drivers & Detailed Description

Strengths:

- **Stable revenue of underlying operational assets:** All four packages of MUML are operational as on October 31, 2024., thereby mitigating any construction risk. The revenue of a transmission line is completely delinked from the power demand-supply situation and volatility in electricity prices. Moreover, factors affecting line availability—such as unchecked vegetation growth, lightning or high ambient temperature causing wear and tear of insulators and flashovers —are routine. These events do not entail significant cost and can be easily rectified, thus minimising outage time. Any outage on account of extreme weather conditions, cyclones or excessive lightning is usually classified as an Act of God and is covered under the force majeure clause of the TSA. Hence, such an outage has no impact on the line availability. Moreover, based on the track record of the transmission projects executed by the Sterlite Power group, CRISIL Ratings expects the average availability to be above 99% on steady-state basis for MUML.

Package A became operational in July 2022, while Package D became operational in August 2023. Package A and D had line availability of ~100% and 99.79% respectively from their respective CoD till August 31, 2024. Package B and C achieved complete COD in September 2024 and October 2024 respectively.

Further, MUML has claimed additional tariff under CIL in lieu of the delay in regulatory procedures, for instance, delay in transfer of SPV to Sterlite Power post bidding of the packages. The company has confirmed that it is receiving the additional tariff under CIL for Package D, however, final order from Central Electricity Regulatory Commission (CERC) for this additional tariff is yet to be received. The management has also articulated it is eligible for additional tariff claims under CIL clauses for the remaining packages as well, and the approvals for the same from CERC remain monitorable.

- **Cash flow stability under the PoC pool mechanism:** MUML has signed 35 year-long TSAs with 14 long-term transmission customers. All transmission lines are ISTS licensees and come under the PoC pool mechanism, wherein CTUIL collects monthly transmission charges from all designated ISTS customers on behalf of the licensees. All ISTS licensees are then paid their share of transmission charges from the centrally collected pool. This method mitigates counterparty risk as the risk of default or delay in payment from a customer is proportionately distributed among all ISTS licensees. Though most customers (power distribution companies) are weak counterparties, the CTU has maintained strong collection efficiency. The SPVs will continue to benefit from the strong collection efficiency of the CTU and diversification of counterparty risk under the PoC pool mechanism.

- **Expectation of a comfortable financial risk profile, but exposed to refinancing risk:** The financial risk profile is comfortable driven by revenue visibility, low operational complexity, largely predictable maintenance costs, efficient collection mechanism, stable regulatory framework, adequate tail period, and presence of the strong sponsors.

  MUML is in the process of replacing its existing external debt of Rs 2070 crore and Rs 381 crore unsecured promotor debt through issuance of NCDs of upto Rs 2450 crore. The structural features and payment waterfall mechanism should ensure timely debt servicing even during any temporary distress.

  The proposed NCDs is expected to have a tenure of 14 years with a provision of coupon reset option at the end of the eighth year from the first disbursement. Moreover, there will a bullet repayment of 74.45% of the debt at the end of the 14-year tenure. This exposes the project to refinancing risk. However, steady nature of transmission assets coupled with long tenure of TSA as well as financial flexibility on account of strong sponsors will mitigate the refinancing risks to a large extent. Resultantly, CRISIL Ratings estimates that the project’s debt coverage metrics will be comfortable.

Weakness:

- **Exposure to O&M risks, inherent in transmission projects:** Maintenance of high line availability is critical to ensure stability of revenue in the power transmission sector. Although the O&M expense forms a small portion of revenue, improper line maintenance may lead to revenue loss and weaken the loan repayment capability of the company. Two of the four packages under MUML commenced operations in September 2024 and hence track record of line availability is not available. However, work orders for O&M with reputed vendors are in place and O&M for transmission assets is not technically challenging and fairly routine. Sustained line availability above 99% and timely collection for all assets will remain monitorable.

Liquidity: Strong

Stable revenue and strong cash accrual will ensure a healthy DSCR over the debt tenure and comfortably cover the debt obligation over the medium term. Moreover, the long life of underlying assets, exceeding the debt tenure, should help in refinancing the bullet repayment on comfortable terms. Additionally, the management has articulated that it will maintain DSRA equivalent to six months of peak debt servicing obligations throughout the debt tenure, with three months of DSRA to be created upfront while another three months DSRA to be built-up within six months from issuance of NCDs.

Outlook: Stable

CRISIL Ratings believes MUML will generate stable cash flow, backed by the ability of its transmission assets to maintain above normative line availability and timely collection being part of the PoC pool mechanism.

Rating sensitivity factors

Upward factors

- Track record of maintaining line availability above 99.75% on sustained basis, resulting in material improvement in DSCR
- Significant improvement in rate of interest and/or reduction in debt levels

Downward factors

- Drop in line availability below 99% on a sustained basis, weakening the cash flows, resulting in decline in DSCR
- Decline in collection efficiency under the PoC mechanism resulting in weakening in liquidity.

About the Company

MUML is a step-down subsidiary of SGL 32 Ltd, which in turn is a JV between SGL 5 and GIC. MUML is an ISTS project covering Western Region Strengthening Scheme-XIX (WRSS-XIX) and North-Eastern Region Strengthening Scheme-IX (NERSS-IX) spanning across Maharashtra, Gujarat, Assam and Arunachal Pradesh. This is a single project with multiple sub-package: 1) Package A: Additional 400kV outlets from Banaskantha 765/400 kV S/s, 2) Package B: Establishment of new substation at Vapi/Ambethi area and its associated transmission lines, 3) Package C: Additional ISTS feed to Navi Mumbai 400/220 kV substation of POWERGRID, and 4) Package D: Northeastern Region Strengthening Scheme – IX.

Package A became operational in July 2022, while Package D became operational in August 2023. Package B and C achieved COD in September 2024 and October 2024 respectively.

MUML is critical for strengthening the transmission system in Mumbai Metropolitan Region, with potential to carry more than ~2000 MW of additional power to Mumbai and Navi Mumbai.

Key Financial Indicators

As on/for the period ended March 31	Unit	2024	2023
Revenue	Rs crore	NM	NM
Profit after tax (PAT)	Rs crore	NM	NM
PAT margin	%	NM	NM
Adjusted debt/Adjusted networth	Times	NM	NM
Interest coverage	Times	NM	NM

NM: Not meaningful

Any other information:

Key proposed terms of the debt

Facilities	Upto Rs 2,450 crore senior, secured, listed Non convertible debentures
Tenor	14 years from deemed allotment date with structured amortization schedule
Put/Call Option	Coupon shall be reset at the end of 8 years from the date of allotment. In case, coupon upon such reset is not acceptable to the issuer, the issuer will have a call option which can be exercised within 120 days of the reset, without any penalty.
DSCR	DSCR>=1.15 times, tested annually

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Non Convertible Debentures#	NA	NA	NA	2450.00	Simple	CRISIL AA+/Stable

 # Yet to be issued

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	2450.0	CRISIL AA+/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Criteria for Rating power transmission projects

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