

Press Release

Bokaro Power Supply Company Private Limited (BPSCL)

23 September, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 400.00 Cr
Long Term Rating	SMERA A+/Stable
Short Term Rating	SMERA A1

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA A+**' (**read as SMERA A plus**) and short term rating of '**SMERA A1**' (**read as SMERA A one**) on the Rs.400.00 crore bank facilities of Bokaro Power Supply Company Private Limited (BPSCL). The outlook is '**Stable**'.

BPSCL incorporated in 2001, is owned jointly by Steel Authority of India and Damodar Valley Corporation (50:50). The company is engaged in thermal power generation for SAIL's Bokaro Steel Plant.

List of key rating drivers and their detailed description

Strengths

Operational and strategic linkages with promoters, secured fuel linkage

BPSCL, a joint venture of Steel Authority of India (SAIL) (50 per cent) and Damodar Valley Corporation (DVC) (50 per cent) was established as part of business reconstruction and restructuring plan of SAIL. SAIL and DVC both have nominees on the board of BPSCL. The company is led by Mr K Harinarayana, CEO.

BPSCL's business risk profile is strengthened by the Power Purchase Agreement (PPA) for offtake of power and fuel supply agreement. As per the PPA with Bokaro Steel Plant (unit of SAIL), the tariff is based on the cost-plus model (includes costs along with interest on working capital and term loans as also specified return on equity). BPSCL has 100 per cent power off take with Bokaro Steel Plant. BPSCL has fuel supply agreement with Bharat Coking Coal Limited and Central Coalfields Limited. The company also purchases coal from SAIL. The fuel cost is a part of the tariff calculation. Thus, BPSCL is largely insulated from risks related to fuel supply and coal price movements.

SMERA believes that BPSCL will continue to benefit from its established arrangement with Bokaro Steel Plant, strong fuel linkages and cost-plus tariff structure.

Healthy financial risk profile

The company has a healthy financial risk profile with networth base of Rs.768.51 crore as on 31 March, 2017 (Rs.714.11 crore as on 31 March, 2016). The capital structure stood comfortable with gearing of around 0.19 times as on 31 March, 2017 as against 0.27 times as on 31 March, 2016. The

total debt of Rs.144 crore as on 31 March, 2017 mainly consists of short term borrowings from banks.

The TOL/ TNW ratio stood low at 0.64 times as on 31 March, 2017 as against 0.75 times as on 31 March, 2016.

The company generated net cash accruals of Rs.53.91 crore for FY2017 as against Rs. 86.18 crore for FY2016. The debt protection metrics of the company are comfortable with NCATD (Net cash accruals to Total Debt) of 0.37 times for FY2017 (0.44 times in FY2016). The interest coverage also stood comfortable at 5.75 times in FY2017 as against 5.43 times in FY2016.

BPSCL has maintained healthy levels of free cash and cash equivalents during the period under study. It has unencumbered cash and bank balance of Rs.89.17 crore as on 31 March, 2017 (as against Rs.132.75 crore as on 31 March, 2016). The presence of SAIL (a company with 75 per cent Government of India holding) as 50 per cent equity holder is expected to support the company's fund raising ability and financial flexibility.

BPSCL plans to set up 2 MW and 20 MW solar power plants at Bokaro at an estimated cost of Rs.109 crore proposed to be funded in a debt-to-equity ratio of 80:20. This is expected to moderately impact the capital structure and coverage indicators. Further, the company has adequate cash flows to support the repayment obligations.

SMERA believes that the financial risk profile will continue to remain comfortable on the back of healthy cash accruals from operations and conservatively geared capital structure.

Weaknesses

Susceptibility of operating performance to the offtake by SAIL's Bokaro Steel Plant

The steel industry is highly cyclical in nature and is largely influenced by the overall economic activity in the country. Apart from cyclicalities, domestic steel companies also face intense competition from players in other countries such as China. The dumping of steel goods from China, Japan, South Korea has impacted the performance of the Indian steel industry in the past. The industry has been provided relief by the government in the form of anti dumping duty and minimum import price.

SAIL is one of the largest steel manufacturers in India and is also among the seven Maharatnas of the country's Central Public Sector Enterprises. It has five integrated steel plants and three specialty steel plants. The Bokaro Steel Plant (BSL) contributes ~25 per cent to the total revenues of SAIL in FY2017. The plant's power supply requirement is fulfilled partly by BPSCL (~65 per cent) and Damodar Valley Corporation (~35 per cent). BPSCL presently supplies power only to Bokaro Steel Plant and is dependent on the power requirement of BSL.

SMERA believes that the operations of BPSCL will be largely impacted by the performance of Bokaro Steel Plant which in turn will be influenced by the cyclicalities in the steel industry and performance of SAIL.

Analytical approach: SMERA has considered the standalone financial and business risk profiles of the company.

Applicable Criteria

- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>

- State Government Support - <https://www.smera.in/criteria-gov.htm>
- Application of Financial Ratios & Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that BPSCL will maintain a strong outlook over the medium term due to its operational and strategic linkages with promoters and fuel security. The outlook may be revised to 'Positive' in case the company continues to sustain its healthy operating performance and financial risk profile while diversifying its revenue streams through timely operationalisation of the ongoing renewable energy project. Conversely, the outlook may be revised to 'Negative' if BPSCL incurs higher than expected debt funded capex or sharp decline in the operational performance.

About the Rated Entity

BPSCL was established in 2001 as part of Steel Authority of India's (SAIL) business reconstruction and restructuring plan. SAIL had assigned its entire business as a going concern (captive power plant of 302 MW capacity and additional capacity of steam generation - 660 TPH) of BSL to BPSCL. In 2002, BPSCL became a joint venture of SAIL and DVC on acquisition of shares by DVC (50:50 ratio).

The company is engaged in thermal power generation for SAIL's Bokaro Steel Plant.

BPSCL is located in the premises of Bokaro Steel Plant (BSL) on an area admeasuring 97 acres (approx). The plant has aggregate installed capacity to generate 338 MW of power and 2180 Tonne per Hour (TPH) of steam.

For FY2016-17, BPSCL reported net profit after tax (PAT) of Rs.78.54 crore on operating income of Rs.894.50 crore compared to net profit after tax (PAT) of Rs.99.21 crore on operating income of Rs.946.69 crore in FY2015-16.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Not applicable
***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	NA	NA	NA	290.00	SMERA A+/Stable (Assigned)
Short Term Working Capital Loan	NA	NA	NA	50.00	SMERA A1 (Assigned)
Inland/ Foreign Letter of Credit/Bank Guarantee	NA	NA	NA	60.00	SMERA A1 (Assigned)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

Contacts:

Analytical	Rating Desk
Vinayak Nayak, Head – Rating Operations, Tel: 022-67141190 Email: vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in
Reema Gangola, Manager – Rating Operations, Tel: 022-67141111 Email: reema.gangola@smera.in	

ABOUT SMERA

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