Press Release

Bokaro Power Supply Company Private Limited (BPSCPL)

February 17, 2020

Rating Upgraded

Total Bank Facilities Rated	Rs. 400.00 Cr.
Long Term Rating	ACUITE AA-/ Stable (Upgraded)
Short Term Rating	ACUITE A1+ (Upgraded)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to **'ACUITE AA-' (read as ACUITE double A minus)** from **'ACUITE A+' (read as ACUITE A plus)** and the short term rating from to **'ACUITE A1+' (read as ACUITE A one plus)** from **'ACUITE A1' (read as ACUITE A one)** on the Rs. 400.00 Cr. bank facilities of Bokaro Power Supply Company Private Limited (BPSCL). The outlook is **'Stable'**.

The rating upgrade is driven by the high level of stability and sustainability in the company's business performance and financial risk profile.

Incorporated in 2001, BPSCL is owned jointly by Steel Authority of India Limited (SAIL) and Damodar Valley Corporation (DVC) (50:50). The company is engaged in thermal power generation for SAIL's Bokaro Steel Plant, which is one of the largest integrated steel plants in the country. BPSCL is located in the premises of Bokaro Steel Plant (BSL) on an area of approx 97 acres and was formed by demerger of the power generation unit of SAIL in 2001. The plant has an aggregate generation capacity of 338 MW of power and 2180 Tonne per Hour (TPH) of steam, exclusively for use by BSL. The company is led by Mr K Harinarayana, CEO. SAIL and DVC both have equal representation in the board of directors and the chairman is nominated by DVC.

Analytical Approach

Acuité has revised the analytical approach for the rating of BPSCL. While it had earlier considered only the standalone business and financial risk profiles of BPSCL, it has now provided a notch up to the standalone credit profile due to the strategic importance of the entity and its strong business linkages with the Bokaro unit of SAIL.

Key Rating Drivers:

Strengths

- **Strong parentage and strategic importance to SAIL**

The company is an equal joint venture of SAIL and DVC with 50 per cent holding of each. BPSCL has derived significant benefits from its strong operational linkages with SAIL, as reflected from its improved operational performance and timely settlement of receivables from SAIL. BPSCL has a strategic importance to SAIL as it caters to around 55 per cent of the total power requirement of its Bokaro Steel Plant (BSL). Acuité notes that Bokaro Steel Plant (BSL) is one of the key steel producing units of SAIL and has contributed to 25 per cent to its total revenues in FY2019. Acuité believes that BPSCL will continue to benefit from its status as a captive power unit for BSL and its critical role in ensuring uninterrupted operations in Bokaro Steel Plant.

- **Long term Cost Plus PPA with SAIL**

BPSCL's healthy business risk profile draws strength from the Power Purchase Agreement (PPA) with BSL (SAIL) for offtake of power and steam supply. BPSCL has a long term PPA of 14 years with SAIL from March 2017 with a renewal clause. As per the PPA, the tariff is based on the cost-plus structure with a fixed return on equity (RoE) (includes recovery of fixed and variable costs i.e. full pass through of any raw material cost escalations and interest on working capital along with specified return on equity). BPSCL sells its entire power and steam output to Bokaro Steel Plant. Acuité believes that the long term PPA and the very high likelihood of its renewal mitigates any offtake and profitability risks.

- **Secured raw material linkage**

BPSCL has existing fuel supply agreements with government owned companies like Bharat Coking Coal Limited and Central Coalfields Limited. The company also purchases coal from SAIL. Hence, the risks related to steady fuel supply are largely mitigated for BPSCL. Acuité believes the raw material linkages provide further support to the business risk profile of the company and ensure uninterrupted generation.

- **Robust financial risk profile**

The financial risk profile of the company is marked by strong net worth, low gearing and healthy debt protection measures. The net worth of the company stood at Rs. 851.66 Cr. in FY2019 as compared to Rs. 820.62 Cr. in FY2018. The Debt-equity (gearing) stood comfortable at 0.14 times in FY2019 as compared to 0.16 times in FY2018. The total debt of Rs. 117.56 Cr. in FY2019 consists of term loan of only Rs. 4.13 Cr. and working capital loans of Rs. 113.52 Cr. The interest coverage ratio stood at 6.22 times in FY2019 as compared to 6.04 times in FY2018 and DSCR stood at 4.69 times in FY2019 as against 6.06 times in FY2018. The net cash accruals to total debt (NCA/TD) reduced to 0.27 times in FY2019 as against 0.43 times in FY2018. Acuité believes that BPSCL's financial risk profile will continue to remain robust on the back of healthy cash accruals from operations and conservatively geared capital structure with minimal dependence on external borrowings.

Weaknesses

- **High Counterparty Risk**

BPSCL is completely dependent on SAIL for the sale of power and steam. BPSCL presently supplies power only to Bokaro Steel Plant and is dependent on the power requirement of BSL. Acuité believes that the operations of BPSCL will be largely linked to the performance of Bokaro Steel Plant that in turn will be influenced by the cyclicality in the steel industry and performance of SAIL. Moreover, timely payment by SAIL will also remain a key monitorable. However, Acuité believes that the counterparty risk is partly mitigated by the long term agreement with SAIL.

- **Moderate working capital management**

The company has moderate working capital operations as evident from Gross Current Asset (GCA) days of 191 days in FY2019 as against 148 days in FY2018. The inventory days stood at 36 days in FY2019 as compared to 33 days in FY2018. The debtor days stood at 53 days in FY2019 as compared to 54 days in FY2018. The high GCA days, however is on account of a high proportion of Other Current Assets consisting of mainly advance tax. Acuité draws comfort from the fact that the operations are mainly managed from own funds with low reliance on bank debt as demonstrated by the 50 per cent utilization in its working capital limit for the twelve months ended October 2019.

Rating Sensitivity

- Significant deterioration in the credit profile of SAIL or BSL
- Any change in the existing shareholding

Material Covenants

None

Liquidity Profile

The company's liquidity profile is strong marked by healthy net cash accruals of Rs. 31.60 Cr. in FY19 as against no debt obligations. Moreover, the company's working capital operations are moderate marked by gross current asset (GCA) of 191 days in FY2019 as against 148 days in FY2018. The current ratio stood at 1.67 times as on March 31, 2019. Further, the moderate working capital cycle is reflected by the company's moderate bank limit utilisation levels at about 50 per cent over twelve months ended Oct, 2019. The company maintains unencumbered cash and bank balances of Rs. 134.79 Cr. as on March 31, 2019. The presence of SAIL (a company with 75 per cent Government of India holding) as 50 per cent shareholder is expected to support the company's fund raising ability and financial flexibility. While the dividend payout of BPSCL is high, Acuité believes that the liquidity of the company is likely to remain strong over the medium term on account of healthy cash accruals and an absence of any major repayments over the medium term.

Outlook: Stable

Acuité believes that the company's outlook will remain stable over the medium term driven by its strong business risk profile and financial risk profile, supported by the high level of business linkages with SAIL. The outlook may be revised to 'Positive' in case the company registers a sustained growth in revenues and profitability while maintaining its financial risk profile. The outlook may be revised to 'Negative' if there is any significant deterioration in its business and financial performance derived from worsening of the credit profile of SAIL or any unexpected increase in borrowings due to debt funded expansion plans, among other things.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	897.09	927.22
PAT	Rs. Cr.	61.50	86.14
PAT Margin	(%)	6.86	9.29
Total Debt/Tangible Net Worth	Times	0.14	0.16
PBDIT/Interest	Times	6.22	6.04

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Default Recognition- https://www.acuite.in/view-rating-criteria-17.htm
- Manufacturing Entities- https://www.acuite.in/view-rating-criteria-4.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-Dec-2018	Cash Credit	Long Term	290.00	ACUITE A+ Issuer not cooperating*
	Short Term Working Capital Loan	Short Term	50.00	ACUITE A1 Issuer not cooperating*
	Inland/ Foreign Letter of Credit/Bank Guarantee	Short Term	60.00	ACUITE A1 Issuer not cooperating*
23-Sep-2017	Cash Credit	Long Term	290.00	ACUITE A+/Stable (Assigned)
	Short Term Working Capital Loan	Short Term	50.00	ACUITE A1 (Assigned)
	Inland/ Foreign Letter of Credit/Bank Guarantee	Short Term	60.00	ACUITE A1 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	290.00	ACUITE AA-/ Stable (Upgraded)
Short Term Working Capital Loan	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A1+ (Upgraded)
Inland/ Foreign Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A1+ (Upgraded)

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About Acuité Ratings & Research:

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