

Press Release

Bokaro Power Supply Company Private Limited

September 20, 2021



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

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

The rating on BPSCL takes into account the sound business risk profile of the company as reflected from its strong operating performance coupled with healthy profitability. Further, it is also supported by the strong parentage and the strategic importance to the parent i.e. SAIL and its, healthy financial position characterised by negligible debt and robust debt coverage indicators. BPSCL's long term 'cost plus' PPA with SAIL and the secured raw material linkages underpin its steady operating performance. These strengths are however, partly offset by working capital intensive nature of the business and counterparty risk accruing from dependence on a single buyer.

About the company

Incorporated in 2001, Jharkhand based Bokaro Power Supply Company Private Limited (BPSCL) is owned jointly and equally by Steel Authority of India Limited (SAIL) and Damodar Valley Corporation (DVC). The company is engaged in thermal power generation for Bokaro Steel Plant (BSL), which pertains to SAIL. SAIL and DVC both have equal representation in the board of directors and the chairman is nominated by DVC. 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. Further, the plant has 9 boilers (5 boilers each of 220 TPH, 3 boilers each of 260 TPH capacity and 1 boiler of 300 TPH) and 7 turbine generators (one 12 MW back Pressure Turbine Generator (TG), 2 TGs each of 55MW capacity, 3 TGs each of 60 MW capacity and one 36 MW back Pressure Turbine Generator).

Analytical Approach

Acuité has taken a standalone rating approach while arriving at the ratings of Bokaro Power Supply Company Private Limited (BPSCL). However, Acuité has also notched up the rating due to the strategic importance of the entity and its strong business linkages with the Bokaro Steel Plant of SAIL.

Key Rating Drivers

Strengths

- **Strategic importance and strong business linkages with SAIL**

The ownership structure of BPSCL provides adequate financial flexibility, as the company is a joint venture of SAIL and DVC with 50 per cent shareholding of each. BPSCL also derives significant benefits from its strong operational linkages with SAIL, as reflected from its 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 with the largest installed capacity

Acuité believes that BPSCL, from its status as a captive power unit for BSL and its critical role in ensuring uninterrupted power supply to Bokaro Steel Plant, shall continue to benefit from the financial, operational and management support from SAIL as and when required. Any changes in the ownership pattern of BPSCL or any event that impinges SAIL's overall credit profile shall remain a key rating sensitivity.

- **Long term 'cost plus' Power Purchase Agreement with SAIL**

BPSCL has a long term Power Purchase Agreement (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), which includes recovery of fixed and variable costs, that is, 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 derives strength from the Power Purchase Agreement (PPA) and further believes that the long term PPA and the very high likelihood of its renewal mitigates any offtake and profitability risks.

- **Steady operating performance with assured raw material linkages**

The comfortable business risk profile of the company is marked by the strong operating performance of the company. The company has achieved revenue of Rs.915.72 Cr in FY2020 as compared to Rs.897.09 Cr in FY2019. Further, the operating margin rose to 11.51 per cent in FY2020 from 11.08 per cent in FY2019. The PAT margin of the company increased to 8.62 per cent in FY2020 from 6.86 per cent in FY2019. The increase in profitability margins translated into healthy Return on Capital Employed (ROCE) of the company, which stood at 11.50 per cent as on FY2020 as compared to 10.88 per cent as on FY2019.

Moreover, 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.

- **Strong financial risk profile**

The company's strong financial risk profile is marked by robust net worth, low gearing and healthy debt protection metrics. The tangible net worth of the company improved to Rs. 891.44 Cr as on March 31, 2020 as compared to Rs. 851.66 Cr as on March 31, 2019 due to accretion of profits. Gearing of the company stood below unity at 0.10 times as on March 31, 2020 as compared to 0.14 times as on March 31, 2019. The total debt of Rs. 85.30 Cr as on March 31, 2020 consists of term loan of Rs. 3.74 Cr and working capital loans of Rs. 81.56 Cr. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 0.24 times as on March 31, 2020 as against 0.55 times as on March 31, 2020. The healthy debt protection is marked by interest coverage ratio of 7.82 times as on March 31, 2020 as compared to 6.22 times as on March 31, 2019 and DSCR stood at 6.57 times as on March 31, 2020 as against 4.69 times as on March 31, 2019. The net cash accruals to total debt (NCA/TD) stood low at 0.49 times as on March 31, 2020. Acuité believes that BPSCL's financial risk profile will remain strong on the back of healthy cash accruals from operations and conservatively geared capital structure with minimal dependence on external borrowings.

Weakness

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the company is marked by the high Gross Current Asset (GCA) days of 186 days as on March 31, 2020 as against 191 days as on March 31, 2019. The high GCA days are predominantly on account of high proportion of advance taxes. The debtor days stood moderate at 71 days as on March 31, 2020 as compared to 50 days as on March 31, 2019. However, the inventory days stood comfortable at 47 days as on March 31, 2020 as compared to 36 days as on March 31, 2019. Going forward, Acuité believes that the working capital operations of the company will remain at same level as evident from moderate collection mechanism and comfortable inventory levels over the medium term.

Rating Sensitivity

- Any significant changes in the shareholding pattern
- Any material deterioration in the credit profile of SAIL or BSL

Material Covenant

None

Liquidity Profile: Strong

The company's liquidity profile is strong marked by healthy net cash accruals of Rs. 41.89 Cr as on March 31, 2020 as against no debt obligations. The current ratio stood comfortable at 2.63 times as on March 31, 2020.

The company has neither availed loan moratorium nor applied for additional Covid loan. The fund based limit remains utilised at 50 per cent over the four months ended July, 2021. The cash and bank balances of the company stood at Rs.117.28 Cr as on March 31, 2020 as compared to Rs.134.79 Cr as on March 31, 2019. However, the working capital intensive nature of operations of the company is marked by the high Gross Current Asset (GCA) days of 186 days as on March 31, 2020 as against 191 days as on March 31, 2019. Acuité believes that going forward the company will maintain strong liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the company's outlook will remain stable over the medium term driven by its comfortable business risk profile and strong 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 a decline in the credit quality of SAIL or any unexpected increase in borrowings due to debt funded expansion plans.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	915.72	897.09
PAT	Rs. Cr.	78.90	61.50
PAT Margin	(%)	8.62	6.86
Total Debt/Tangible Net Worth	Times	0.10	0.14
PBDIT/Interest	Times	7.82	6.22

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in service sector- <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments- <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument/Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-Feb-2020	Cash Credit	Long Term	290.00	ACUITE AA-/ Stable (Upgraded)
	Short Term Working Capital Loan	Short Term	50.00	ACUITE A1+ (Upgraded)
	Inland/ Foreign Letter of Credit/Bank Guarantee	Short Term	60.00	ACUITE A1+ (Upgraded)
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**

Lender name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE AA-/Stable (Reaffirmed)
Canara Bank	Open Cash Credit	Not Applicable	Not Applicable	Not Applicable	140.00	ACUITE AA-/Stable (Reaffirmed)
HDFC Bank	Short Term Working Capital Loan	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A1+ (Reaffirmed)
Canara Bank	Inland/ Foreign Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE A1+ (Reaffirmed)

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About Acuité Ratings & Research

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