

Press Release

OPG Power Generation Private Limited

(OPG)

28 September, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 1675.00 Cr
Long Term Rating	SMERA AA-/Stable (Assigned)
Short Term Rating	SMERA A1+(Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned a long term rating of '**SMERA AA-**' (read as **SMERA double A minus**) and short term rating of '**SMERA A1+**' (read as **SMERA A one plus**) to the Rs.1675.00 crore bank facilities of OPG Power Generation Private Limited (OPG). The outlook is '**Stable**'.

OPG Power Generation Private Limited (OPG), established in 2005, is an independent power producer (IPP) with coal based power generating units located at Gummidipoondi, Chennai, Tamil Nadu (TN). As on October 2017, OPG has an installed capacity of 414 (MW) comprising four operational units. The primary fuel used in the company's power plant is coal (high ash Indian coal/ high moisture Indonesian coal/ blend of both) with the alternate fuel being High Sulphur Diesel. Currently, OPG sells 80 MW to TANGEDCO on a long term basis. Out of the remaining 337 MW capacity, 257MW is sold to industrial consumers (Group captive) under agreements with tenors up to three years.

List of key rating drivers and their detailed description:

Strengths:

Established track record of operations with experienced management: OPG is part of the OPG group, founded by the Late Mr. Om Prakash Gupta, which has been in operation for over five decades. The OPG Group operates and develops power generation assets in India and currently has 714 MW of power generation assets in operation (Tamil Nadu and Gujarat). All power generation companies of the OPG group are grouped as subsidiaries under OPG Power Ventures and listed on the Alternative Investment Market (AIM) of London. OPG is managed by Managing Director, Mr. Arvind Gupta (s/o Mr. Om Prakash Gupta) who has more than three decade of experience in the power generation industry. OPG commissioned its first plant (77 MW) in 2010 and since then has commissioned a total of 414 MW of thermal power plants at Gummidipoondi and Chennai in Tamil Nadu. The company operated at an average Plant Load Factor (PLF) of 64 per cent between April 2016 and March 2017.

SMERA believes that OPG will benefit from its group's position in the power generation sector and established arrangements with various corporates under the Group Captive scheme.

Established fuel linkages and arrangements for power offtake with diversified clientele:

OPG has an installed capacity of 414 mw of which, it sells 80 MW to TANGEDCO on a long term PPA ending 2028. The balance is sold to other industrial customers (under group captive model). OPG has tied this power under group captive model thereby ensuring offtake and timely collection of dues vis-a-vis TANGEDCO. The PPAs are with industrial consumers from various sectors including textile, plastic among others. OPG has entered into 218 PPA's with industrial consumers for a total of 281 MW with average tariff of Rs. 5.50 kw/unit. On the fuel linkage side, the company has entered into a fuel supply agreement (FSA) of five years with Mahanadi Coalfields Limited for indigenous fuel (70 per cent of the total requirement) and short term agreements with companies abroad for imports (30 per cent of the total requirement) thereby significantly reducing the fuel supply risk.

The company generated revenue of Rs. 1300.75 crore (Provisional) in FY2017 compared to Rs. 1223.10 crore in the previous year. The operating margins have remained healthy during the period under study (FY2014 to FY2017) with 43.18 per cent EBITDA in FY2017 as compared to 41.69 per cent in FY2016. The margins are a function of the cost of fuel (i.e coal) and average tariff realisations. Since coal prices exhibit high volatility, any increase in coal prices can influence future profit margins.

SMERA notes that the tenure of PPAs entered into by the company is short term (3 years) and timely renewal of these agreements is critical from a future revenue standpoint. Any shift of the group's captive consumers to other sources of power supply could impact the revenue profile of OPGPL. The revenue profile will also be dependent on the demand supply dynamics of Tamil Nadu as any renewals or fresh agreements will be at market linked rates. However, on the back of experience of the management and established track record of operations, OPGPL has demonstrated smooth renewal of PPAs.

SMERA believes that OPGPL will maintain a steady business risk profile on the back of its established relationships with TANGEDCO and its arrangements under Group Captive scheme. The ability to maintain a healthy PLF and healthy margin between its cost of generation and tariff charge to customers will be critical to the maintenance of a stable credit profile.

Healthy financial risk profile: The financial risk profile of OPG is healthy with networth of Rs. 1413.03 crore as on 31 March, 2017 compared to Rs. 1,177.10 crore as on 31 March, 2016 with gearing of 0.59 times as on 31 March, 2017 and 0.98 times in the previous year. The total debt as on 31 March, 2017 included long term loan of Rs. 821.05 crore and short term loan of Rs. 10.29 crore compared to long term loan of Rs. 988.52 crore and short term loan of Rs. 31.81 crore the previous year. The coverage indicators of the company are healthy with interest coverage ratio (ICR) of 4.55 times for FY2017 (3.75 times for FY2016) and debt service coverage ratio of 2.24 times for FY2017 as compared to 1.82 times for FY2016. The company registered healthy net cash accruals for FY2017 at Rs. 444.52 crore compared to Rs. 464.37 crore for FY2016. OPGPL is currently engaged in the setting up of three grid-connected solar PV projects with a cumulative capacity of 62 MW (AC)/69.4 MW (DC) in Karnataka through a joint venture, wherein OPGPL will have a 31 per cent equity stake. The total project cost is estimated to be Rs. 402.46 crore. The project will be funded in a debt-to-equity ratio of 70:30.

SMERA believes that the company will be able to maintain its financial risk profile on account of healthy net accruals expected in the near to medium term.

Weaknesses

Working capital intensive business with stretched collection days: The operations of the company are working capital intensive due to stretched receivable days from TANGEDCO. The Gross current assets stood at 190 days in FY2017 with debtors of 137 days. The collection days have been high on account of dues outstanding from TANGEDCO. However, the counterparty credit risk associated with sale of power to TANGEDCO has reduced as OPGPL currently sells 80 MW to TANGEDCO compared to 157 MW in FY2016. The dues outstanding for than six months from TANGEDCO have reduced to Rs. 84.18 crore as on 30 June 2017 from Rs. 114.69 crore as on 31 March 2017. The outstanding dues for more than six months from industrial consumers decreased from Rs. 199.50 crore as on 31 March, 2017 to Rs. 128.99 crore as on 30 June, 2017.

SMERA believes the ability of OPGPL to maintain its working capital cycle efficiently will be a key monitorable.

Susceptibility of profit margins to volatility in coal prices, foreign currency fluctuation risk and offtake risk: The profit margins are susceptible to the volatility in coal prices as its main raw material in generation of thermal energy (an average of 50 per cent of total revenues). The operating margins of the company have remained uneven during the period under study with 43.18 per cent in FY2017 as compared to 41.69 per cent in FY2016 and 35.45 per cent in FY2015. Apart from domestic procurement, the company imports coal from Indonesia, South Africa, Russia and Australia exposing the margins to foreign currency fluctuations and international prices of coal. Any slowdown in industrial activity will impact the demand for power and consequently have adverse implications for the revenues and margin profiles of the power generation players. The competition from renewable energy sources (due to gradually declining cost per unit) will also be a key variable in the demand dynamics. With the regulatory environment favouring the renewable energy sources, a gradual shift towards these sources will continue

SMERA believes that credit profiles of players like OPGPL will be influenced by their ability to offer power at competitive rates and maintain their margins against the backdrop on increasing competition and volatility in key input prices.

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

Applicable Criteria

- Infrastructure Sector - <https://www.smera.in/criteria-infra.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook - Stable

SMERA believes that the outlook on OPG will remain stable over the medium term on account of its established market position. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case of increase in power load factor with increase in long term power purchase agreements and improvement in gross current asset. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected power generation and deterioration in receivables of the company.

About the Rated Entity - Financials

For FY2016-17, OPG reported profit after tax (PAT) of Rs. 235.93 crore on operating income of Rs. 1300.75 crore as compared with PAT of Rs. 262.55 crore on operating income of Rs. 1223.10 crore for FY2015-16. The net worth stood at Rs. 1413.03 crore as on 31 March, 2017 as against Rs. 1177.10 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA: 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
Term loan I	NA	NA	NA	13.34	SMERA AA-/Stable
Term loan II	NA	NA	NA	70.91	SMERA AA-/Stable
Term loan III	NA	NA	NA	58.06	SMERA AA-/Stable
Term loan IV	NA	NA	NA	61.79	SMERA AA-/Stable
Term loan V	NA	NA	NA	8.83	SMERA AA-/Stable
Term loan VI	NA	NA	NA	64.71	SMERA AA-/Stable
Term loan VII	NA	NA	NA	3.89	SMERA AA-/Stable
Term loan VIII	NA	NA	NA	27.99	SMERA AA-/Stable
Term loan IX	NA	NA	NA	29.07	SMERA AA-/Stable
Term loan X	NA	NA	NA	37.15	SMERA AA-/Stable
Term loan XI	NA	NA	NA	185.12	SMERA AA-/Stable
Term loan XII	NA	NA	NA	111.06	SMERA AA-/Stable
Term loan XIII	NA	NA	NA	90.55	SMERA AA-/Stable
Term loan XIV	NA	NA	NA	99.09	SMERA AA-/Stable
Cash Credit	NA	NA	NA	195.00	SMERA AA-/Stable
Letter of Credit	NA	NA	NA	443.15	SMERA A1+
Bank Guarantee	NA	NA	NA	174.85	SMERA A1+

Proposed	NA	NA	NA	0.44	SMERA A1+
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Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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