Press Release

OPGS Power Gujarat Private Limited

(OPGS)

28 September, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 2059.00 Cr
Long Term Rating	SMERA BBB-/Stable (Assigned)
Short Term Rating	SMERA A3 (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of **'SMERA BBB-' (read as SMERA triple B minus)** and short term rating of **'SMERA A3' (read as SMERA A three)** on the Rs.2059.00 crore bank facilities of OPGS Power Gujarat Private Limited (OPGS). The outlook is **'Stable'**.

About the Group

OPGS is part of the OPG group, founded by the Late Mr. Om Prakash Gupta in 2008. The OPG Group comprises OPG Power Ventures PLC (OPV), listed on the Alternative Investment Market (AIM) of London. All the power generation companies of the OPG group are grouped as step-down subsidiaries of OPV. OPG Power Generation Private Limited (OPG) and OPGS are subsidiaries of Gita Power and Infrastructure Private Limited (GPIPL) which are also step-down subsidiaries of OPV. The OPG Group operates and develops power generation assets in India. It currently has 714 MW of power generation assets in operation (Tamil Nadu and Gujarat). The group is currently setting up three grid-connected solar PV projects with aggregate capacity of 62 MW in Karnataka.

About the Company

OPGS was incorporated in 2007 as a special purpose vehicle (SPV). The company is engaged in thermal power generation. OPGS is a 62.07 per cent held subsidiary of GPIPL, which in turn is a step-down subsidiary of OPV with the balance equity held by promoter controlled entities. The company has two units with capacities of 150 MW each at Kutch, Gujarat. The first unit was commissioned in April 2015 and the second in June 2016. The units use imported coal as feedstock. OPGS supplies power to industrial consumers in Gujarat, Madhya Pradesh, Maharashtra and Punjab.

List of key rating drivers and their detailed description:

Strengths:

Group support and experienced management: The OPG group has established track record of operations of operating thermal power plants with total installed capacity of 714 MW per annum. OPGS draws financial and operational support from the group. The group's financial risk profile is healthy. OPV, the London-based holding company of the group has networth of GBP 249.00 million as on 31 March, 2017. The company is listed on the Alternative Investment Market (AIM) of London with market capitalization of GBP 118.85 million as on 06 October 2017. OPGS is managed by Mr. Arvind Gupta (s/o Mr. Om Prakash Gupta), Managing Director, who has more than three decades of experience in the power generation industry. GPIPL (step down subsidiary of OPV) is a member of Indian Energy Exchange and is also engaged in EPC contracts for the power sector. The OPG Group also has plans to enter the renewable energy sector by setting up three grid-connected solar PV projects with cumulative capacity of 62 MW (AC)/69.4 MW (DC) in Karnataka.

SMERA believes that OPGS will benefit from its group's position in the power generation sector and established arrangements with corporates under power purchase agreements (PPAs).

Comfort from Power Purchase Agreement (PPA) with diversified client profile: OPGS has an installed capacity of 300 MW out of which 180 MW of capacity is tied up under 50 PPAs. The PPAs are with industrial consumers from various sectors including pharmaceuticals, plastic, and steel, among others. Some of the industrial clients include Aditya Birla Group, Apollo Tyres Limited and Godrej Industries Limited. Around 55 per cent of the capacity so tied up is with industrial units in Gujarat and the balance with industries in Madhya Pradesh, Maharashtra and Punjab. The company is yet to be recognised under the Group captive policy in Gujarat which leads to additional burden of cross subsidy charges on its buyers. OPGS is required to absorb a part of these charges in order to maintain its competitiveness and optimal levels of offtake. On the fuel linkage side, the company has entered into a fuel supply agreement (FSA) of five years with Advaita Power Resources PTE Limited, Singapore to import coal thereby significantly reducing the fuel supply risk.

The company generated revenue of Rs. 703.59 crore (Provisional) in FY2017 (Rs. 92.77 crore for the previous year). The company commenced operations of Unit 1 in April 2015 and Unit II in June 2016. The operating margins have remained moderate at 21.76 per cent in FY2016-17 as compared to 20.99 per cent in FY2015-16. OPGS has entered into PPAs for a short term of three years. Timely renewal of these agreements is critical from a future revenue standpoint. Any shift of consumers to other sources of power supply could impact the future revenue profile of OPGS.

SMERA believes that the ability of OPGS to achieve higher capacity utilisation levels through offtake arrangements with customers at competitive prices will be critical to the maintenance of a stable standalone credit profile.

Weaknesses

Moderate levels of capacity utilisation: The first plant of OPGS (150 mw) became operational in April 2015 and the second plant (150 MW) achieved commercial operations in June 2016. The company generated 1688.70 MUs in FY2016-17. The company is yet to achieve breakeven level and relies on external funding support to meet its interest servicing obligations. The company has negative net cash accruals in FY2016-17. The networth declined to Rs. 187.61 crore as on 31 March, 2017 from Rs.357.13 crore as on 31 March, 2016. OPGS incurred net losses of Rs. 187.61 crore in FY2016-17. The gearing of the company is high at 9.77 times as on 31 March, 2017 with total debt of Rs. 1655.69 crore, included long term secured loans of Rs. 1619.19 crore and the balance as short term debt. The coverage indicators are weak with interest coverage ratio (ICR) of 0.78 times. The operating margins stood at 21.76 per cent in FY2016-17 (Provisional) compared to 20.99 per cent in FY2015-16. OPGS 'ability to meet its future obligations in a timely manner will be linked to its ability to scale up operations and generate positive net cash accruals commensurate with its operational and financial commitments.

SMERA believes that the company's ability to improve its capacity utilisation while maintaining healthy margins will be key rating sensitivities.

Susceptibility of profit margins to volatility in coal prices, foreign currency fluctuation risk and offtake risk: The profit margins of OPGS are susceptible to volatility in coal prices - its main raw material in the generation of thermal energy (an average of 50 per cent of total revenues). Apart from domestic procurement, the company imports coal from Indonesia, South Africa, Russia and Australia exposing the margins of the company to foreign exchange fluctuations and international prices of coal. On the demand side, any slowdown in industrial activity impacts the demand for power and consequently has implications on 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, the gradual shift towards these is expected to continue over the medium to long term.

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

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company and factored in support from the OPG Group.

Applicable Criteria

- Group and Parent Support- https://www.smera.in/rating-criteria.htm
- 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 OPGS 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 the receivables of the company.

About the Rated Entity - Financials

For FY2016-17, OPGS reported net losses of Rs. 187.61 crore on operating income of Rs. 703.59 crore compared with net losses of Rs. 42.20 crore on operating income of Rs. 92.77 crore for FY2015-16. The net worth stood at Rs. 169.53 crore as on 31 March, 2017 as against Rs. 357.13 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	251.73	SMERA BBB-/Stable
Term loan II	NA	NA	NA	996.16	SMERA BBB-/Stable
Term loan III	NA	NA	NA	245.63	SMERA BBB-/Stable
Cash Credit	NA	NA	NA	135.00	SMERA BBB-/Stable
Letter of Credit	NA	NA	NA	316.00	SMERA A3
Bank Guarantee	NA	NA	NA	114.00	SMERA A3
Proposed	NA	NA	NA	0.48	SMERA A3

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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