

Press Release

Odisha Coal and Power Limited

December 23, 2022



Rating Assigned and Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---------------------|-----------------------------------|------------------------|
| Bank Loan Ratings | 310.08 | ACUITE BBB+ Stable Assigned | - |
| Bank Loan Ratings | 1036.00 | ACUITE BBB+ Stable Reaffirmed | - |
| Bank Loan Ratings | 153.92 | - | ACUITE A2 Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 1500.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has reaffirmed the long-term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating to '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 1189.92 crore bank facilities of Odisha Coal and Power Limited (OPCL). The outlook is '**Stable**'. Further, Acuite has assigned the long term rating of **Acuite BBB+ (read as Acuite triple B plus)** on the Rs. 310.08 Cr bank facilities of OCPL. The outlook is '**stable**'.

The rating is driven by improvement in OPCL's operational and financial performance. In FY22, the company received the COD for Manoharpur mine and registered a healthy scale of operation with strong profit margin. Further in current year, OPCL's performance will continue to witness improving trend backed by rise in coal production and prepayment of existing loans which will improve the financial risk profile. The prepayment is funded through its robust cashflows generate during Q1FY23.

The ratings continue to reflect the group's strategic importance and strong linkage with State government of Odisha. The group has low offtake risk because of PPA agreements with GRIDCO and fuel supply agreement between OPCL and OPGCL. In addition, the operational performance has improved because of rise in coal production and operational efficiencies of thermal units. Performance of the group had also improved due to rise in plant load factor (PLF) of enhanced capacities. The rating also takes into account the group's comfortable financial risk profile marked by sound net worth and moderate capital structure due to high debt levels. However the rating strengths are partially offset by the high working capital requirement and regulatory risk.

About the Company

Odisha Coal and Power Limited (OCPL) incorporated in the year 2015 is a joint venture of Odisha Power Generation Corporation Limited (OPGCL) having 51 percent shareholding and Odisha Hydro Power Corporation Limited (OHPCL) holding the balance 49 percent. OCPL had

undertaken a project for coal block development at Manoharpur and Dip side of Manoharpur. The project cost for development of Manohar mine stood at Rs 2143 crore, which is funded through a mix of debt and equity in 3:1 ratio.

OPGCL was incorporated by the Government of Orissa in 1984. OPGCL as its maiden venture had set up two units of 210 MW thermal power stations at Banaharpalli (IB Thermal Power Station) in the district of Jharsuguda (Odisha) in December 1994 (unit 1) and June 1996 (unit 2). The first unit commenced operations in 1994 while the second unit commenced operations in 1996. The entity has expanded its scope of operations through addition of two more units (units 3 and 4) each of 660 MW and they have become operational since Q2FY20.

Analytical Approach

Acuité has consolidated the financial and business risk profile of Odisha Power Generation Corporation Limited and Odisha Coal & Power Limited (OCPL). The consolidation is on account of OPGCL holding a 51 percent stake in OCPL. OCPL was incorporated to cater to the coal needs of OPGCL's for additional capacity (2 x 660MW for phase II) and (2 x 660MW for phase III) through the coal mines of Manoharpur and Dip side of Manoharpur block. OCPL has signed fuel supply agreement with OPGCL regarding supply of coal from Manoharpur coal block.

Extent of consolidation: Full

Key Rating Drivers

Strengths

Strategically important entity to Government of Odisha

The group is strategically important for the power sector infrastructure in the state of Odisha. OPGCL is also one of the key entities for undertaking power generation activity in the state of Odisha other than OHPCL. The status of being a government-owned entity provides adequate financial flexibility. OPGCL's credit profile is also supported by its access to funds at low cost and its ability to mobilize financial resources from several financial institutions and multilateral development institutions. The rating also factors ongoing support extended by GoO to OPGCL in the form of equity infusion at regular interval.

Odisha has been one of the fastest growing states in India with a low debt to gross state domestic product of 20.90 percent in 2020-21 as compared to many other states. The GoO has significantly increased its focus on increasing industrial development in the state. It is also focusing on asset creation towards infrastructure and social sectors.

Acuité believes that OPGCL shall continue to benefit from the financial, operational, and managerial support received from GoO from time.

Low offtake risk

There is low off take risk as there is Power Purchase Agreements (PPA) with Gridco (state owned power transmission company). OPGCL has a power purchase agreement (PPA) with GRIDCO based on a two-part tariff structure for sale of the entire power generated from its operational capacity of 420 megawatt (MW). Regular maintenance of the power stations has enabled OPGCL to consistently maintain plant availability factor higher than the normative level of 68.49 per cent (as defined in the PPA), thus leading to full recovery of fixed costs.

Further, the OPGCL has already entered into a PPA with GRIDCO for the capacity addition of (2*660 MW) for the 3 and 4th unit where OPGCL and GRIDCO entered into a PPA where 75 per cent of the contracted capacity i.e 990 MW (75 % of 1320 MW) would be sold to GRIDCO from the date of commencement to 31st March'2023. From 1st April 2023, 100 per cent of the capacity would be directly sold to GRIDCO for a period of 25 years. Further, for the balance 25 percent- PPA has been entered through a supplementary agreement entered into in Jan'2019 between GRIDCO and OPGCL.

OPGCL has fuel supply agreement (FSA) with Mahanadi Coalfields Limited (MCL) which ensures the steady supply of raw material. In addition, OCPL has signed fuel supply with OPGCL regarding sale of extracted coal from Manoharpur coal mines.

Acuite believes the scale of operation is likely to improve in the medium term driven by rise in mining activity in OCPL and rise in overall plant load factor in power plants.

Comfortable financial risk profile

The consolidated financial risk profile stood at a comfortable level marked by its strong net worth, high and modest debt protection metrics. The net worth of the group stood at Rs.3073.86 crore in FY2022 as compared to Rs.2916.58 crore in FY2021. The gearing of the group stood at 2.97 times in FY22 as compared to 3.08 times in FY21. The group has high reliance on external debt because of large debt funded capex plans. The interest coverage ratio (ICR) stood at 1.51 times in FY22 as compared to 1.13 times in FY21. Acuite believes financial risk profile will continue at similar levels over the medium term backed by ongoing capex plan in OPGCL.

Improvement in standalone performance

The company had posted revenue of Rs 523 Cr in FY22 with six months of operation as schedule commercial of date for the mine was 30 September 2021. Further, EBITDA margin of the company stood strong at 42.90 percent which led to healthy coverage ratios. Interest coverage and DSCR stood at 5.79 times and 1.95 times in FY22. In current fiscal year, company has already registered Rs 648 Cr of revenue with EBITDA margin of 77 percent during Q1FY23. Hence the company is expected to witness significant improvement in FY23.

Weaknesses

Working capital intensive nature of operation

The working capital-intensive nature of operations is marked by high gross current asset (GCA) days of 185 days in FY2022 as compared to 138 days in FY2021. The inventory days stood at 57 days in FY22 against 39 days in FY21. Debtor days stood high at 90 days in FY22 as compared 76 days in FY21. Acuite believes that the operations of the group will continue to be working capital intensive over the medium term because of stretched receivable from discoms.

Exposure to Regulatory Risks:

GRIDCO is the sole counterparty for OPGC's power output (for existing and 75 per cent of newly added capacity) and is directly exposed to the health of the Odisha discoms. Thus, OPGC's collection efficiency largely depends on state of the power sector in Odisha. However, these risks are mitigated by presence of a robust two payment security mechanism comprising a letter of credit and an escrow mechanism, which has led to timely realization from discoms.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Improvement in profitability with sustained revenue growth
- Any cost overrun and time overrun in ongoing capex plans

Material covenants

None

Liquidity Position

Adequate

The liquidity position of the group is adequate with working capital utilization at only 39 percent during last 9 month ended October 2022. The group has free cash & balance of Rs 227.90 Cr as on 31.03.2022. However the net cash accrual stood at Rs 380 Cr as against current maturity of Rs 540 Cr. Acuite expects improvement in the liquidity profile as net cash

accrual will improve in medium term driven by rise in absolute EBITDA backed by substantial improvement in scale of operation.

Outlook: Stable

Acuité believes that the group will maintain 'Stable' outlook over the medium term from its strategic importance to the GoO, experienced management and strong parentage. The outlook may be revised to 'Positive' after the group is able to registers growth in revenues while improving its profitability from high operational efficiencies. Conversely, the outlook may be revised to 'Negative' in case of any further time and cost overruns or deterioration in their liquidity position.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 2641.27 | 2378.03 |
| PAT | Rs. Cr. | 55.44 | (191.96) |
| PAT Margin | (%) | 2.10 | (8.07) |
| Total Debt/Tangible Net Worth | Times | 2.97 | 3.08 |
| PBDIT/Interest | Times | 1.51 | 1.13 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|-----------|-----------------|--|
| 15 Nov 2022 | Term Loan | Long Term | 358.42 | ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable) |
| | Term Loan | Long Term | 290.92 | ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable) |
| | Proposed Bank Facility | Long Term | 386.66 | ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable) |

| | | | | |
|-------------|----------------|------------|--------|--|
| | Bank Guarantee | Short Term | 153.92 | ACUITE A2 (Upgraded from ACUITE A3+) |
| 04 Oct 2021 | Term Loan | Long Term | 500.00 | ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable) |
| | Term Loan | Long Term | 472.44 | ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable) |
| | Bank Guarantee | Short Term | 153.92 | ACUITE A3+ (Upgraded from ACUITE A3) |
| | Term Loan | Long Term | 63.56 | ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable) |
| 10 Jul 2020 | Term Loan | Long Term | 500.00 | ACUITE BBB- Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 153.92 | ACUITE A3 (Reaffirmed) |
| | Term Loan | Long Term | 536.00 | ACUITE BBB- Stable (Reaffirmed) |
| 22 Apr 2019 | Term Loan | Long Term | 500.00 | ACUITE BBB- Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 153.92 | ACUITE A3 (Reaffirmed) |
| | Term Loan | Long Term | 536.00 | ACUITE BBB- Stable (Reaffirmed) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|----------------------|----------------|----------------------------------|---------------------|----------------|---------------------|------------------|-------------------|-----------------------------------|
| Canara Bank | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 153.92 | ACUITE A2 Reaffirmed |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | Simple | 386.66 | ACUITE BBB+ Stable Reaffirmed |
| Not Applicable | Not Applicable | Proposed Long Term Loan | Not Applicable | Not Applicable | Not Applicable | Simple | 310.08 | ACUITE BBB+ Stable Assigned |
| Punjab National Bank | Not Applicable | Term Loan | Oct 30 2017 12:00AM | 8.15 | Sep 30 2035 12:00AM | Simple | 358.42 | ACUITE BBB+ Stable Reaffirmed |
| Union Bank of India | Not Applicable | Term Loan | May 31 2017 12:00AM | 10.95 | Aug 31 2035 12:00AM | Simple | 290.92 | ACUITE BBB+ Stable Reaffirmed |

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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