Press Release
Odisha Coal and Power Limited
May 02, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1170.21	ACUITE A- | Stable | Reaffirmed	-
Bank Loan Ratings	329.79	-	ACUITE A1 | Reaffirmed
Total Outstanding Quantum (Rs. Cr)	1500.00	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of **'ACUITE A-'(read as ACUITE A minus)** and short term rating of **'ACUITE A1'(read as ACUITE A one)** on the Rs. 1500.00 crore bank facilities of Odisha Coal and Power Limited (OCPL). The outlook is '**Stable'.**

Rationale for Reaffirmation

The rating reaffirmation is driven by improvements in the operating and financial risk profile recorded by the Odisha Group in FY2023. The consolidated revenue grew by ~80% in FY2023 to Rs.5218.56 crore from Rs.2887.48 crore in FY2022. The growth in revenue is on the back of higher PAF and PLF in the OGCPL's unit 3&4, OCPL's improved coal production (~8million tonne in FY2023;5.25 million tonne in FY2022) and higher realisations from open market auctions of coal. The PAF and PLF improved significantly for OPGCL's unit 3&4 in FY2023 to 78% and 77% respectively against 52% and 63% in the previous year respectively. It is further expected to remain in a similar range in the current financial year. Further, it factors in the improved operating profitability to 62.14% in FY2023 from 43.65% in FY2022. However, the revenues are expected to moderate in FY2024 primarily due to decline in realizations from coal sales and accordingly profitability margins are expected to decline.
Further, the financial risk profile strengthened marked by improved net-worth, low gearing levels and moderate debt coverage indicators which will sustain in medium term.

Further, 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. However, the rating strengths are partially offset by the high working capital requirement and regulatory risk

About 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 Government of Odisha 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.

About the Group

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. OPGCL is 100% owned by Government of Odisha

Unsupported Rating
Not applicable

Analytical Approach

Extent of Consolidation
- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support
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.

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. 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 according to which from 1st April 2023, 100 per cent of the capacity is being directly sold to GRIDCO for a period of 25 years. 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.

- **Healthy financial risk profile**

  The consolidated financial risk profile stood at a healthy level marked by its strong net worth, high and moderate debt protection metrics. The net worth of the group stood at Rs.4848.23 crore in FY2023 as compared to Rs.3291.09 crore in FY2022.The gearing of the group improved to 1.70 times in FY23 as compared to 2.77 times in FY22.The group has high reliance on external debt because of large debt funded capex plans. The interest coverage ratio (ICR) improved to 4.49 times in FY23 as compared to 1.49 times in FY22. The Debt-EBITDA levels declined to 2.49 times in FY23 from 7.58 times in FY22. Acuite believes financial risk profile may moderate in medium term owing to debt funded capex plan of the group.

Weaknesses

- **High working capital requirement**

The group has high working capital requirement marked by Gross Current Assets (GCA) of 146 days as on March 31, 2023 as against 169 days as on March 31, 2022. The high GCA days are primarily on account of high debtor days of 91 days as on March 31, 2023 as compared to 73 days as on March 31, 2022. Further, the inventory days stood modest at 42 days as on March 31, 2023 as against 53 days in FY22. Acuite believes working capital requirement is likely to remain similar over the medium term.

- **Exposure to Regulatory Risks**

GRIDCO is the sole counterparty for OPGC's power output 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.

Rating Sensitivities

- Significant moderation in scale of operations and decline in operating profitability
- Efficient working capital management

Liquidity Position: Adequate

The group has adequate liquidity profile as reflected by sufficient cash accruals generation in FY2023 against repayment obligations. The group generated cash accruals of Rs.2006.81 Cr against repayment obligations of Rs.470.99 Cr during the same period. Further, the group is expected to generate sufficient cash accruals to pay its debt repayment obligation in near to medium term. Further, the fund-based limit utilisation of OPGCL stood moderate at 73% for the last 9 months ending December 2023. Moreover, the group has a high cash & bank equivalent of Rs 208.36 Cr as on 31.03.2023. However, the group has high GCA days of 146 days in FY23 as against 169 days in FY22. Acuite expects liquidity profile of the group may continue to remain at adequate levels over the medium term backed by steady cash accruals.

Outlook: Stable

Acuité believes that the group will maintain 'Stable' outlook over the medium term from its strategic importance to the GoO, experienced management, strong parentage and improved PAF and PLF in the Unit 3&4 of OPGCL. The outlook may be revised to 'Positive' if the group registers growth in revenues while improving its profitability from high operational efficiencies. Conversely, the outlook may be revised to 'Negative' in case of any significant moderation in revenues and profitability levels or deterioration in their liquidity position.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	5218.56	2887.48
PAT	Rs. Cr.	1647.46	55.07
PAT Margin	(%)	31.57	1.91
Total Debt/Tangible Net Worth	Times	1.70	2.77
PBDIT/Interest	Times	4.49	1.49

Status of non-cooperation with previous CRA (if applicable)
Not applicable

Any Other Information
None

Applicable Criteria
• 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
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Group And Parent Support: https://www.acuite.in/view-rating-criteria-47.htm
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.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. Acuite' 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
22 Mar 2024	Term Loan	Long Term	358.42	ACUITE A- | Stable (Upgraded from ACUITE BBB+ | Stable)
	Term Loan	Long Term	290.92	ACUITE A- | Stable (Upgraded from ACUITE BBB+ | Stable)
	Proposed Long Term Bank Facility	Long Term	336.66	ACUITE A- | Stable (Upgraded from ACUITE BBB+ | Stable)
	Proposed Long Term Loan	Long Term	34.78	ACUITE A- | Stable (Upgraded from ACUITE BBB+ | Stable)
	Cash Credit	Long Term	50.00	ACUITE A- | Stable (Upgraded from ACUITE BBB+ | Stable)
	Term Loan	Long Term	275.30	ACUITE A- | Stable (Upgraded from ACUITE BBB+ | Stable)
	Bank Guarantee (BLR)	Short Term	153.92	ACUITE A1 (Upgraded from ACUITE A2)
23 Dec 2022	Bank Guarantee (BLR)	Short Term	153.92	ACUITE A2 (Reaffirmed)
	Term Loan	Long Term	358.42	ACUITE BBB+ | Stable (Reaffirmed)
	Term Loan	Long Term	290.92	ACUITE BBB+ | Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	386.66	ACUITE BBB+ | Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	310.08	ACUITE BBB+ | Stable (Assigned)
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 Long Term Bank Facility	Long Term	386.66	ACUITE BBB+ | Stable (Upgraded from ACUITE BBB | Stable)
	Bank Guarantee (BLR)	Short Term	153.92	ACUITE A2 (Upgraded from ACUITE A3+)
04 Oct 2021	Proposed Long Term Bank Facility	Long Term	63.56	ACUITE BBB | Stable (Upgraded from ACUITE BBB- | Stable)
	Term Loan	Long Term	472.44	ACUITE BBB | Stable (Upgraded from ACUITE BBB- | Stable)
	Term Loan	Long Term	500.00	ACUITE BBB | Stable (Upgraded from ACUITE BBB- | Stable)
	Bank Guarantee (BLR)	Short Term	153.92	ACUITE A3+ (Upgraded from ACUITE A3)

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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	153.92	ACUITE A1 | Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	175.87	ACUITE A1 | Reaffirmed
Union Bank of India	Not avl. / Not appl.	Cash Credit	25 Mar 2021	Not avl. / Not appl.	Not avl. / Not appl.	Simple	50.00	ACUITE A- | Stable | Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	160.79	ACUITE A- | Stable | Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	229.93	ACUITE A- | Stable | Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Term Loan	30 Oct 2017	Not avl. / Not appl.	30 Sep 2035	Simple	264.88	ACUITE A- | Stable | Reaffirmed
Union Bank of India	Not avl. / Not appl.	Term Loan	31 May 2017	Not avl. / Not appl.	31 Aug 2035	Simple	189.31	ACUITE A- | Stable | Reaffirmed
Rural Electrification Corporation Ltd.	Not avl. / Not appl.	Term Loan	13 Jul 2020	Not avl. / Not appl.	13 Jul 2038	Simple	275.30	ACUITE A- | Stable | Reaffirmed

***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

1.Odisha Power Generation Corporation Limited
2.Odisha Coal and Power limited

Contacts

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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.