

Press Release

Odisha Power Generation Corporation Limited

April 24, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 600.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable
Short Term Rating	ACUITE A2+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) to the Rs. 600.00 crore bank facilities of Odisha Power Generation Corporation LIMITED (OPGCL). The outlook is '**Stable**'.

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 Odisha Coal & Power Limited (rated at ACUITE BBB- /Stable/A3) being a 51% subsidiary of OPGCL. Also, Odisha Coal & Power Limited 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 would be catering to the entire coal requirements of OPGCL's Phase II & III capacity. Extent of consolidation : Full

About the Group

OPGCL, a Government of Odisha Company was incorporated by the Government of Orissa in 1984 as a fully owned entity of the Government of Odisha (GoO). OPGCL as its maiden venture had set up two unit of 210 MW thermal power station 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. As part of power sector reforms in Odisha, GoO divested 49% of its share in OPGCL to AES Corporation through international competitive bidding. AES Corporation is a global leader in power distribution business with diverse portfolio of distribution businesses as well as thermal and renewable generation facilities. OPGCL is currently undergoing expansion by constructing two units (3 and 4) of 660 MW each in the vicinity of the existing plant, for which all approvals are already in place. The units are expected to be commissioned by May 2019.

Odisha Coal and Power limited (OCPL) incorporated in the year 2015 is a joint venture of Odisha Power Generation Corporation Limited (OPGCL) having 51% shareholding and Odisha Hydro Power Corporation Limited (OHPCL) having 49% shareholding. OCPL is engaged in mining and extraction of coal for supplying thermal power plants of OPGCL. The commercial operations are expected to commence from May 2019.

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 government owned entities provides the group 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. Acuite believes that OPGCL shall continue to benefit from the financial, operational and managerial support received from GoO from time to time.

It owns and operates 2X210 MW power plant at Ib Thermal Power Station (ITPS), Banharpali in Jharsuguda District of Odisha.

Stability of operations through availability of power purchase agreement and Fuel Supply Agreements

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% (as defined in the PPA), thus leading to full recovery of fixed costs. Presence of a fuel supply agreement with Mahanadi Coalfields Ltd (MCL) further ensures stability of fuel supply to its currently operational unit.

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 % 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 % 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.

Above average financial Risk Profile

The above average financial risk profile is marked by healthy net worth, high gearing and healthy debt protection measures. The net worth stood at Rs 2549.65 crore as on March 31, 2018. The healthy net-worth is due to steady accretion to reserves and equity infusion for ongoing capex. The gearing stood high at 2.15 times as on 31st March'18 as compared to 1.88 times as on 31st March'17. The high debt-equity is on account of the debt raised to fund the on-going capex. The debt protection metrics stood comfortable with interest coverage ratio of 167.29 times in FY2018 as against 13.72 times in FY2017. DSCR stood at 148.29 times in FY 2018 as compared to 9.18 times a year earlier.

However, going forward, Acuite expects marginal deterioration in the financial risk profile with the interest outgo and commencement of term loans repayment. Currently the interest/finance cost is being capitalized being part of the project cost.

Weaknesses

Risks associated with project implementation

As capacity addition, OPGCL has undertaken expansion project and constructing 1320 MW (2x660 MW) Thermal Power Plant at thermal power station Banaharpalli in the district of Jharsuguda. The project has been implemented with approved project cost of Rs.10,165 crore which includes Merry-go-Round (MGR) railway system for transportation of coal. The project is expected to be completed by May/June 2019. Till December 2018, an amount of Rs 8,367 crore (Prov.) has already been invested by the company in the said project with loan drawn of Rs 6,253 crore and equity invested Rs 2,114 crore. Out of equity contribution of Rs 2,114 crore, fresh equity of Rs 1,090.28 crore has been infused by shareholders (viz. Govt. of Odisha and AES) in the ratio of 51:49.

Also in order to facilitate coal supply, OCPL was formed by OPGCL and Odisha Hydro Power Corporation Limited (OHPCL). Currently OCPL has undertaken a project for development of two coal blocks for OPGCL's phase II and Phase III expansion. In the initial year, the annual coal

requirement would not be fulfilled by OCPL as OCPL's full operations ~ 100 % capacities are expected to achieve from 2022. During this period, OPGCL will be receiving coal from Mahanadi Coalfields Limited. Further, the Merry-go-Round (MGR) railway system is also needed to be completed for smooth transportation of the coal to the power plant. Merry-go-Round railway system is likely to be completed by FY 2020. Acuite believes that the credit profile can be affected by delays in project implementation and off take arrangements.

Liquidity:

The company has healthy liquidity profile marked by net cash accruals in the range of ~ Rs.29.44 crore during FY 2018 crore against its nil debt obligations during the same period. The healthy liquidity is also reflected from the short term fixed deposits of Rs 432 crore as on 31st March'18. Going forward, Acuite expects marginal deterioration in the liquidity profile with the of interest outgo for the debt raised to fund the on-going capex.

Outlook: Stable

Acuite believes that the group will maintain 'Stable' outlook over the medium term from its strategic importance experienced management and strong parentage. The outlook may be revised to 'Positive' in case the company ramp up its operation of the new units and registers growth in revenues while improving its profitability and working capital management. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in profitability, thereby deterioration in financial risk profile or if the working capital cycle further elongates.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	610.92	725.51	630.61
EBITDA	Rs. Cr.	22.96	103.23	134.23
PAT	Rs. Cr.	4.16	66.37	118.23
EBITDA Margin	(%)	3.76	14.23	21.30
PAT Margin	(%)	0.68	9.15	18.77
ROCE	(%)	0.12	2.67	11.62
Total Debt/Tangible Net Worth	Times	2.15	1.88	1.01
PBDIT/Interest	Times	167.29	13.72	45.04
Total Debt/PBDIT	Times	163.88	28.24	7.73
Gross Current Assets (Days)	Days	108	233	394

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- State Government Support - <http://www.acuite.in/view-rating-criteria-26.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto 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. Cr.)	Ratings/Outlook
Proposed facility	Not Applicable	Not Applicable	Not Applicable	500.00	ACUITE BBB+ / Stable
Proposed facility	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A2+

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About Acuité Ratings & Research:

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