

Press Release

Odisha Power Generation Corporation Limited

10 July 2020

Rating reaffirmed



Total Bank Facilities Rated*	Rs. 600.00 Cr.
Long Term Rating	ACUITE BBB+/Stable (Reaffirmed)
Short Term Rating	ACUITE A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has re-affirmed the 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 Cr. bank facilities of Odisha Power Generation Corporation LIMITED (OPGCL). The outlook is '**Stable**'.

OPGCL 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 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. As part of power sector reforms in Odisha, GoO divested 49 percent of its share in OPGCL to AES Corporation through international competitive bidding. AES Corporation is a global leader in the power distribution business with a diverse portfolio of distribution businesses as well as thermal and renewable generation facilities. The entity has expanded its scope of operations to include two more units (units 3 and 4) each of 660 MW and they have become operational in July and August 2019 respectively. The construction of the merry go round railway system connecting the units to their coal mines is underway and is expected to be completed in FY2021. The total project cost for the expansion is around Rs. 11,150 crores funded in the ratio of 3:1. Of this, the total amount expended till now is Rs.9940.56 crores and the balance is towards the ongoing railway system project.

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 49percent. 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. Manoharpur mine is partly operational since Q3FY20 which is expected to achieve peak rated capacity by September 2021.

Analytical Approach

Acuite 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 and the expected business synergies once the coal mines are developed. 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 would be catering to the entire coal requirements of OPGCL's Phase II & III capacity. 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. Acuite believes that OPGCL shall continue to benefit from the financial, operational and managerial support received from GoO from time to time.

Significant progress in projects

The expansion project of OPGCL has progressed as per schedule as Unit 3 & 4 had been operational within the estimated timeframe. OPGCL added new capacities in FY20 which has been operational since August 2019. This is reflected from improvement in power sale to 5917.29 million units in FY20 (Provisional) from 2738.98 million units in FY19. There is low off take risk as there are Power Purchase Agreements (PPA) with Gridco (state owned power transmission company). OPGCL has fuel supply agreement (FSA) with Mahandi Coalfields Limited (MCL) which ensures the steady supply of raw material.

There is substantial progress in the development of Manoharpur mines as OCPL has appointed a Mine Operator through competitive bidding. Mining activities in Manoharpur mine have already been started by the selected Mine Operator since Q3FY20 which is reflected from its revenue of Rs38 crore in FY20 (Provisional). In the absence of a fuel supply agreement with OPGCL, OCPL is selling its entire coal to MCL.

Acuite believes the scale of operation is likely to improve in the medium term driven by expected completion of the ongoing projects in OPGCL and 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, moderate gearing and modest debt protection metrics. The net worth of the group stood at Rs.3468 crore in FY2020 (Provisional) as compared to Rs.3207 crore in FY2019. This improvement in Net worth is mainly due to the infusion of equity share capital. The gearing of the group stood at 2.52 times in FY20 (provisional) as compared to 2.36 times in FY19 due to ongoing debt-funded capex plans. The total debt of Rs.8747 crore in FY2020 (Provisional) consists mainly of long-term debt of Rs.8542 crore and short-term loan of Rs.205 crore. The high long term debt has been contracted to fund their projects underway. The interest coverage ratio (ICR) has declined and stood at 1.12 times in FY20 (Provisional). The reason for the low coverage ratio is a high financial cost in FY'20 which had been capitalized till FY'19. Acuite believes financial risk profile will improve in medium term backed by increased accruals from improvement in their scale of operations.

Weaknesses

Time & cost overruns

The expansion project of OPGCL and mine development project of OCPL have witnessed time and cost overrun. The initial project cost in OPGCL was envisaged at Rs.10166 crores which have now escalated to Rs.11150 crores and the enhanced cost has been funded mainly through long term debt. Moreover the merry go round railway infrastructure is still in WIP stage and is expected to be completed by the end of FY21 as against the previously estimated mid of FY21. The development project in OCPL of Manoharpur mines has also witnessed a time overrun of almost 2 years as initial COD was May 2019 which is now extended to April 2021. There is no cost overrun in OCPL. Acuite believes that there would be no further significant time or cost overrun as the projects are nearing completion.

Rating Sensitivity

- Extent of holding by the Government of Odisha
- Any further cost overrun and time overrun.
- Improvement in the revenue and profitability

Material Covenant

None

Liquidity Position: Adequate

The liquidity position of the group is adequate with working capital utilization at only 46 percent during last 12 month ended May 2020. The net cash accruals of the group are expected at around Rs. 154 crores as against

loan repayments of Rs. 340.79 crores during the same period. Net cash accrual of group is likely to improved Rs 648 crores in FY21. Current ratio stood at 1.02 times in FY20 as against 1.82 times in the preceding year. Group has free cash & balance of Rs 6 crores as on FY20. Going forward, 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

Acuite 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 successfully ramps up its operation of the new units and registers growth in revenues while improving its profitability from backward integration. Conversely, the outlook may be revised to 'Negative' in case of any further time and cost overruns or deterioration in their liquidity position.

About the Rated Entity - Consolidated

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	868.69	610.92
PAT	Rs. Cr.	168.67	1.10
IPAT Margin	(%)	19.42	0.18
Total Debt/Tangible Net Worth	Times	2.36	1.99
PBDIT/Interest	Times	822.36	176.90

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- State Government Support - <https://www.acuite.in/view-rating-criteria-26.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
06 June 2019	Proposed facilities	Long Term	500	ACUITE BBB+ / Stable (Re-affirmed)
	Proposed facility	Short Term	75	ACUITE A2+ (Re-affirmed)
	Bank Guarantee	Short Term	25	ACUITE A2+ (Assigned)
24 April 2019	Proposed facilities	Long Term	500	ACUITE BBB+/Stable (Assigned)
	Proposed facility	Short Term	100	ACUITE A2+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	500	ACUITE BBB+ / Stable (Re-affirmed)
Proposed facility	Not Applicable	Not Applicable	Not Applicable	72.26	ACUITE A2+ (Re-affirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	27.74	ACUITE A2+ (Re-affirmed)

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About Acuité Ratings & Research:

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