

## Press Release

### Odisha Power Generation Corporation Limited

October 04, 2021

### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 600 Cr.
<b>Long Term Rating</b>	ACUITE BBB+/Stable (reaffirmed)
<b>Short Term Rating</b>	ACUITE A2+ (reaffirmed)

\* Refer Annexure for details

### Rating Rationale

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

The rating continues to reflect strong operational and financial linkage of the group with the Government of Odisha (GoO). The group is strategically important for the state government as OPGCL is the one of the leading power generating companies in Odisha. In addition, OCPL is supplying coal to OPGCL from its allotted coal mine which mitigates the supply risk for OPGCL. The operational performance of the group had improved in FY21 backed by rise in plant load factor (PLF) of newly added units. The rating also takes into account the group's comfortable financial risk profile marked by sound net worth and moderate capital structure. However the rating strengths are partially offset by the high working capital requirement and regulatory risk.

### 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 in July and August 2019 respectively. Recently in FY21, Odisha Hydropower Corporation Ltd (OHPCL) has acquired 49 percent stake in OPGCL from AES Corporation.

Odisha Coal and Power Limited (OCPL) incorporated in the year 2015 is a joint venture between 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. Manoharpur mine is operational since Q3FY20.

### **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 a MOU 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. While the state's revenue surplus continues to be at 1.79 percent its fiscal deficit stood at 13.6 percent in 2020-21 as per revised estimates. 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.

### **Significant progress in project**

The expansion project of OPGCL has progressed as per schedule as Unit 3 & 4 had been operational since H1FY20. OPGCL added new capacities in FY20 which has been operational since August 2019. The group had posted a healthy revenue growth in FY21 as reflected from improvement in power sale to 7864.6 million units in FY21 (Provisional) from 5917.28 million units in FY20. OPGCL has undertaken another capex of Rs 1086 Cr to meet regulatory environment requirement which is funded in a debt and equity ratio of 4:1.

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 multiple MoUs with Central and state government undertakings such as NTPC Limited, Mahanandi Coal Ltd and OPGCL regarding sale of extracted coal from Manoharpur coal mines.

Acuité 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, aggressive gearing and modest debt protection metrics. The net worth of the group stood at Rs.2912.65 crore in FY2021 (Provisional) as compared to Rs.3107.69 crore in FY2020. The gearing of the group stood at 2.93 times in FY21 (provisional) as compared to 2.81 times in FY19 due to ongoing debt-funded capex plans. The total debt of Rs.8747 crore in FY2021 (Provisional) consists mainly of long-term debt of Rs.8178.81 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) stood at 1.14 times in FY21 (Provisional) as compared to 1.02 times in FY20. Acuité believes financial risk profile will continue at similar levels over the medium term backed by ongoing capex plan in OPGCL.

## Weaknesses

### Working capital intensive nature of operation

The working capital-intensive nature of operations is marked by high gross current asset (GCA) days of 218 days in FY2021 (Provisional) as compared to 186 days in FY2020. The inventory days stood at 39 days in FY21 against 50 days in FY20. Debtor days stood high at 75 days in FY21 as compared 113 days in FY20. Acuité 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 upcoming 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.

### Rating Sensitivity

- Improvement in the revenue and profitability
- Any cost overrun and time overrun in ongoing capex plans

### Material Covenant

None

### Liquidity Position: Adequate

The liquidity position of the group is adequate with working capital utilization at only 37 percent during last 9 month ended August 2021. The net cash from operation stood at Rs 984.45 Cr in FY21 as against loan repayments of Rs. 484.53 Cr. The group has free cash & balance of Rs 111.09 Cr as on 31.03.2021. Going forward, Acuité 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 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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	2365.31	1627.49
PAT	Rs. Cr.	-214.90	-143.49
PAT Margin	(%)	-9.09	-8.82
Total Debt/Tangible Net Worth	Times	2.93	2.81
PBDIT/Interest	Times	1.14	1.02

### About the Rated Entity - Standalone

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	2365.31	1627.49
PAT	Rs. Cr.	-214.49	-141.65
PAT Margin	(%)	-9.07	-8.70
Total Debt/Tangible Net Worth	Times	2.66	2.61
PBDIT/Interest	Times	1.12	0.99

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

NA

**Any other information**

None

**Applicable Criteria**

Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Consolidated - <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
10 July 2020	Cash Credit	Long Term	500	ACUITE BBB+ / Stable (Re-affirmed)
	Proposed facility	Short Term	72.26	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	27.74	ACUITE A2+ (Reaffirmed)
06 June 2019	Cash Credit	Long Term	500	ACUITE BBB+ / Stable (Re-affirmed)
	Proposed facility	Short Term	75	ACUITE A2+ (Reaffirmed)
	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**

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

### Contacts:

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-66201203 <a href="mailto:pooja.ghosh@acuite.in">pooja.ghosh@acuite.in</a>	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Tonoy Banerjee Rating Analyst Tel: 033-66201206 <a href="mailto:tonoy.banerjee@acuite.in">tonoy.banerjee@acuite.in</a>	

### About Acuité Ratings & Research:

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