

Press Release

Odisha Power Generation Corporation Limited

November 15, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	-	ACUITE A2+ Reaffirmed
Bank Loan Ratings	500.00	ACUITE BBB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	600.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed a 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**'

Rationale for the Rating

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. 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

OPGCL was incorporated by the Government of Odisha 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.

About the Group

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.

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 gearing 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. NCA/TD stood at 0.04 times in FY22 as against 0.02 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 scheduled completion 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 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. 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 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 Sensitivities

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

Material covenants

None

Liquidity Position

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

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 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>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.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>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite 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
04 Oct 2021	Proposed Bank Facility	Short Term	72.26	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	27.74	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	500.00	ACUITE BBB+ Stable (Reaffirmed)
10 Jul 2020	Proposed Bank Facility	Short Term	72.26	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	500.00	ACUITE BBB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	27.74	ACUITE A2+ (Reaffirmed)
06 Jun 2019	Proposed Bank Facility	Long Term	500.00	ACUITE BBB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A2+ (Assigned)
	Proposed Bank Facility	Short Term	75.00	ACUITE A2+ (Reaffirmed)
24 Apr 2019	Proposed Bank Facility	Long Term	500.00	ACUITE BBB+ Stable (Assigned)
	Proposed Bank Facility	Short Term	100.00	ACUITE A2+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	31.70	ACUITE A2+ Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	500.00	ACUITE BBB+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	68.30	ACUITE A2+ 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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