

Press Release

Odisha Power Transmission Corporation Limited

April 20, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs.500.00 Cr.
Long Term Rating	ACUITE A/Stable (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating from '**ACUITE A-**' (**read as ACUITE A minus**) to '**ACUITE A**' (**read as ACUITE A**) on the Rs.500 Cr bank facilities of Odisha Power Transmission Corporation Limited (OPTCL). The outlook remains '**Stable**'.

The rating upgrade is driven by an improvement in the fiscal profile of the Government of Odisha which continues to provide significant support to OPTCL and the latter's steady financial risk profile. The rating upgrade also factors in the strong business risk profile of the company characterized by regular tariff revision approvals from the state regulatory commission and a secured payment mechanism. These strengths are partly offset by the inherently regulated nature of operations of the company.

About the company

Odisha Power Transmission Corporation Limited (OPTCL) was incorporated in 2005; post the implementation of Odisha Electricity Reform (Transfer of Transmission and Related Activities) Scheme 2005, in line with the requirement under the Electricity Act 2003. As a part of the transfer scheme, the functions and business of power transmission and load dispatch activities have been transferred to and vested in The Grid Corporation of Orissa Limited (GRIDCO) and OPTCL. The company is carrying on the interstate transmission and wheeling of electricity under a license issued by the Odisha Electricity Regulatory Commission (OREC). Currently, OPTCL operates and maintains a transmission network of 14639 CKM of Extra High Voltage Transmission lines along with 163 sub-stations (400 KV- 132 KV) having total transformation capacity of 22181 MVA, spread over the entire stretch of the State of Odisha. Moreover, OPTCL maintains transmission system availability of 99.98 per cent and transmission loss is below 3.30 per cent by adopting proactive maintenance policy.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of OPTCL to arrive at the rating. However, the rating factors in the support from the Government of Odisha, given the latter holding 100 per cent ownership of OPTCL and its strategic importance to the state.

Key Rating Drivers

Strengths

- **Support from the Government of Odisha**

OPTCL is a wholly-owned undertaking of the GoO and a strategically important entity for the power sector infrastructure in the state of Odisha. The ownership structure provides adequate financial flexibility. It is also the nodal agency of the government for undertaking power transmission activity in the state. Being the transmission licensee, OPTCL is mandated to ensure the development of an efficient, coordinated and economical transmission network for smooth flow of power to the load centres. OPTCL's credit quality is also supported by its access to funds at low cost and its ability to mobilise financial resources from several financial institutions and multilateral development institutions due to its status as a state owned entity.

Odisha has been one of the fastest-growing states in India and is the sixteenth-largest state economy in India with gross state domestic product (GSDP) growing at 7.70 per cent in 2019-20. While the state's fiscal deficit has been relatively high at 3.41 per cent of nominal GSDP in FY20 RE, the debt as a proportion of GSDP at 22.3 per cent is better than most states of India. Further, interest payments as a share of revenue receipts is one of the lowest in the country at 5.8% in FY20 RE, reflecting a healthy fiscal profile. GoO has significantly increased its focus on industrial development in the state given the availability of mineral resources, which gets reflected

from the high growth in FDI inflows onto the state which has witnessed a growth of about 330 percent in FY2020.

Acuité believes that OPTCL, being a 100 per cent undertaking of GoO, shall continue to benefit from the financial, operational and management support as and when required. The GoO has demonstrated financial support by way of loans to OPTCL on a regular basis. Any changes in the ownership pattern of OPTCL or any event that impinges GoO's overall credit profile shall remain a key rating sensitivity.

- **Strong business risk profile with an Inbuilt 'cost plus tariff' structure**

The billing of transmission charges by OPTCL is regulated and fall under the gamut of the Annual Revenue Requirement (ARR) of a 'cost-plus' based tariff mechanism. The regulator allows a post-tax return on equity and other uncontrollable expenses are allowed to be passed through in tariff through the Annual Performance Review (APR) process. Acuité believes the 'cost-plus' based tariff mechanism will continue to sustain the stable business outlook for the company. Further, the steady business risk profile of the company is supported by OPTCL's ability to maintain high transmission system availability of 99.98 per cent and also the ability to keep transmission losses low at 3.30 per cent in FY2020.

- **Secured payment mechanism**

The payments OPTCL receives from distribution companies (DISCOMs) towards transmission charges are secured by a first charge over the receivables of GRIDCO Limited a power trading company, (100 per cent government of Odisha undertaking) from DISCOMs and other open access customers in favour of OPTCL as per clause 11 of the Orissa Electricity Reforms (Transfer of Transmission and Related Activities) Scheme, 2005. The payment arrangement for transmission charges ensures priority of payment to OPTCL over GRIDCO, and thus mitigates the counterparty risks emanating from weak DISCOMs and ensuring cash availability for meeting its debt obligation. The overall receivables stood slightly reduced at Rs. 135.89 Cr as on 31st March, 2020 as compared to Rs 142.59 Cr as on 31st March, 2019.

- **Adequate financial risk profile**

The company's adequate financial risk profile is marked by strong networth, comfortable gearing and above average debt protection metrics. While the tangible net worth of the company declined to Rs.1355.23 Cr as on March 31, 2020 from Rs.1434.06 Cr as on March 31, 2019 due to losses incurred in FY2020, consistent infusion of capital in the entity has led to a low leverage of 0.66 times as on March 31, 2020. The debt of Rs.898.90 Cr mainly primarily consists of term loan of Rs.821.12 Cr and current maturity of term loan of Rs.77.78 Cr. The above average debt protection metrics of the company is marked by Interest Coverage Ratio (ICR) at 3.13 times as on March 31, 2020 and Debt Service Coverage Ratio (DSCR) at 1.28 times as on March 31, 2020. Net Cash Accruals/Total Debt (NCA/TD) stood albeit at a modest level of 0.13 times as on March 31, 2020. Acuité believes that going forward the financial risk profile of the company will remain adequate backed by steady accruals and continuous infusion of capital.

Weakness

- **Regulated nature of operations**

OPTCL continues to be exposed to regulatory uncertainty, given that the revenues or transmission charges are influenced by the regulatory framework governing the power sector. The company operates through a cost-plus return on equity model laid down by OERC. Any change or reduction in return on equity or a tightening of the OERC norms could result in lower operating cash flows. Further, any delay in finalisation of the tariffs could result in cash flow mismatch in the medium term.

Rating Sensitivity

- Timely support from the Government of Odisha
- Timelines for tariff revision

Material Covenant

None

Liquidity Profile: Adequate

The company's liquidity is adequate marked by net cash accruals of Rs.113.59 Cr as on March 31, 2020 as against long term debt repayment of Rs. 71.35 Cr over the same period. The cash and bank balances of the company were high at Rs.966.42 Cr as on March 31, 2020 as compared to Rs.1038.08 Cr as on March 31, 2019. The company has neither availed any loan moratorium nor applied for any additional Covid loan. However, the current ratio is relatively low at 1.03 times as on March 31, 2020, on account of high other current liabilities due to deposits from suppliers & contractors, provisions for employee benefits and interest accrued. The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 832 days as on March 31, 2020 as compared to 841 days as on March 31, 2019. Acuité nevertheless, is of the opinion that going forward the company will maintain adequate liquidity position due to steady accruals and healthy networth base.

Outlook: Stable

Acuité believes that the company will maintain 'Stable' outlook over the medium term due to the steady cash flows inherent in the power transmission business along with its strategic importance and the support provided by the state government. The outlook may be revised to 'Positive' in case the company registers consistent growth in revenues while maintaining its profitability and liquidity. Conversely, the outlook may be revised to 'Negative' in case of any unexpected deterioration in the financial profile, elongation of working capital cycle or any significant pressures on the fiscal position of the state government.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	684.94	713.84
PAT	Rs. Cr.	(144.37)	37.71
PAT Margin	(%)	(21.08)	5.28
Total Debt/Tangible Net Worth	Times	0.66	0.47
PBDIT/Interest	Times	3.13	4.45

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

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>
- Entities in service sector- <https://www.acuite.in/view-rating-criteria-50.htm>
- State Government Support- <https://www.acuite.in/view-rating-criteria-26.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	Ratings/Outlook
			(Rs. Crore)	
05-Nov-2019	Term Loan	Long term	500.00	ACUITE A-/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	Sep, 2016	Sep, 2022	8.50%	81.00	ACUITE A/Stable (Upgraded)
Term Loan	Sep, 2016	Sep, 2032	8.50%	419.00	ACUITE A/Stable (Upgraded)

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About Acuité Ratings & Research

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