

## Press Release

### Odisha Power Transmission Corporation Limited

July 15, 2022



### Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	500.00	ACUITE A+   Stable   Upgraded	-
Bank Loan Ratings	600.00	ACUITE A+   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	1100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has upgraded the long term rating from '**ACUITE A**' (read as **ACUITE A**) to '**ACUITE A+**' (read as **ACUITE A plus**) on the Rs.500 Cr bank facilities and assigned the long term rating of '**ACUITE A+**' (read as **ACUITE A plus**) to Rs.600 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 improving business risk profile characterized by regular tariff revision approvals from the state regulatory commission and a secured payment mechanism. The rating upgrade also factors in the steady financial risk profile of the entity. 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 15504 CKM of Extra High Voltage Transmission lines along with 176 sub-stations (400 KV- 132 KV) having total transformation capacity of 23316 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 3.14 per cent by adopting proactive maintenance policy.

### Analytical Approach

Acuite 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

#### **Strategically important entity and 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 6 per cent in 2021-22. While the state's fiscal deficit has been relatively high at 3.50 per cent of nominal GSDP in FY21 RE, the debt as a proportion of GSDP at 20.9 per cent is better than most states of India. Further, interest payments as a share of revenue receipts are one of the lowest in the country at 6% in FY21 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.

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.

#### **Steady business risk profile buoyed by favorable operating efficiency**

OPTCL has achieved revenues of Rs.1046.32 Cr in FY2022 (provisional) as compared to revenues of Rs.711.40 Cr in FY2021 and Rs.684.94 Cr in FY2020. The increase in revenue is primarily on account of the tariff revision. This is in lieu of Odisha Electricity Regulatory Commission (OERC) approving Aggregate Revenue Requirement and determination of Transmission Tariff upto FY 2022-23 filed by OPTCL.

The operating margin increased to 41.60 per cent in FY2022 (provisional) from 24.65 per cent in FY2021. The PAT margin of the company stood at 8.99 per cent in FY2022 (provisional). 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 the ability to keep transmission losses low at 3.14 per cent in FY2021.

#### **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.

#### **Healthy financial risk profile**

The company's healthy financial risk profile is marked by healthy network, comfortable gearing and above average debt protection metrics. The tangible net worth of the company increased to Rs. 2018.93 Cr as on March 31, 2022 (provisional) from Rs.1924.85 Cr as on March 31, 2021 due to retention of profits. Gearing of the company stood low as debt-to-equity ratio stood at 0.75 as on March 31, 2022 (provisional). However, the Total outside

Liabilities/Tangible Net Worth (TOL/TNW) stood high at 3.38 times as on March 31, 2022 (provisional) as against 3.51 times as on March 31, 2021. The above average debt protection metrics of the company is marked by Interest Coverage Ratio (ICR) at 6.11 times as on March 31, 2022 (provisional) and Debt Service Coverage Ratio (DSCR) at 2.33 times as on March 31, 2022 (provisional). Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.28 times as on March 31, 2022 (provisional). Acuité believes that going forward the financial risk profile of the company will remain comfortable backed by steady accruals and continuous infusion of capital.

## Weaknesses

### 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.

## ESG Factors Relevant for Rating

Not Applicable

## Rating Sensitivities

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

## Material covenants

None

## Liquidity Position: Adequate

The company's liquidity is strong marked by net cash accruals of Rs.423.57 Cr as on March 31, 2022 (provisional) as against long term debt repayment of Rs. 132.51 Cr over the same period. The cash and bank balances of the company stood at Rs.1250 Cr as on March 31, 2022 (provisional) as compared to Rs.1216.61 Cr as on March 31, 2021, to be utilized for unforeseen exigencies. Further, the current ratio stood comfortable at 2.10 times as on March 31, 2022 (provisional). The working capital-intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 734 days as on March 31, 2022 (provisional) as compared to 939 days as on March 31, 2021. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals and healthy network 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.

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	711.40	684.94
PAT	Rs. Cr.	61.67	(144.37)
PAT Margin	(%)	8.67	(21.08)
Total Debt/Tangible Net Worth	Times	0.71	0.66
PBDIT/Interest	Times	4.09	3.13

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

Not Applicable

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Public Finance - State Government Ratings: <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**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Apr 2021	Term Loan	Long Term	81.00	ACUITE A   Stable (Upgraded from ACUITE A-   Stable)
	Term Loan	Long Term	419.00	ACUITE A   Stable (Upgraded from ACUITE A-   Stable)
05 Nov 2019	Term Loan	Long Term	500.00	ACUITE A-   Stable (Assigned)

**Annexure - Details of instruments rated**

<b>Lender's Name</b>	<b>ISIN</b>	<b>Facilities</b>	<b>Date Of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Quantum (Rs. Cr.)</b>	<b>Rating</b>
Union Bank of India	Not Applicable	Term Loan	09-01-2016	8.50	09-01-2032	419.00	ACUITE A+   Stable   Upgraded
Bank of India	Not Applicable	Term Loan	09-01-2016	8.50	09-01-2022	81.00	ACUITE A+   Stable   Upgraded
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	600.00	ACUITE A+   Stable   Assigned

## Contacts

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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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