

## Press Release

### Odisha Power Transmission Corporation Limited

February 16, 2023



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	468.00	ACUITE A+   Stable   Assigned	-
Bank Loan Ratings	1100.00	ACUITE A+   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	1568.00	-	-

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A+**' (read as **ACUITE A plus**) on the Rs.1100 Cr bank facilities and assigned the long-term rating of '**ACUITE A+**' (read as **ACUITE A plus**) to Rs.468 Cr bank facilities of Odisha Power Transmission Corporation Limited (OPTCL). The outlook remains '**Stable**'.

### Rating Rationale

The rating takes into cognizance the strong business risk profile of OPTCL characterized by improvement in revenue, regular tariff revision approvals from the state regulatory commission, a secured payment mechanism and healthy financial risk profile. The rating also factors in the support from the government of Odisha to OPTCL, as and when necessary. These strengths are partly offset by the inherently regulated nature of operations in the electricity transmission business.

### 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 15708 CKM of Extra High Voltage Transmission lines along with 177 sub-stations (400 KV- 132 KV) having total transformation capacity of 24403 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.

### Standalone (Unsupported) Rating

ACUITE A-

### 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**

#### **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. In 2021-22, as per the revised estimates, fiscal deficit is expected to be 0.38% of GSDP, significantly lower than the budget estimate of 3.49% of GSDP. Further, in 2021-22, the state is estimated to observe a revenue surplus of 3.29% of GSDP as per revised estimates, higher than revenue surplus of 1.03% of GSDP estimated at the budget stage. Moreover, in the time of pandemic, in FY21 RE, the debt as a proportion of GSDP at 20.9 per cent is better than most states of India. 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.1191.95 Cr in FY2022 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 increase in short term open access charges and tariff revision by Odisha Electricity Regulatory Commission (OERC).

The operating margin substantially increased to 43.66 per cent in FY2022 from 24.65 per cent in FY2021. The PAT margin of the company stood at 5.20 per cent in FY2022. 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 FY2022.

#### **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. 2,290.94 Cr as on March 31, 2022 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 0.81 as on March 31, 2022. However, the Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 3.06 times as on March 31, 2022 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 4.63 times as on March 31, 2022 and Debt Service Coverage Ratio (DSCR) at 2.08 times as on March 31, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.22 times as on March 31, 2022. 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: Strong**

The company's liquidity is strong marked by net cash accruals of Rs.405.35 Cr as on March 31, 2022 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.1402.68 Cr as on March 31, 2022 as compared to Rs.1216.61 Cr as on March 31, 2021. However, the current ratio stood moderate at 1.27 times as on March 31, 2022. The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 561 days as on March 31, 2022 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 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.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1191.95	711.40
PAT	Rs. Cr.	61.97	61.67
PAT Margin	(%)	5.20	8.67
Total Debt/Tangible Net Worth	Times	0.81	0.71
PBDIT/Interest	Times	4.63	4.09

### 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

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](http://www.acuite.in).

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Jul 2022	Term Loan	Long Term	419.00	ACUITE A+   Stable (Upgraded from ACUITE A   Stable)
	Term Loan	Long Term	600.00	ACUITE A+   Stable (Assigned)
	Term Loan	Long Term	81.00	ACUITE A+   Stable (Upgraded from ACUITE A   Stable)
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)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Term Loan	01 Sep 2016	8.50	01 Sep 2032	Simple	500.00	ACUITE A+   Stable   Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	600.00	ACUITE A+   Stable   Reaffirmed
UCO Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	468.00	ACUITE A+   Stable   Assigned

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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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