

Press Release

Lanco Anpara Power Limited

July 15, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 2840.00 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 2,840.00 crore bank facilities of Lanco Anpara Power Limited (LAPL). The outlook is '**Stable**'.

Lanco Anpara Power Limited (LAPL), a public limited company is based out of Uttar Pradesh was incorporated in 2006. The company operates and maintains a 1200 MW pit - head coal based thermal power plant ~ Anpara 'C' in Anpara, Uttar Pradesh. The power plant consists of 2 units of 600 MW each. LAPL commenced commercial operations of both its units from December 2011 and January 2012, respectively. The thermal power plant has a Power Purchase Agreement (PPA) with Uttar Pradesh Power Corporation Ltd (UPPCL) for 1100 MW for 25 years (extendable by 5 years) and the remaining 100 MW capacity is being sold in the open market.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Lanco Anpara Power Limited (LAPL)

Key Rating Drivers

Strengths

• **Stable operations through availability of power purchase agreement and fuel supply agreements**

LAPL has a long-term power purchase agreement (PPA) of 25 years signed in 2006 and extendable by 5 years (post the completion of its term) with UP Power Corporation Ltd (UPPCL) for 1100 MW for supplying power to UP Discoms. The company benefits from long term off-take agreement for more than 90.00 percent of the capacity. The tariff is based on a three parts - fixed charge recoverable at normative availability factor of 80 percent, variable charge based on actual landed cost of coal and quantity of coal computed on the basis of net quoted heat rate of 2511 kCal/kWh plus incentive charge in case availability is higher than 80 percent (calculated at Rs. 0.25/kWh or 40 percent of a non-indexed fixed charge, whichever is lower). The company is able to maintain Plant Availability Factor (PAF) of 85-90 percent and PLF of more than 70 percent in the last three years, which mitigates demand risk. LAPL it is also selling units generated from the remaining 100 MW capacity in the open market. The company is also one of the cheapest power suppliers to UPPCL, so is the preferred supplier and stands high in the merit order.

The company has Fuel Supply Agreements (FSA) in place from Northern Coalfields Limited (NCL) for a quantity of 4.182 MMTPA of required minimum fuel supply of 5.03 MMTPA to operate the plant at normative level ~ PAF of 80.00 percent. Due to the proximity of the company's plant to NCL's coal mines, it has been able to procure the balance coal requirement also from NCL further ensures the stability of fuel supply. Since, the company has been able to procure its entire coal requirement domestically, its landed cost of coal is also relatively lower at Rs. 2900 - 3000/MT. Further, the company has pass-through for coal's landed cost under the PPA, safeguarding it against any adverse movements in coal prices. Acuité believes that the long term PPA and proximity to raw material will further support

the business risk profile of LAPL and ensure uninterrupted generation.

- **Moderate financial risk profile and Improved Debt Servicing Ability**

The financial risk profile of the company stood moderate marked by moderate gearing, total outside liabilities to tangible net worth (TOL/TNW) and debt service coverage indicators. The net worth is comfortable at Rs. 1,141.62 crore as on 31 March, 2020 (Provisional) as against Rs.1,071.97 crore as on 31 March, 2019. The gearing (debt-equity) stood at 2.33 times as on 31 March, 2020 (Provisional) as against 2.67 times as on 31 March, 2019. Gearing has improved on account of moderate accretions to reserves and repayment of term loans. TOL/TNW stood improved at 2.38 times as on 31 March, 2020 (Provisional) as against 2.78 times as on 31 March, 2019. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 1.85 times and 0.12 times, respectively in FY2020 (Provisional).

The debt service coverage ratio has improved to 1.18 times in FY2020 (Provisional) from 0.86 times in FY2019 and 0.77 times in FY2018. Also, LAPL has generated cash accruals of Rs. 325 - 395.00 crore for last two years through FY2020 (Provisional) against debt obligations of about Rs.215.00 - 275.00 crore for the same period. Further, in compliance with the scheduled repayments, the borrowings are expected to be repaid over long tenure ending 2027, which leaves adequate net cash accruals over the medium term. Acuité believes that the financial risk profile of the company is expected to remain moderate in the absence of major debt-funded capital expenditure plans and scheduled repayment of term loans.

Weaknesses

- **Moderate working capital management and delays in receivables due to COVID19**

The company has moderate working capital operations as evident from increased Gross Current Asset (GCA) days of 136 days in FY2020 (Provisional) as against 106 days in FY2019. The debtor days stood stretched at 72 days in FY2020 (Provisional) as compared to 49 days in FY2019. The inventory days stood at 29 days in FY2020 (Provisional) as compared to 19 days in FY2019. The stretch in GCA days is on account of elongation in receivable and higher inventory holding days. Thus resulting in higher reliance on bank debt as demonstrated by the 98.00 per cent utilization in its working capital limit for the six months ended June 2020.

Further, due to the impact of Covid 19, there are delays in the receivables from UPPCL. The company used to receive its dues within 60-90 days but, since the lockdown, the dues are pending from UPPCL since March, 2020. The receivables stood high at Rs.690.00 crore and unbilled revenue stood at Rs.170.00 crores which accumulate receivables to the tune of Rs.860.00 crores as on 30, June 2020. However, post the Finance Ministry's announcement of the relief package for DISCOMS for Rs 90,000 crore as loan through Power Finance Corporation (PFC) and Rural Electrification Corporation (REC), the receivables realization from the state discoms is expected to improve over the medium term.

- **Group Related Issues**

LAPL is part of Lanco Group which has witnessed acute financial stress over the last few years with many companies of the group defaulting on their loans. The name of the flagship company of the group i.e. Lanco Infratech Ltd (LITL) featured in the first list of 12 borrowers issued by RBI for action under Insolvency and Bankruptcy Code. LITL had pledged the shares of all its SPV's. Since the company was an EPC contractor and holding company for its various SPVs; it derives value from the stake it holds in these SPVs. However, despite various attempts, the committee of creditor (CoC) could not agree on any resolution proposal. In an order dated August 2018, NCLT sought for liquidation of the company. LAPL being an operational plant with fuel arrangements and PPA in place is expected to attract the interest of potential investors; nonetheless, management-related uncertainty remains till such time and remains a key constraining factor. However, as on January 2019 lenders had invoked the pledge and accordingly, the shares have been transferred to IDBI Trusteeship Ltd. As the majority shareholding has been transferred to CDR Security Agent, the company i.e. Lanco Anpara is currently managed by the lenders providing comfort on the stability of operations.

Liquidity Position: Adequate

LAPL has adequate liquidity, marked by adequate net cash accruals to its maturing debt obligations. The Company generated cash accruals of Rs. 325 - 395.00 crore for last two years through FY2020 (Provisional) against debt obligations of about Rs.215.00 - 275.00 crore for the same period. The cash accruals are estimated at Rs.300 to Rs. 350.00 crore in the medium term against Rs. 240 - 325 crore debt obligation. The unencumbered cash and bank balance stood at Rs. 115.30 Cr as on March, 2020 (Provisional). The current ratio of the company stood at 1.25 times and debt service coverage ratio has improved to 1.18 times in FY2020 (Provisional). Acuité believes that liquidity of LAPL is expected to remain adequate on account adequate net cash accruals against repayment obligations with additional comfort being long term borrowings are expected to be repaid over a long tenure.

Rating Sensitivities

- Sustaining existing scale of operations and profitability
- Stretch in working capital cycle
- Maintaining debt protection metrics and liquidity

Outlook: Stable

Acuité believes that LAPL will maintain a 'Stable' outlook on account of the low off-take risk arising due to the enforcement of the Power Purchase Agreements (PPA) and significant importance in the renewable power sector. The outlook may be revised to 'Positive' in case of higher than expected PLF leading to higher cash accruals and improved liquidity. Conversely, the outlook may be revised to 'Negative' in case of any significant drop in power generation levels, or any significant delay in receivables or any unplanned debt-funded capital expenditure leading to a deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	2369.60	2835.87
PAT	Rs. Cr.	69.84	137.15
PAT Margin	(%)	2.95	4.84
Total Debt/Tangible Net Worth	Times	2.33	2.67
PBDIT/Interest	Times	1.85	1.89

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

None

Any other information

Not Any

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

***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 loans	Not Applicable	Not Applicable	31-Mar-2027	907.26	ACUITE BB+/ Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2027	435.94	ACUITE BB+/ Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2027	42.18	ACUITE BB+/ Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2027	44.28	ACUITE BB+/ Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2027	23.07	ACUITE BB+/ Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2027	119.19	ACUITE BB+/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE BB+/ Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2027	148.06	ACUITE BB+/ Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2027	119.73	ACUITE BB+/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BB+/ Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2027	80.53	ACUITE BB+/ Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2027	81.81	ACUITE BB+/ Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2027	122.00	ACUITE BB+/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE BB+/ Stable
Term loans	Not Applicable	Not Applicable	31-Mar-2027	114.83	ACUITE BB+/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	120.00 *	ACUITE BB+/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BB+/ Stable
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	1.12	ACUITE BB+/ Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	100.00 ^	ACUITE A4+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A4+
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A4+
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4+

*Sub limit of WCDL of Rs. 72.00 crores

^Sub limit of Bank Guarantee of RS. 50.00 crores.

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About Acuité Ratings & Research:

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