

Press Release

Raichur Power Corporation Limited

June 04, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 1712.00 Cr.
Long Term Rating	ACUITE D (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long term rating of '**ACUITE D**' (**read as ACUITE D**) to the Rs. 1,712 Cr bank facilities of Raichur Power Corporation Limited (RPCL).

The rating is driven by persistent delays in the repayment of both interest and principal on term loan facilities by RPCL, which is driven by underutilization of its capacity and further accentuated by under recovery of its fixed costs. The under recovery of fixed costs has led to continued losses on operating level, leading to inadequate cash flows to service the interest obligations. The rating also factors its strong parentage, long term Power Purchase Agreements (PPA) with distribution utilities in Karnataka.

About the company

RPCL has implemented a 1,600MW (2x800MW) coal-based thermal power project in Yeramarus near Raichur, Karnataka. The project commenced operations in April 2017 (one unit in March 2017 and other in April 2017).

Karnataka Power Corporation Limited (KPCL), wholly owned by the Government of Karnataka (GoK) owns 72 percent of RPCL. Bharat Heavy Electricals Limited (BHEL) holds the remaining shareholding of 28%. Since its inception in 1970, KPCL has grown steadily with initial installed capacity of 746 MW to 8738 MW as on July 2020. The present installation comprises 5020 MW of Thermal Power, 3680 MW of Hydro power, 4 MW of wind power and 34 MW of solar power, with 370MW of Combined Cycle power on the verge of completion.

Analytical Approach

Acuité has considered the standalone financials and risk profile of RPCL to arrive at the rating.

Key Rating Drivers

Strengths

- Strong parentage with continued track record of support**

RPCL is jointly owned by KPCL and BHEL in the ratio of 72 per cent and 28 per cent respectively. KPCL is a wholly owned subsidiary of GoK with a generation capacity of 8,738 MW as on July 2020. RPCL derives operational support from KPCL in the form of steady supply of coal and usage of facilities of KPCL.

RPCL over the past 2 years have received funds from KPCL in form of unsecured borrowings which is being utilized for servicing of debt obligations and for operating expenses. The company received Rs 408Cr and Rs 2,345 Cr in FY19 and FY20 respectively from KPCL. Acuité believes that, continued timely support from the promoters remains critical to the operations and debt repayment over the medium term.

Weaknesses

- Delays in debt servicing**

There has been irregularity in the repayment of principal and interest on term loans due to weak cash flow generation.

- Poor offtake by Discoms and high receivable position.**

The purchase of power by different discoms has been poor and as a result the operating income

has widely fluctuated in the past ranging from Rs 263.43Cr to Rs 1049.53 Cr over past 3 years ended FY20. Karnataka Discoms have primarily relied on scheduling of hydroelectric, solar and other renewable sources of power more than the coal based thermal power plant. This coupled with delayed payment of fixed charges by the discoms has led to cashflow mismatches.

RPCL has reported net losses over the past 3 years ending FY20. The continuous losses have also resulted in erosion of net worth of the company. However, the company had reported operating profits in FY18 and FY19 (33.89 per cent and 58.82 per cent respectively) the company reported operating losses in FY20 (33.91 per cent) primarily due to higher coal costs. Net losses are on account of higher interest burden, which is largely related to increased reliance on debt due non-payment of dues by the discoms. The receivable position of RPCL remain precarious with net receivables approximated 2.5 times of the annual revenue.

Acuité believes increase in utilization levels and improvement in the receivable position remain critical to improvement in operational performance over the medium.

• **Weak Financial risk profile**

RPCL's net worth stood at negative 2,604.66 Cr in FY20 compared to negative Rs 519.71 Cr. The company has been making losses as one of the two plants is underutilized and the company has not been able to recover the cost of running that plant from the discoms. The total debt as on FYE20 is Rs 14,209.66 Cr and the current operating profits are insufficient to service the interest obligations. Acuité believes, over short to medium term, the financial risk profile of the company is expected to remain weak primarily on account of high working capital intensity leading to weak liquidity.

Liquidity Position: Weak

Liquidity profile of RPCL is expected to remain weak as a result of mounting losses the company has been making over the years. the net cash accruals were negative over past 3 years resulting in delays repayment of debt.

Rating Sensitivities:

- Timely servicing of debt for 3 consecutive months.

Outlook: NA

About the Rated Entity - Key Financials*

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	263.43	1049.53
PAT	Rs. Cr.	(2084.95)	(1251.30)
PAT Margin	(percent)	(791.46)	(119.22)
Total Debt/Tangible Net Worth	Times	(5.46)	(24.73)
PBDIT/Interest	Times	0.03	0.54

* On a stand-alone basis

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.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)

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Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE D
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Not Applicable	1612.00	ACUITE D

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About Acuité Ratings & Research:

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