

Press Release

Raichur Power Corporation Limited

September 01, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1712.00	ACUITE B Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	1712.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE B**' (read as **ACUITE B**) from '**ACUITE D**' (read as **ACUITE D**) on the Rs. 1712.00 Cr bank facilities of Raichur Power Corporation Limited (RPCL). The outlook is '**Stable**'.

Rationale for rating upgrade

The rating upgrade of RPCL takes into account the improvement in the operating performance of the entity. Higher Plant Availability Factor (PAF) has led to better realization and offtake from the Electricity Supply Companies (ESCOMS). Further, they have also started receiving timely payments from the ESCOMs on account of certain steps undertaken by the Government of India (GOI) in June 2022. The rating also takes into account RPCL's ability to service its debt obligations timely since March 2022. The rating is however constrained by the weak financial risk profile on account of negative net worth and poor liquidity position. Any delay in receipt of payment from ESCOMs will negatively affect RPCL's liquidity profile and will remain key rating sensitivity.

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 78 percent of RPCL. Bharat Heavy Electricals Limited (BHEL) holds the remaining shareholding of 22 percent. Since its inception in 1970, KPCL has grown steadily with initial installed capacity of 746 MW to 8738 MW. The present installation comprises 5020 MW of Thermal Power, 3679.75 MW of Hydro power, 4.555 MW of wind power and 34 MW of solar power, with 370 MW of Combined cycle power on the verge of commissioning.

Analytical Approach

Acuite 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 78 per cent and 22 per cent respectively. KPCL is a wholly owned subsidiary of GoK with a generation capacity of 8,738 MW. RPCL derives operational support from KPCL in the form of steady supply of coal and usage of facilities of KPCL. RPCL over the past 3 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 5,547 Cr in FY2020, Rs.6,904 Cr in FY2021 and Rs.7,790 Cr in FY2022 respectively from KPCL as unsecured loans.

Acuité believes that, continued timely support from the RPCL promoters remains critical to the operations and debt repayment over the medium term.

Improving operating performance

RPCL has reported an increase in its operating income of Rs.3,202 Cr in FY2022 (Provisional) as against Rs.2031 Cr in FY2021 and Rs.263 Cr in FY2020. This growth in revenue has been achieved since both the plants are now operating at full capacity and there has been an increase in the billing units which has increased to 5010 million units in FY2022 as against 2830 million units in FY2021 with an increase in the cost per unit to Rs.6.40 per unit from Rs.5.76 per unit of fixed cost. In addition to this, the PAF has increased to 53 percent in March 2022 as against 44 percent in March 2021. The operating margin of the company further got improved and stood at 46.30 percent for FY2022 (Provisional) as against 39.60 percent for FY2021. The net losses of the company have also reduced to some extent on account of improvement in the overall operating performance.

Acuité believes that the ability of RPCL to maintain its revenue while maintaining profitability will continue to remain a key rating sensitivity factor.

Measures undertaken by GOI for receiving dues from ESCOMs

GOI has issued the Late payment surcharge rules 2022 in June 2022 whereby the ESCOMs dues frozen as on June 2022 will be repaid by the ESCOMs further in 48 equal instalments to RPCL. The government is diverting the monthly subsidy due to the ESCOMs towards pump sets towards repayment of their outstanding dues with RPCL.

Weaknesses

Weak financial risk profile

Despite an increase in the operating performance, the financial risk profile of RPCL still remains weak with negative networth on account of accumulated losses, against its total debt outstanding of Rs.15,700 Cr as on 31st March 2022 (Provisional) which consists of Rs.7,866 Cr of long term bank borrowings, Rs.7,790 Cr of unsecured loans from promoters and Rs.44 Cr of short term working capital limit.

Acuité believes that financial risk profile of RPCL is expected to remain weak over the medium term on account of negative networth backed by accumulated losses.

ESG Factors Relevant for Rating

RPCL is a coal based thermal power producer therefore, directly contributes to carbon emissions. The other material factors from the environmental perspective are green supply chain and waste management. The governance factors that play an important role are ethical business practices, board oversight and management compensation. Further, risk management practices to minimise corruption associated with electricity and gas distribution plays a crucial role. Additionally, regulatory compliance, shareholder's rights and audit control are other material issues in the power generation industry. On the social front, occupational and workforce health & safety management are of primary importance to this industry given the nature of operations. The policies on responsible procurement and product safety as well as quality are of utmost significance.

Rating Sensitivities

- Ability to maintain operating performance
- Timely receipt of payments from ESCOMs

Material covenants

None

Liquidity position - Poor

Liquidity position of RPCL is poor marked by negative net cash accruals (NCA) to its maturing debt obligations. Negative NCAs have however reduced to a large extent during FY2020 to FY2022 (Provisional) on account of reduction in the overall losses during the same period.

Acuité believes that the liquidity of RPCL is likely to remain poor over the medium term on account of positive albeit inadequate cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that RPCL will maintain 'Stable' outlook over the medium term on account of its continued support from the promoters. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	3201.52	2031.15
PAT	Rs. Cr.	(678.22)	(1431.84)
PAT Margin	(%)	(21.18)	(70.49)
Total Debt/Tangible Net Worth	Times	(3.84)	(3.91)
PBDIT/Interest	Times	0.99	0.56

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

Not applicable

Any other information

None

Applicable Criteria

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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Jun 2021	Proposed Cash Credit	Long Term	1612.00	ACUITE D (Assigned)
	Cash Credit	Long Term	100.00	ACUITE D (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	58.00	ACUITE B Stable Upgraded (from ACUITE D)
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1654.00	ACUITE B Stable Upgraded (from ACUITE D)

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About Acuité Ratings & Research

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