

Press Release

The Durgapur Projects Limited

June 28, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.2675.00 Cr.
Long Term Rating	ACUITE BBB+/Stable (Assigned)
Short Term Rating	ACUITE A2 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating from '**ACUITE BBB+ (read as ACUITE triple B plus)**' and the short term rating of '**ACUITE A2 (read as ACUITE A two)**' on the Rs.2675 Cr bank facilities of The Durgapur Projects Limited (DPL). The outlook is '**Stable**'.

The rating on DPL takes into account a gradual improvement in the business risk profile of the company post the business restructuring of the company, converting it to a wholly owned subsidiary of West Bengal Power Development Corporation Limited (WBPDC). This translated into an increase in the revenues levels of the company supported by long term power purchase agreement with West Bengal State Electricity Distribution Company Limited (WBSEDCL; rated at ACUITE BBB/Stable/A3+). Acuite also derives comfort from the stake of the Government of West Bengal held in DPL through WBPDC and the support that is expected to be available, as and when necessary. These strengths are partly offset by the below average financial risk profile of the company and inherently regulated nature of operations in the electricity generation business.

About the company

The Durgapur Projects Limited (DPL) was incorporated in 1961 by acquiring all the assets and liabilities of Durgapur Industries Board, under the administrative control of the Department of Power of the Government of West Bengal (GoWB). Further, in December 2017, the GoWB restructured DPL as a wholly owned subsidiary of West Bengal Power Development Corporation Limited (WBPDC), which in turn is a 100 per cent undertaking of the state government. The entire aforesaid restructuring process is expected to be completed by 2022. DPL was previously involved into multiple activities such as generation, distribution and transmission of power; however, post the restructuring the company is solely into power generation since January 2019. As a part of the restructuring scheme, the business of power transmission activities of DPL have been transferred and vested in West Bengal State Electricity Transmission Company Limited (WBSETCL; rated at ACUITE A+/Stable) and the business of power distribution activities have been transferred and vested in West Bengal State Electricity Distribution Company Limited (WBSEDCL) Both, WBSEDCL and WBSETCL are also wholly owned undertakings of the state government. Presently, DPL has thermal power generation units aggregating to 550 MW and their sole customer is WBSEDCL, which caters to around 80 per cent of power needs in the state of West Bengal. Moreover, DPL has 50 MGD water works which caters to the needs of industries and domestic requirements of water in and around Durgapur apart from captive usage.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of DPL to arrive at the rating. However, the rating factors in the support from the Government of West Bengal, through its holding in WBPDC which in turn holds this entity. The state government of West Bengal has provided guarantee for the loans taken by DPL from Power Finance Corporation (PFC) and banks.

Key Rating Drivers

Strengths

- **Support from the Government of West Bengal**

DPL is a wholly owned subsidiary of WBPDC, which is itself a 100 per cent undertaking of the GoWB and a strategically important entity for the power sector infrastructure for the state of West Bengal. The ownership structure provides adequate financial flexibility. Being the power generation licensee by WBERC, DPL is mandated to ensure generation of power from its installed capacity and supply the same to WBSEDCL in the

industrial belt of Durgapur in West Bengal. DPL's credit profile 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.

Acuite believes that DPL, being a step down subsidiary of WBPDCCL and a strategically important entity for the state of West Bengal, shall continue to benefit from the financial, operational and management support from the state government as and when required. The GoWB has demonstrated financial support by way of loans to DPL on a regular basis. Moreover, the loans of DPL have been guaranteed by GoWB which provides further comfort to the rating. Any changes in the ownership pattern of DPL or any event that impinges GoWB's overall credit profile shall remain a key rating sensitivity.

- **'Cost plus' tariff mechanism**

The billing of generation charges of DPL are regulated and based on the Annual Revenue Requirement (ARR) under 'cost-plus' based tariff mechanism. The regulator, West Bengal Electricity Regulatory Commission (WBERC) allows a post-tax return on equity of 15 per cent and other uncontrollable expenses are allowed to be passed through in tariff through Annual Performance Review (APR) process. Acuite believes the 'cost-plus' based tariff mechanism will continue to sustain the stable business outlook for the company.

In the event of delay in determination of tariff in any financial year, WBSEDCL provisionally pays to DPL as per the tariff last determined by the regulatory commission. After finalisation of tariff by commission for such period, where provisional rates have been used, DPL issues supplementary bills towards the difference amount between provisional rate and tariff approved by the commission. In this regard, DPL has filed a petition to WBERC for MYT (Multi-year Tariff) for 3 years FY2020-21, FY2021-22 and FY2022-23 and the rates sought are Rs. 5.07/Unit, Rs. 4.75/Unit and Rs. 4.69/Unit respectively. The rate of power sold to WBSEDCL by DPL had been increased on September, 2020 to Rs. 4.15/Unit from an initial rate of Rs. 4.07/unit.

- **Assured offtake on account of power purchase agreement**

There is a power purchase agreement (PPA) between WBSEDCL and DPL for 25 years, from 2019 to 2044. As per the agreement, the entire generating capacity of DPL is allotted to WBSEDCL, who purchases such power as per terms conditions set forth in the agreement. Acuite believes that the long term agreement ensures assured offtake of the company. Further, DPL has achieved revenues of Rs.1405.32 Cr in FY2021 (Provisional) as compared to revenues of Rs.836.16 Cr in FY2020.

Weakness

- **Constrained financial risk profile**

The company's weak financial risk profile is marked by negative networth and weak debt protection metrics. The tangible net worth of the company has been reducing due to continuous losses incurred. The company has negative networth of Rs.1379.21 Cr as on March 31, 2021 (Provisional). The debt of Rs.2139.01 Cr mainly consists of long term borrowings of Rs.1664.58 Cr, current obligations of Rs.349.24 Cr, working capital borrowing of Rs.113.38 Cr and loan from central electricity authority of Rs.11.18 Cr, as on March 31, 2021 (Provisional). The weak debt protection metrics of the company is marked by Interest Coverage Ratio at 0.98 times as on March 31, 2021 (Provisional) and Debt Service Coverage Ratio at 0.48 times as on March 31, 2021 (Provisional). Acuite believes that going forward the financial risk profile of the company will improve backed by the gradually improving cash accruals.

- **Regulated nature of operations**

The revenues are influenced by the regulatory framework governing the power sector. Revenues of players such as DPL are determined by West Bengal Electricity Regulatory Commission (WBERC). The company operates through a cost-plus return on equity model laid down by WBERC. Any change or reduction in return on equity or a tightening of the WBERC norms could result in lower operating cash flows. Acuite believes that significant changes in the regulatory environment will impinge on the credit profile of the company.

Rating Sensitivity

- Timely support from the Government of West Bengal and West Bengal Power Development Corporation Limited
- Periodical tariff revision

- Any significant increase in receivables from WBSEDCL
- Any deterioration in liquidity position

Material Covenant

None

Liquidity Profile: Stretched

The state government of West Bengal has given guarantee for the loans borrowed by DPL from Power Finance Corporation (PFC) and banks; which provides financial flexibility to the company. However, the company's liquidity is stretched marked by accumulated losses. The current ratio stood below unity at 0.34 times as on March 31, 2021 (Provisional), on account of high other current liabilities due to liabilities to WBSEDCL being Balance on current account and is under reconciliation, liabilities for Dongfang Electric Corporation and high provisions. The cash and bank balances of the company stood at Rs.0.64 Cr as on March 31, 2021 (Provisional) as compared to Rs.0.61 Cr as on March 31, 2020. However, the fund based limit remains utilised at around 27 per cent over the twelve months ended March, 2021. The company has not availed any loan moratorium or additional Covid loans. Acuite believes that going forward the liquidity position of the company will improve backed by the gradually improving accruals.

Outlook: Stable

Acuite believes that the company will maintain 'Stable' outlook over the medium term due to the assured offtake on account of PPA with WBSEDCL along with its strategic importance and the support provided by GoWB and WBPDC. The outlook may be revised to 'Positive' in case of significant improvement of the financial risk profile, liquidity position and profitability, while maintaining its revenue level. 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.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	836.16	1,086.60
PAT	Rs. Cr.	(392.23)	(164.30)
PAT Margin	(%)	(46.91)	(15.12)
Total Debt/Tangible Net Worth	Times	(2.28)	(3.29)
PBDIT/Interest	Times	0.26	0.94

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities in service sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- State Government Support - <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 (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 Loan	13-02-2018	11.40%	31-03-2030	2480.45	ACUITE BBB+/Stable (Assigned)
Bank Guarantee	NA	NA	NA	94.55	ACUITE A2 (Assigned)
Proposed Letter of Credit	NA	NA	NA	100.00	ACUITE A2 (Assigned)

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About Acuité Ratings & Research

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