

## Press Release

The Durgapur Projects Limited

September 01, 2022



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	194.55	-	ACUITE A2   Reaffirmed
Bank Loan Ratings	20.45	-	ACUITE A2   Assigned
Bank Loan Ratings	2480.45	ACUITE BBB+   Stable   Reaffirmed	-
Bank Loan Ratings	579.55	ACUITE BBB+   Stable   Assigned	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	3275.00	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

### Rating Rationale

Acuite has reaffirmed and 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.3275 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 (WBPDCCL; rated at ACUITE A-/Stable/A2+). 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 WBPDCCL 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 (WBPDCCL), 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**

Acuité 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 WBPDCCL which in turn holds this entity. The state government of West Bengal has provided guarantee for the loans taken by DPL from West Bengal Infrastructure Development Finance Corporation Limited (WBIDFCL; rated at ACUITE A/Stable) and banks.

### **Key Rating Drivers**

#### **Strengths**

##### **Support from the government of West Bengal**

DPL is a wholly owned subsidiary of WBPDCCL, which is a 100 per cent undertaking of the GoWB and a strategically important entity of 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 the generation of power from its installed capacity and supply the same to WBSEDCL. 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. The rating factors in the financial flexibility of DPL.

West Bengal has been one of the fastest-growing states in India and is the sixth-largest state economy in India with gross state domestic product (GSDP) growing at 18.10 per cent in 2021-22. While the state's revenue deficit has been relatively modest at 2.15 per cent, its fiscal deficit stood at 3.48 per cent in 2021-22. GoWB has significantly increased its focus on increasing industrial development in the state, which gets reflected from the improving FDI inflows onto the state. However, the state's overall borrowing level continues to remain high and is a challenge to its overall fiscal profile.

Acuité believes that DPL, being a step down subsidiary of GoWB, shall continue to benefit from the financial, operational and management support as and when required. The GoWB has demonstrated financial support by way of loans to DPL on a regular basis. Any changes in the ownership pattern of DPL or any event that impinges GoWB's overall credit profile shall remain a key rating sensitivity.

##### **Assured offtake on account of PPA**

There is a power purchase agreement between WBSEDCL and DPL for 25 years. As per the agreement, the entire generating capacity of DPL is allotted to WBSEDCL. WBSEDCL shall purchase such power as per terms conditions set forth in the agreement. Acuité believes that going forward the long term agreement will ensure assured offtake of the company. DPL has achieved revenues of Rs.1118.61 Cr in FY2022 as compared to revenues of Rs. 1187.54 Cr in FY2021.

##### **'Cost plus' tariff mechanism**

The billing of generation charges of DPL are regulated and required the Annual Revenue Requirement (ARR) under 'cost-plus' based tariff mechanism. The regulator, 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. Acuité derives comfort from the cost plus based tariff mechanism.

## **Weaknesses**

### **Below average financial risk profile**

The company's weak financial risk profile is marked by reducing networth, and weak debt protection metrics. The tangible net worth of the company has been eroded due to continuous accumulated losses. The weak debt protection metrics of the company is marked by Interest Coverage Ratio at 1.46 times as on March 31, 2022 and Debt Service Coverage Ratio at 0.64 times as on March 31, 2022. Acuité believes that going forward the financial risk profile of the company will improve backed by the gradually improving accruals.

### **Regulated nature of operations**

DPL continues to be exposed to regulatory uncertainty, given that the revenues are influenced by the regulatory framework governing the power sector. The company operates through a cost-plus return on equity model laid down by WBERC. Any change/ reduction in return on equity or a tightening of the WBERC norms could result in lower operating cash flows. Acuité believes that the delay in finalisation of the tariff 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 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 covenants**

None

### **Liquidity Position: Stretched**

The state government of West Bengal has given guarantee for the loans borrowed by DPL from West Bengal Infrastructure Development Finance Corporation Limited (WBIDFCL) 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 0.66 times as on March 31, 2022, 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 fund based limit remains utilised at around 90 per cent over the seven months ended March, June 2022. The cash and bank balances of the company stood at Rs.5.79 Cr as on March 31, 2022 as compared to Rs.12.64 Cr as on March 31, 2021. Acuité believes that going forward the liquidity position of the company will improve backed by the gradually improving accruals.

### **Outlook: Stable**

Acuité 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.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1118.61	1187.54
PAT	Rs. Cr.	5.20	(113.65)
PAT Margin	(%)	0.46	(9.57)
Total Debt/Tangible Net Worth	Times	(1.98)	(1.81)
PBDIT/Interest	Times	1.46	1.04

### 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>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.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
28 Jun 2021	Proposed Letter of Credit	Short Term	100.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	94.55	ACUITE A2 (Assigned)
	Term Loan	Long Term	2480.45	ACUITE BBB+   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	94.55	ACUITE A2   Reaffirmed
The West Bengal State Co-Operative Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE BBB+   Stable   Assigned
Not Applicable	Not Applicable	Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A2   Reaffirmed
Not Applicable	Not Applicable	Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.45	ACUITE A2   Assigned
West Bengal Infrastructure Development Finance Corporation Limited	Not Applicable	Term Loan	30-06-2021	8.65	30-06-2036	2480.45	ACUITE BBB+   Stable   Reaffirmed
West Bengal Infrastructure Development Finance Corporation Limited	Not Applicable	Term Loan	30-06-2021	8.65	30-06-2036	194.55	ACUITE BBB+   Stable   Assigned
The West Bengal State Co-Operative Bank Limited	Not Applicable	Term Loan	29-04-2020	10	29-04-2023	185.00	ACUITE BBB+   Stable   Assigned

## Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:pooja.ghosh@acuite.in">pooja.ghosh@acuite.in</a></p> <p>Kaustav Saha Assistant Manager-Rating Operations Tel: 022-49294065 <a href="mailto:kaustav.saha@acuite.in">kaustav.saha@acuite.in</a></p>	<p>Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p>

### About Acuité Ratings & Research

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