



Press Release
THE DURGA PUR PROJECTS LIMITED
November 24, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3180.45	ACUITE BBB+ Stable Reaffirmed	-
Bank Loan Ratings	94.55	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	3275.00	-	-

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB+ (read as ACUITE triple B plus)**' and its 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**'.

Rationale for Reaffirmation

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 took a decision to make DPL a wholly owned subsidiary of West Bengal Power Development Corporation Limited (WBPDC; a 100% undertaking of the state government), as a power generation company. The entire aforesaid restructuring is under process. 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. The company is also availing coals from its captive mines which is expected to improve its operating efficiencies over the medium term. 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. The Directors of the Company are Mr. Santanu Basu, Mr. Srikumar Bandyopadhyay, Mr. Deb Kumar Gupta, Ms.

Unsupported Rating

ACUITE BB+/ Stable/ ACUITE A4+

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 (GoWB), 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) and other banks.

Key Rating Drivers

Strengths

Support from the Government of West Bengal

DPL is to become a wholly owned subsidiary of WBPDCCL, 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.

Acuité believes that DPL, being 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. Acuité 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. Acuité believes that the long term agreement ensures assured offtake of the company. Further, DPL has achieved revenues of Rs.1313.35 Cr in FY2023 as compared to revenues of Rs.1118.61 Cr in FY2022.

Weaknesses

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.1727.38 Cr as on March 31, 2023. The debt of Rs.3589.74 Cr mainly consists of long term borrowings of Rs.2609.56 Cr, current obligations of Rs.614.08 Cr, working capital borrowing of Rs.354.29 Cr and loan from central electricity authority of Rs.11.18 Cr, as on March 31, 2023. The weak debt protection metrics of the company is marked by Interest Coverage Ratio at 1.44 times as on March 31, 2023 and Debt Service Coverage Ratio at 0.57 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 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. Acuité believes that significant changes in the regulatory environment will impinge on the credit profile of the company.

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

All Covenants

None

Liquidity Position

Stretched

The state government of West Bengal has given guarantee for the loans borrowed by DPL from WBFIDCL and other 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 0.70 times as on March 31, 2023, 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.23.05 Cr as on March 31, 2023 as compared to Rs.5.79 Cr as on March 31, 2022. However, the fund based limit remains utilised at around 82 per cent over the seven months ended September, 2023. The company has availed short term loan from time to time to meet its working capital requirement. 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	1313.35	1118.61
PAT	Rs. Cr.	10.09	5.20
PAT Margin	(%)	0.77	0.46
Total Debt/Tangible Net Worth	Times	(2.08)	(1.98)
PBDIT/Interest	Times	1.44	1.46

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>
- Public Finance - State Government Ratings: <https://www.acuite.in/view-rating-criteria-26.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Sep 2022	Proposed Letter of Credit	Short Term	20.45	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	94.55	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	200.00	ACUITE BBB+ Stable (Assigned)
	Proposed Letter of Credit	Short Term	100.00	ACUITE A2 (Reaffirmed)
	Term Loan	Long Term	194.55	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	2480.45	ACUITE BBB+ Stable (Reaffirmed)
	Term Loan	Long Term	185.00	ACUITE BBB+ Stable (Assigned)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	94.55	ACUITE A2 Reaffirmed
The West Bengal State Co-Operative Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	200.00	ACUITE BBB+ Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BBB+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	59.01	ACUITE BBB+ Stable Reaffirmed
West Bengal Infrastructure Development Finance Corporation Limited	Not Applicable	Term Loan	30 Jun 2021	8.65	30 Jun 2036	Simple	2606.44	ACUITE BBB+ Stable Reaffirmed
The West Bengal State Co-Operative Bank Limited	Not Applicable	Term Loan	29 Apr 2020	10	29 Apr 2023	Simple	185.00	ACUITE BBB+ Stable Reaffirmed
The West Bengal State Co-Operative Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	100.00	ACUITE BBB+ Stable Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Nikita J Mittal Manager-Rating Operations Tel: 022-49294065 nikita.mittal@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.