



Press Release
TELANGANA STATE POWER GENERATION CORPORATION LIMITED
August 21, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	4300.00	ACUITE BBB+ Stable Assigned	-
Bank Loan Ratings	200.00	-	ACUITE A2 Assigned
Total Outstanding Quantum (Rs. Cr)	4500.00	-	-

Rating Rationale

ACUITE has assigned 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.4500 Crore bank facilities of Telangana State Power Generation Corporation Limited(TSGENCO). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned draws comfort from Government of Telangana(GOT)'s complete ownership of TSGENCO and its strategic importance to the GOT to cater the electricity requirements of the state. Currently, TSGENCO has total installed capacity of 6485.26 MWs comprising of 4042.5 MWs in thermal power stations, 2441.5 MWs in hydel power stations and 1 MW in solar power station. Further, rating draws comfort from TSGENCO's long term PPA agreements with Telangana state Northern power distribution company limited (TSNPDCL), Telangana state southern power distribution company limited (TSSPDCL) and its long term fuel supply arrangements with Singareni collieries company limited (SCCL). The rating also factored in the geographical advantage of its location in coal belt region and close proximity of thermal power station to coal mines, presence of captive mines and overall improvement in operating efficiency evident by improvement in Plant load factor (PLF), electricity generation and improved scale of operations to Rs.15,614.37 Cr in FY2023(Prov) as against Rs.13,654.03 Cr in FY2022 and Rs.11,020.68 Cr in FY2021. However, above strengths are constrained by revenue concentration, high receivables from state discom leading to high debtors days ranging between 233 days to 293 days during previous three years. Further, the increase in key raw material coal price during FY2023 has impacted the operating margins which has resulted in decline of EBITDA margins to 33.63 percent in FY2023(Prov) from 36.01 percent in FY2022 and 37 percent in FY2021. The rating also impart negative bias due to substantial delay in commission of operations at Yadadri thermal power plant (YTPS) and resulted cost overrun due to the delay. It also factors in the inherently regulated nature of operations in the electricity generation business and counterparty exposure to the state distribution entities(TSSPDCL and TSNPDCL) with relatively weaker credit profile.

About the Company

Telangana State Power Generation Corporation Limited, incorporated in 2014. The company is engaged in the business of power generation. The present directors of the company are Mr. Sunil Sharma, Mr. Devalapalli Prabhakar Rao, Mr. Ramakishan Rao Tanugula, Mr. Ramakrishna

Rao Kudligi, Mr. Sachidanandam Matety, Mr. Venkat Rajam Chillumula, Mr. Ashok Kumar Sallakonda, Mr. Aindala Ajay and Mr. Lakshmaiah Badavath. The registered office of the company is in Hyderabad.

Standalone (Unsupported) Rating

ACUITE BB+/Stable

Analytical Approach

Acuité has taken the standalone view on the business and financial risk profile of Telangana state power generation corporation limited. Acuité has also factored in benefits emanating from the ownership by Government of Telangana. GoT's financial support to TSGENCO is in the form of its 100 per cent ownership.

Key Rating Drivers

Strengths

Strategic importance to Government of Telangana (GOT)

TSGENCO is a wholly owned entity of Government of Telangana and holds a strategically importance to GOT. Company caters to power requirements of the state with total installed capacity of 6485.26 MWs comprising of thermal, hydel and solar power stations. Company has long term Power purchase agreements (PPA) with Discoms of Telangana and Karnataka to supply its entire power generation with tariff regulated by Telangana state electricity regulatory commission (TSERC). Company is mandated to ensure the generation of power from its installed capacities and supply the same to discoms.

Acuite believes that TSGENCO being a 100 percent undertaking of GOT, shall continue to benefit from the financial, operational and management support from GOT. Any change in ownership pattern or any event that impinges GOT's overall credit profile shall remain key rating sensitivity.

Limited fuel supply risk aided by location in coal belt region

The company has a fuel supply arrangement with Singareni Collaries company limited (SCCL) and also has its own captive mines. During FY2023, SCCL has supplied 15.18 MMT of coal out of total requirement of 17.67 MMT and 2.5 MMT is procured through captive mines located at tadicherla, bhupalapalli district, TS. Captive mines primarily supplies fuel to KTPP 2 (600MWs) and other power plants procure fuel through SCCL. Being located in coal belt region thermal power plants of TSGENCO has inherent advantage of low fuel supply risk, as all the power plants are located within 50 kilometres distance from coalmines.

Acuite believes that company will continue to reap benefits from strategic location of thermal power plants at coal belt regions and possession of own captive mines in medium term.

Improved operating efficiency

TSGENCO revenue has increased to Rs.15614.37 Cr in FY2023 (Prov) from Rs.13654.03 Cr in FY2022 and Rs. 11020.68 Cr in FY2021 backed by higher plant load factor (PLF) and increased realisation price during FY2023 to Rs.5.27/Kwh from Rs.4.74/Kwh in FY2022 and FY2021. Improvement is also backed by higher power generation in hydal power plants, which has improved to 6058.21 Mus in FY2023 from 5654.5 Mus in FY2022 and 3667.37 Mus in FY2021. Overall, power generation improved to 31501.26 Mus in FY23 from 30455.94 Mus in FY22 and 24405.04 Mus in FY21. However, company's operating profit margins declined to 33.63 percent in FY2023(Prov) from 36.01 percent in FY2022 and 37 percent in FY2021, decline in profitability margins is due to increase in coal prices during FY23.

Weaknesses

Moderate standalone financial risk profile

The financial risk profile of the company is marked moderate by moderate network, high gearing ratio and moderate debt protection metrics. Company's network improved and stood at Rs.6533.83 Cr as on March 31st 2023(Prov) as against Rs.6110.46 Cr as on March 31st

2022 and Rs.5692.82 Cr as on March 31st 2021 on account of accretion of profits. The gearing ratios of the company stood high at 5.16 times as on March 31st 2023(Prov) as against 5.12 times as on March 31st 2022 and 4.93 times as on March 31st 2021, high gearing ratio is due to high capital outlay funded through debt. Further, the total outside liabilities to tangible networth(TOL/TNW) stood at 7.26 times as on March 31st 2023(Prov) as against 7.48 times as on March 31st 2022 and 6.71 times as on March 31st 2021. The net cash accrual to total debt (NCA/TD) stood at 0.07 in FY2023(Prov) as against 0.05 times in FY2022 and 0.05 times in FY2021. Debt protection of interest coverage ratio stood at 1.85 times for FY2023(Prov) as against 1.77 times for FY2022 and 1.50 times for FY2021, DSCR stood low at 1.05 times in FY2023 as against 0.84 times in FY2022 and 0.70 times in FY2021.

Further, Company is in the process of availing further loan amounting Rs.7550 Cr to meet overrun capital outlay requirement for YTPS. Acuite believes that effect on financial risk profile after taking the new loan and timely completion of project without any further overrun will remain key monitorable.

Working capital intensive nature of operations

The operations of the company are working capital intensive as reflected by is Gross current account (GCA) days of 282 days in FY2023(Prov) as against 376 days in FY2022 and 309 days in FY2021, GCA days are majorly dominated by debtor days. Debtor days of the company improved slightly and stood at 233 days in FY2023(Prov) as against 293 days in FY2022 and 249 days in FY2021. Inventory days of the company stood at 34 days in FY2023(Prov) as against 30 days in FY22 and FY21. To support the working capital requirements company stretched its creditor days to 230 days in FY2023(Prov) as against 384 days in FY2022 and 271 days in FY2021. Acuite believes that company's ability to manage working capital efficiently will remain key rating sensitivity going forward.

Regulated nature of operations

The revenues are influenced by the regulatory framework governing the power sector. Revenues of companies such as TSGENCO are determined by Telangana State Electricity Regulatory Commission (TSERC). The company operates through a cost-plus return on equity model laid down by TSERC. Any significant delays in tariff approvals or a reduction in return on equity or a tightening of the TSERC norms could result in lower operating cash flows. Acuite believes that any significant change in the regulatory environment will impinge on the credit profile of the company.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Credit profile of Government of Telangana
- Significant improvement in scale of operations while maintaining profitability
- Timely completion of capex
- Efficient working capital management
- Dynamics in the regulatory environment
- Any deterioration in financial risk profile leading to stretch in liquidity

Material covenants

None

Liquidity Position: Adequate

TSGENCO's liquidity is adequate marked by comfortable cash accruals to its debt

obligations. It reported cash accruals of Rs.2346.29 Cr in FY2023 (Prov), its accruals are expected in the range of Rs to 2732.49 Cr to Rs.4709 Cr in FY2024-25 against its repayment obligations of Rs.2400-3500 Cr during the same period. The current ratio of the company stands at 0.80 times and cash and bank balances stood at Rs.318.75 Cr as on March 31, 2023(Prov). Company's GCA days are around 282 days this makes company dependent on bank borrowing for working capital requirement. Average bank limit utilization stood at 60 percent over the last 15 months ending June 2023. Unencumbered Cash and bank balances stood at Rs.318.75 Cr as on March 31, 2023(Prov).

Outlook: Stable

Acuité believes that the TSGENCO will maintain 'Stable' outlook over the medium term from its strategic importance to the GoT, experienced management and strong parentage. The outlook may be revised to 'Positive' if the company is successfully able to ramp up its scale of operations while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of 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

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Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	15614.37	13654.03
PAT	Rs. Cr.	908.96	399.45
PAT Margin	(%)	5.82	2.93
Total Debt/Tangible Net Worth	Times	5.16	5.12
PBDIT/Interest	Times	1.85	1.77

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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

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 :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	200.00	ACUITE A2 Assigned
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	300.00	ACUITE BBB+ Stable Assigned
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	250.00	ACUITE BBB+ Stable Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	150.00	ACUITE BBB+ Stable Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	250.00	ACUITE BBB+ Stable Assigned
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	200.00	ACUITE BBB+ Stable Assigned
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	150.00	ACUITE BBB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	300.00	ACUITE BBB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	727.92	ACUITE BBB+ Stable Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	21.90	ACUITE BBB+ Stable Assigned
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	278.22	ACUITE BBB+ Stable Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	385.41	ACUITE BBB+ Stable Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	426.98	ACUITE BBB+ Stable Assigned
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State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	859.57	BBB+ Stable Assigned
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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.

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