



Press Release

TELANGANA POWER GENERATION CORPORATION LIMITED (ERSTWHILE TELANGANA STATE POWER GENERATION CORPORATION LIMITED)

November 18, 2024

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	4300.00	ACUITE BBB+ Stable Reaffirmed	-
Bank Loan Ratings	200.00	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	4500.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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.4500 Cr. bank facilities of Telangana Power Generation Corporation Limited (Erstwhile Telangana State Power Generation Corporation Limited)(TGGENCO). The outlook is 'Stable'.

Rationale for reaffirmation:

The reaffirmation of the rating considers the comfort from Government of Telangana (GOT)'s full ownership of TGGENCO and its strategic importance in meeting the state's electricity requirements. This is further supported by stable growth in operating income due to efficient power generation across all Hydel and Thermal plants. TGGENCO registered revenue growth of 5 percent in FY2024 (Prov.) driven by strong plant load factor. However, rising coal prices led to a declined operating profits and PAT margins for FY2024.

The rating also factors in the benefits from PPA arrangements with state run discom's, with regulated tariff structure. The scale of operations are expected to improve significantly with the commencement of the two 800 megawatts plants in Yadadri Thermal Power Station (YTPS) project by the end of November 2024 and remaining three units with in next 4-5 months.

However, the ratings are constrained by the TGGENCO's moderate financial risk profile and intensive working capital operations of TGGENCO. Going forward, commencement of the YTPS project with in the revised timelines and improvement in revenue will be a key rating monitorable.

About the Company

Telangana 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. Sandeep Kumar Sultania, Mr. Ramakrishna Rao Kudligi, Mr. Sachidanandam Matety, Mr. Aindala Ajay, Mr. B Lakshmaiah and Ms. E Anuradha. The registered office of the company is in Hyderabad.

Unsupported Rating

Acuite BB+/Stable

Analytical Approach

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

Key Rating Drivers

Strengths

Strategic importance to Government of Telangana (GOT)

TGGENCO is a wholly owned entity of Government of Telangana and holds a strategic 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 electricity regulatory commission (TGERC). Company is mandated to ensure the generation of power from its installed capacities and supply the same to discoms.

Acuite believes that TGGENCO 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 Colleries company limited (SCCL) and has its own captive mines. During FY2024, SCCL has supplied 15.58 MMT of coal out of total requirement of 18.07 MMT and 2.49 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 TGGENCO 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.

Stable growth in operating income albeit decline in profitability margins:

TGGENCO has registered revenue of Rs.16416.88 Cr. during FY2024 (prov.) posting a growth rate of 5 percent against the previous year's revenue of Rs.15614.37 Cr. in FY2023. The growth in revenue is due to steady PLF registered across the units in both thermal and hydel stations. The thermal power and hydel power plants have registered an average PLF of 75.97 percent and 86.77 percent in FY2024 against the previous year's PLF of 71.02 percent and 91.57 percent, respectively. However, the operating profit margin has declined to 27.22 percent in FY2024 (Prov.) from 33.63 percent in FY2023, owing to increasing coal prices. Consequently, the lower EBITDA resulted in decline of PAT margin as well, which was declined to 2.46 percent in FY2024 (prov.). During the current year the company has registered revenue of Rs.5185.19 Cr. till July, 2024 which is in line with the previous year's revenue during the same period. The margins are expected to remain in the similar range due to stabilization observed in the coal prices over past 2 quarters.

Acuite expects, the operating income of TGGENCO will improve further in the medium term on account of operational of the new 4000MW thermal power plant, while margins are expected to remain stable.

Weaknesses

Moderate financial risk profile:

TGGENCO's financial risk profile is moderate, marked by healthy net worth, high gearing and moderate debt protection metrics. The company's net worth stood at Rs.6944.35 Cr. as on March 31, 2024 (Prov.) against Rs.6533.83 Cr. as on March 31, 2023. The improvement in net worth is due to accretion of profits to reserves during the period. The overall debt levels remained at Rs.33230.95 Cr. as on March 31, 2024 (Prov.) compared to Rs.33712.06 Cr. as on March 31, 2023. This has resulted in marginal improvement in gearing level to 4.79 times as on March 31, 2024 (prov.) against 5.16 times as on March 31, 2023. Total outside liabilities to tangible net worth (TOL/TNW) stood at 7.67 times as of March 31, 2024 (Prov.), compared to 7.26 times as on March 31, 2023. The debt protection metrics stood above average with DSCR and ICR of 0.92 times and 1.00 times respectively as on March 31, 2024 (Prov.). Debt to EBITDA also improved to 6.99 times as on March 31, 2024 (Prov.) from 6.06 times as on March 31, 2023.

Acuite believes that the financial risk profile of the company is likely to remain moderate over the medium term due to infusion of debt towards capex.

Intensive working capital operations:

TGGENCO's working capital operations are intensive in nature as reflected through the gross current asset days of 310 days in FY2024 (Prov.) against 282 days in FY2023. The elongation in GCA days is due to high amounts of debtors. The debtor days of the company stood at 268 days in FY2024 (Prov.) against 233 days in FY2023. Inventory days stood at 28 days in FY2024 (Prov.) against 34 days in FY2023. Despite of intensive working capital operations, the fund based working capital limits were moderately utilized at an average of 62 percent over the past 15 months ending July, 2024. Acuite believes, the working capital operations of the company will remain intensive over the medium term on account of high debtor days.

Regulated nature of operations

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

Rating Sensitivities**Positive:**

- Credit profile of Government of Telangana.
- Significant improvement in scale of operations while maintaining profitability.
- Completion of the capex with in the revised timelines.
- Efficient working capital management.

Negative:

- Further decline in the profitability.
- Any further stretch in working capital operations leading to deterioration of liquidity.
- Any deterioration in financial risk profile.

Liquidity position: Adequate

Despite of having insufficient net cash accruals, TGGENCO's liquidity position is adequate due to the presence of guarantee by the state government of Telangana on the loans of TGGENCO. The company has registered NCA's of Rs.1727.97 Cr. in FY2024 (Prov.), which was insufficient to meet the debt repayment obligations of Rs.2300.01 Cr. Going forward the company is expected to register NCA' in the range of Rs.2185-4995 Cr. over the medium term which would be sufficient to meet the debt repayment obligations range of Rs.2150-2600 Cr. Additionally, TGGENCO also have Rs.208.48 Cr. of unencumbered cash and bank balances, providing additional comfort towards liquidity. Acuite believes that the liquidity position of the company will remain adequate over the medium term on account of state government's guarantee on loans availed by TGGENCO and sufficient cash accruals against repayment obligations.

Outlook: Stable**Other Factors affecting Rating**

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	16416.88	15614.37
PAT	Rs. Cr.	404.19	908.96
PAT Margin	(%)	2.46	5.82
Total Debt/Tangible Net Worth	Times	4.79	5.16
PBDIT/Interest	Times	1.00	1.20

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>
- 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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
21 Aug 2023	Bank Guarantee (BLR)	Short Term	200.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	300.00	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	250.00	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	21.90	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	278.22	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	385.41	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	426.98	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	859.57	ACUITE BBB+ Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	727.92	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	150.00	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	250.00	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	200.00	ACUITE BBB+ Stable (Assigned)
	Cash Credit	Long Term	150.00	ACUITE BBB+ Stable (Assigned)
	Proposed Cash Credit	Long Term	300.00	ACUITE BBB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
State Bank of India	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	200.00	Simple	ACUITE A2 Reaffirmed
Union Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	300.00	Simple	ACUITE BBB+ Stable Reaffirmed
Bank of Baroda	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	250.00	Simple	ACUITE BBB+ Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	150.00	Simple	ACUITE BBB+ Stable Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	250.00	Simple	ACUITE BBB+ Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	200.00	Simple	ACUITE BBB+ Stable Reaffirmed
Indian Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	150.00	Simple	ACUITE BBB+ Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	300.00	Simple	ACUITE BBB+ Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	1315.80	Simple	ACUITE BBB+ Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	18 Jan 2024	Not avl. / Not appl.	18 Jan 2029	250.00	Simple	ACUITE BBB+ Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	31 Jul 2021	Not avl. / Not appl.	31 Jul 2026	239.56	Simple	ACUITE BBB+ Stable Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Term Loan	30 Nov 2021	Not avl. / Not appl.	30 Nov 2026	281.00	Simple	ACUITE BBB+ Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Term Loan	24 Jul 2022	Not avl. / Not appl.	24 Jul 2027	613.64	Simple	ACUITE BBB+ Stable Reaffirmed

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Sr. No	Name of the companies
1	Government of Telangana
2	Telangana Power Generation Corporation Limited

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About Acuité Ratings & Research

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