

July 22, 2019 ^{Revised}

Rosa Power Supply Company Limited: Long-term and short-term ratings revised to [ICRA]B- (negative)/[ICRA]A4 ISSUER NOT COOPERATING

Summary of rating action

| Instrument | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------------------------------|-----------------------------------|----------------------------------|---|
| Term Loans – Long Term Scale | 4867 | 4867 | [ICRA]B- (Negative) ISSUER NOT COOPERATING*; revised from [ICRA]BB+ (Negative), rating continues to remain in issuer not cooperating category |
| Working Capital Facilities (CC/WCDL) | 1554 | 1554 | [ICRA]B- (Negative) / [ICRA]A4 ISSUER NOT COOPERATING; revised from [ICRA]BB+ (negative)/[ICRA]A4+; rating continues to remain in issuer not cooperating category |
| LER limit | 10 | 10 | [ICRA]B- (Negative) / [ICRA]A4 ISSUER NOT COOPERATING; revised from [ICRA]BB+ (negative)/[ICRA]A4+; rating continues to remain in issuer not cooperating category |
| Non-fund Based Limit (B/G and L/C) | 150 | 150 | [ICRA]B- (Negative) / [ICRA]A4 ISSUER NOT COOPERATING; revised from [ICRA]BB+ (negative)/[ICRA]A4+; rating continues to remain in issuer not cooperating category |
| Total | 6581 | 6581 | |

*issuer not cooperating for submission of information and monthly no default statement

Rating action

ICRA has downgraded the long-term rating of Rosa Power Supply Company Limited to [ICRA]B- (pronounced ICRA B minus) from [ICRA]BB+ (pronounced ICRA double B plus). The rating continues to remain in the 'Issuer Not Cooperating' category. The rating is denoted as "[ICRA]B- ISSUER NOT COOPERATING". ICRA has also downgraded the short-term rating of Rosa Power Supply Company Limited to [ICRA]A4 (pronounced ICRA A four) from [ICRA]A4+ (pronounced ICRA A four plus). The rating continues to remain in the 'Issuer Not Cooperating' category. The rating is denoted as "[ICRA]A4 ISSUER NOT COOPERATING".

ICRA has been trying to seek information from the entity so as to monitor its performance, but despite repeated requests by ICRA, the entity's management has remained non-cooperative. The current rating action has been taken by ICRA basis best available information on the issuers' performance. ICRA is unable to validate whether Rosa Power Supply Company Limited has been able to meet its debt servicing obligations in a timely manner. Accordingly, the lenders, investors and other market participants are advised to exercise appropriate caution while using this rating.

Rationale:

The revision in the rating takes into the account the significant deterioration in the financial risk profile of Reliance Power Group coupled with the overall deterioration in the liquidity position of the company, pending the approval by UPERC on disallowed capital expenditure as well as other cost & efficiency parameters. The liquidity profile of Reliance Power Limited has remained stretched as evident from considerable decline in the net cash accruals in FY 2018-19 and net-worth erosion due to significant impairment of assets amounting to ~ Rs. 4170 crore as on March 31, 2019.

Furthermore, the ratings continue to remain constrained on account of the continuing weak credit quality of the sole offtaker, namely the Uttar Pradesh Power Corporation Limited (UPPCL) and its high cost of power generation due to locational disadvantages in sourcing coal. With weak merit order position for the company in the power procurement mix of UPPCL, the company's PLF level has been low at 49% during FY2019. While the overall collection efficiency since commencement has remained satisfactory, the sustenance of timely collections from UPPCL remain a key rating sensitivity.

The ratings, however, favourably consider the company's cost-plus based tariff in PPA with UPPCL, involving allowed return on equity at 16%, recovery of fixed capacity charges at plant availability of 85% and pass-through nature of fuel cost also in case of the sale of power using alternative sources of coal due to FSA coal shortages, thus mitigating fuel price risks.

Outlook: Negative

The outlook may be revised to Stable in case of any favourable order from the UPERC towards allowance of the additional capital expenditure/un-discharged liability or any significant deleveraging by the company

Key rating drivers:

Credit strengths

Cost-plus based PPA in place with UPPCL for 100% of its total capacity: The company has a long-term power purchase agreement (PPA) for its entire installed capacity (1200 MW) with the UPPCL thus mitigating its exposure to any volatility in merchant tariffs and fuel price risks. The PPA with the UPPCL is based on 'cost-plus' based tariff principles at normative norms, involving allowed return on equity at 16% and recovery of fixed capacity charges at plant availability of 85%. Also, fuel cost remains a pass-through in tariff in case of sale of power using imported coal, thus, mitigating the adverse impact of the rise in the cost of generation.

Credit challenges

Deterioration in the financial risk profile of Reliance Power Group (Reliance Power rated [ICRA]D/[ICRA]D; issuer not cooperating) – The financial profile of Reliance Power has deteriorated significantly as evident from considerable decline in the net cash accruals in FY 2018-19 and net-worth erosion due to impairment of assets amounting to ~ Rs. 4170 crore as on March 31, 2019. Further, on July 6, 2019, all the six lenders of Reliance Power Limited signed Inter-Creditor Agreement (ICA), basis which the company has achieved standstill for 180 days and expects the implementation of the resolution plan during the same period.

Impact on cash flow position due to reduction in the approved fixed capacity charges: Reduction in the approved fixed capacity charges, as per the final tariff order issued by the Uttar Pradesh Electricity Regulatory Commission (UPERC) for the control period FY2014-19, has impacted the cash flows for the company. The UPERC has approved lower project cost (in comparison to the total cost incurred) which will result in a reduction in depreciation and return on equity (RoE) for the company. In addition, the reduction in the normative station heat rate (SHR) and secondary oil consumption will result in marginal reduction in operational efficiency gains, which will also be shared between the company and the discom respectively in the ratio of 80:20 going forward. The company filed a review petition with the UPERC against the tariff order, against which, UPERC issued an order wherein they have rejected the claims made by the company regarding undischarged liability, secondary oil consumption and truing up of interest on working capital. Also, the allowance of additional capital expenditure of the tune of ~ Rs. 470 crore remains pending which is expected to limit the cash accruals for the company to significant extent. While the company has filed an appeal with Appellate Tribunal for Electricity (APTEL) with regards to the tariff order, the decision is still awaited.

Significant dip in the PLF levels during FY2019: The entire project (1200 MW) is operational from April 1, 2012. The plant load factor (PLF) improved to 75% in FY2017 while plant availability factor (PAF) has remained at 100%, allowing the company to claim a recovery of the entire fixed capacity charges, which is subject to plant availability at 85% and hence was able to generate satisfactory returns over the last few years. During FY2018, the PLF levels for the company was satisfactory at ~73%. The PLF levels for the company however declined in the current fiscal with the company recording PLF levels of 41% during FY 2019 which can be attributed to weak merit order position of the company.

High counterparty credit risks pertaining to UPPCL, though payments so far have been timely: RPSCL is exposed to counter-party credit risks pertaining to UPPCL, whose credit quality is weak. The company, however, benefits from the available payment security mechanism. Also, overall collection efficiency, since commencement is more than 95%. However, the sustenance of the same would remain a key rating sensitivity, though payments so far have been timely.

With hinterland location of the project, cost of power generation remains high thus adversely affecting the merit order position of the company: While the average tariff for Rosa stands at Rs. 4.5-5 per unit, the average procurement tariff for the state utilities stands at ~Rs. 4-4.2/ unit. The normative variable cost for the company remains high, resulting in a weak merit order position of the company and exposing it to the offtake risk. However, power deficit scenario in UP mitigates the risk to some extent.

Liquidity position

While the working capital utilisation continues to remain high, the company's liquidity position remains stretched owing to lower approved fixed capacity charges.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers |
| Parent/Group Support | Not applicable |
| Consolidation/Standalone | Standalone |

About the company:

RPSCL, which was incorporated in September 1994, was originally promoted by the Aditya Birla Group (AB Group). In November 2006, erstwhile Reliance Energy Ltd. (REL, which is now Reliance Infrastructure Ltd) acquired RPSCL, and subsequently, it was transferred to Reliance Power limited (RPL). RPSCL has set up a 1200 MW (300 MW X 4) power plant in two phases of 600 MW (300 MW X 2 = 600 MW) capacity each. Both the phases are coal-based and are located at Rosa, District Shahajahanpur, Uttar Pradesh. The project site is located at a distance of 4 km from the Rosa railway station, which is at a distance of 160 km from Lucknow. While the Phase I was commissioned in July 2010, the Phase II achieved commercial operations date in April 2012. The PPA for the project has been signed with UPPCL under 'cost-plus' based tariff principles at normative norms.

Key financial indicators (audited)

| | FY2017 | FY2018 |
|------------------------------|--------|--------|
| Operating Income (Rs. crore) | 1706.7 | 1625.6 |
| PAT (Rs. crore) | 211.56 | 233.63 |
| OPBDIT/OI (%) | 39.76% | 37.93% |
| RoCE (%) | 12.66% | 14.37% |
| Total Debt/TNW (times) | 1.93 | 1.52 |
| Total Debt/OPBDIT (times) | 4.72 | 4.69 |
| Interest Coverage (times) | 1.95 | 1.84 |

NM: Not Meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

| Current Rating (FY2020) | | | | Chronology of Rating History for the past 3 years | | | | | | |
|-------------------------|--------------------------------------|--------------------------|-------------------------------|--|---|----------------------------------|---------------------------------|------------------------------|------------------------------|------------------------------|
| Instrument | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs Crore) | Date & Rating in FY2019 | | | Date & Rating in FY2017 | | Date & Rating in FY2016 | |
| | | | | July 2019 | November 2018 | August 2018 | May 2018 | March 2017 | Mar 2016 | Aug 2015 |
| 1 | Term Loans – Long Term Scale | 4867 | 2259 | [ICRA]B- (Negative) ISSUER NOT COOPERATING | [ICRA]BB+ (Negative) ISSUER NOT COOPERATING | [ICRA]BB+ (negative) | [ICRA]A- (Negative) | [ICRA] A (Stable) | [ICRA] A (Stable) | [ICRA] A (Stable) |
| 2 | Working Capital Facilities (CC/WCDL) | 1554 | 1400 | [ICRA]B- (Negative) / [ICRA]A4 ISSUER NOT COOPERATING | [ICRA]BB+ (Negative) / [ICRA]A4+ ISSUER NOT COOPERATING | [ICRA]BB+ (negative) / [ICRA]A4+ | [ICRA]A- (Negative)/ [ICRA] A2+ | [ICRA] A (Stable)/ [ICRA] A1 | [ICRA] A (Stable)/ [ICRA] A1 | [ICRA] A (Stable)/ [ICRA] A1 |
| 3 | LER limit | 10 | 10 | [ICRA]B- (Negative) / [ICRA]A4 ISSUER NOT COOPERATING; | [ICRA]BB+ (Negative) / [ICRA]A4+ ISSUER NOT COOPERATING | [ICRA]BB+ (negative) / [ICRA]A4+ | [ICRA]A- (Negative)/ [ICRA] A2+ | [ICRA] A (Stable)/ [ICRA] A1 | [ICRA] A (Stable)/ [ICRA] A1 | [ICRA] A (Stable)/ [ICRA] A1 |
| | Non-Fund Based Limit (B/G and L/C) | 150 | 100 | [ICRA]B- (Negative) / [ICRA]A4 ISSUER NOT COOPERATING | [ICRA]BB+ (Negative) / [ICRA]A4+ ISSUER NOT COOPERATING | [ICRA]BB+ (negative) / [ICRA]A4+ | [ICRA]A- (Negative)/ [ICRA] A2+ | [ICRA] A (Stable)/ [ICRA] A1 | [ICRA] A (Stable)/ [ICRA] A1 | [ICRA] A (Stable)/ [ICRA] A1 |

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|--------------------------------------|-----------------------------|-------------|---------------|--------------------------|---|
| - | Term Loan 1 | FY2011 | - | FY2023 | 177.08 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 2 | FY2012 | - | FY2024 | 71.59 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 3 | FY2014 | - | FY2025 | 265.94 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 4 | FY2015 | - | FY2023 | 169.21 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 5 | FY2015 | - | FY2024 | 40.47 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 6 | FY2015 | - | FY2023 | 340.88 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 7 | FY2015 | - | FY2024 | 371.62 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 8 | FY2012 | - | FY2024 | 84.72 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 9 | FY2012 | - | FY2024 | 82.89 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 10 | FY2012 | - | FY2024 | 39.46 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 11 | FY2016 | - | FY2021 | 250.00 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 12 | FY2016 | - | FY2019 | 125.00 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 13 | FY2011 | - | FY2023 | 119.15 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 14 | FY2013 | - | FY2024 | 64.11 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 15 | FY2013 | - | FY2024 | 46.23 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 16 | FY2013 | - | FY2024 | 46.23 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 17 | FY2017 | - | FY2022 | 623.68 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Term Loan 18 | FY2012 | - | FY2024 | 112.63 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Proposed Term Loan | NA | NA | NA | 1836.11 | [ICRA]B- (Negative) ISSUER NOT COOPERATING |
| - | Working Capital Facilities (CC/WCDL) | - | - | - | 1400 | [ICRA]B- (Negative) / [ICRA]A4 ISSUER NOT COOPERATING |
| - | Proposed Working Capital Facilities | - | - | - | 154 | [ICRA]B- (Negative) / [ICRA]A4 ISSUER NOT COOPERATING |
| - | LER limit | - | - | - | 10 | [ICRA]B- (Negative) / [ICRA]A4 ISSUER |

| | | | | | | |
|---|------------------------------------|---|---|---|-----|---|
| - | Non Fund Based Limit (B/G and L/C) | - | - | - | 100 | NOT COOPERATING [ICRA]B- (Negative) / [ICRA]A4 ISSUER NOT COOPERATING |
| - | Proposed Non Fund Based Limit | | | | 50 | [ICRA]B- (Negative) / [ICRA]A4 ISSUER NOT COOPERATING |

Source: Rosa Power Supply Company Limited

Corrigendum:

Document dated July 22, 2019 has been corrected with revisions as detailed below:

Section “About the company” has been revised

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