May 30, 2023

Arunachal Pradesh Power Corporation Pvt Ltd: Rating reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund-based – overdraft facilities	10.00	10.00	[ICRA]A3+; reaffirmed
Short-term fund-based – working capital demand loan	-	10.00	[ICRA]A3+; assigned
Short-term non-fund based – LC/BG	-	20.00	[ICRA]A3+; assigned
Proposed working capital facility	40.00	60.00	[ICRA]A3+; assigned/reaffirmed
Total	**50.00**	**100.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings on the bank loan facilities of Arunachal Pradesh Power Corporation Private Limited (APPCPL) factors in the largely stable performance of the company's core trading business. While the operating profitability has moderated on account of a higher share of low-margin exchange-traded sales and lower incentives earned on certain medium-term trade transaction, the overall liquidity profile remains comfortable as majority of its fund-based and non-fund-based limits continue to be backed by fixed deposits. The company's ability to enter into remunerative long-term trade contracts will not only improve its profitability but also reduce the volatility from short term/medium term trade transactions. Further, given the low capital expenditure and minimal repayment obligations, the liquidity position is expected to remain adequate. ICRA notes that the company has on an average maintained a liquidity of Rs. 31.8 crore in FY2023 in the form of cash & liquid funds and cushion available in availed working capital limits (which are largely backed by fixed deposits).

The ratings are, however, constrained by APPCPL's small scale of operations with its trading volumes constituting 5.2% of the overall short-term trade in 9M FY2023[1]. The increase in scale will not only contribute to improved profitability but also help diversify its customer base, lowering the counterparty credit risk from its exposure to distribution utilities. Although the payment terms are back-to-back in the trading contracts, the risk of delays in payments from customers cannot be ruled out, considering the weak financial profile of most state utilities. This in turn can erode the liquidity buffer that the company has maintained over the years.

APPCPL has made sizeable investments (loans and equity) in other promoter-owned companies amounting to over 30% of the net worth as on March 31, 2023 (33% as on March 31, 2022). There are no plans to make incremental investments as the group companies had already incurred majority of the capital expenditure for setting up liquor/ferro alloy manufacturing facilities. However, any incremental investment in group companies which may deplete the liquidity buffer will be a credit negative. ICRA takes comfort from the track record of a steady increase in trading volumes while maintaining adequate liquidity in the last six years.

Going forward, the company's ability to improve its market share and profitability, while maintaining a comfortable liquidity position, will remain important from a credit perspective.

[1] *Source: Central Electricity Regulatory Commission report on short-term power market in India of April-2022 till Dec-2022*

Key rating drivers and their description

Credit strengths

Steady operating performance of trading business – The company's trading business has grown at a steady pace in the last six years, aided by growth in trading volumes in the initial years and a shift to more value-accretive transactions (medium-term trade or MTT). While the profitability has moderated on account of lack of incentives earned in specific MTT, continued focus on the MTT/LTT segments is expected to keep the profitability stable in the near to medium term.

Healthy financial profile – The company's internal accruals have consistently improved, backed by steady growth in revenues, retention of profits, low capital expenditure and minimal repayment obligations, that has resulted in an adequate liquidity position. The company had cash & cash equivalent of Rs. 28.8 crore (including free cash of Rs. 8.7 crore and available overdraft limits of Rs. 20.2 crores) as on March 31, 2023. APPCPL has traditionally availed working capital lines against 100% cash margin and its net interest expense has remained negative. Going forward, the cash flows are expected to remain adequate for meeting the debt servicing requirements on expectation of stable revenues and profitability and absence of any sizeable capital expenditure.

Credit challenges

Modest scale of operations – APPCPL's share of trading volumes in the STT (short-term trade) market has remained low over the past two years and was 5.2% in 9M FY2023 (though improved from 3.7% in FY2022). The margins in the STT segment have been declining for the industry as a whole over the last few years with the shift in transactions to energy exchanges. ICRA notes that APPCPL's ability to scale up its operations is low as most of its cash is deployed in making non-current investments or as margin money for availing working capital limits for the business. An increase in scale will not only contribute to improved profitability but also help diversify its customer base, lowering the counterparty credit risk arising out of its exposure to distribution utilities. With the increasing participation in power exchange transactions, the profitability from its core trading business is expected to remain low.

Exposure to counterparty credit risks – APPCPL is exposed to counterparty credit risks resulting from its exposure to power distribution companies and delays in payments from other customers. Although the payment and other contractual terms are back-to-back in the trading contracts, the risk of delays in payments from the customers cannot be ruled out, considering the weak financial profile of most state utilities. The stretching of payments by customers can result in a quick decline in the available liquid funds of the company and constrain its ability to enter into incremental trading contracts (almost entire working capital facilities are availed against 100% margin), lowering the company's operating profits and ability to service debt. Comfort is drawn from the fact that the STT segment is highly sensitive to the payment track record of the counterparties. Despite the small volumes of the STT segment compared to the overall electricity demand of the country, it helps distribution companies meet their immediate demand arising out of supply/load mismatches and hence the likelihood of payment delays in this segment are minimal.

Liquidity position: Adequate

APPCPL's liquidity is adequate, supported by a steady growth in internal accruals, low capital expenditure and minimal repayment obligations, which have resulted in healthy cash balances. Its working capital limits (both fund-based and non-fund based) are largely backed by fixed deposits. While the free cash flows are expected to remain adequate to meet the debt servicing obligations, the liquidity position of the company is supported by the presence of cash and bank balances (unencumbered and net of debt) as on March 31, 2023, which are adequate to support the interest and principal obligations for FY2024. The company's net cash position was Rs. 28.8 crore (including free cash of Rs. 8.6 crores and remaining as available overdraft limit) as on March 31, 2023 and the average net cash position was Rs. 31.8 crore (including free cash of Rs. 7.3 crore and remaining as available overdraft limit) during the 12-month ended March 2023. Any large investments in group companies or delays in realisation of payments from state distribution utilities will remain a key monitorable.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if the company demonstrates a significant improvement in earnings, led by increased trading margin and/or scale while maintaining the current adequate liquidity position.

Negative factors – Pressure on APPCPL's rating could arise if any significant debt-funded capital expenditure deteriorates its coverage indicators. Other factors that may affect the rating are delays in payments from customers elongating the working capital cycle and elevating the working capital borrowings or increase in loans to Group companies lowering the liquidity buffer. ICRA may also downgrade the rating if the total outside liabilities to tangible net worth remains above 1.8x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity

About the company

APPCPL, incorporated in 2009, is involved in trading power through bilateral transactions and power exchanges, in addition to energy banking and trading of RECs. Its clients include power distribution utilities, industrial and commercial consumers as well as generators. It is a trader member of the Indian Energy Exchange (IEX) and has been trading on the IEX platform since August 2009. APPCPL holds a category-II licence issued by the CERC for inter-state trading of electricity since November 2016. It is also involved in the installation and operation of solar photovoltaic rooftop plants either through own ownership or as an EPC player. The installed capacity under owned plants is 4.175 MW, while that under EPC is 3.2 MW.

Key financial indicators

APPCPL standalone	FY2022 (Audited)	FY2023 (Provisional)
Operating income	1,606.9	2,356.0
PAT	8.6	7.7
OPBDIT/OI	0.9%	0.5%
PAT/OI	0.5%	0.3%
Total outside liabilities/Tangible net worth (times)	1.7	1.5
Total debt/OPBDIT (times)	3.2	3.0
Interest coverage (times)	6.3	4.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore
Note: Amount in Rs. crore; All calculations are as per ICRA Research
Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding. (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 30, 2023	Mar 15, 2023	Feb 21, 2022	Oct 14, 2020
1	Fund based overdraft facilities	Short term	10.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
2	Fund based working capital demand loan	Short term	10.00	-	[ICRA]A3+	-	-	-
3	Non-Fund based limit – LC/BG	Short term	20.00	-	[ICRA]A3+	-	-	-
4	Proposed working capital	Short Term	60.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based overdraft limits	Simple
Fund based working capital demand loan	Simple
Non-Fund based limit – LC/BG	Very Simple
Proposed working capital facility	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working capital limit	NA	NA	NA	10.00	[ICRA]A3+
NA	Working capital demand loan	NA	NA	NA	10.00	[ICRA]A3+
NA	LC/BG Limit	NA	NA	NA	20.00	[ICRA]A3+
NA	Proposed working capital facility	NA	NA	NA	60.00	[ICRA]A3+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 61143441
girishkumar@icraindia.com

Siddhartha Kaushik
+91 124 4545323
siddhartha.kaushik@icraindia.com

Peeush Middha
+91 124 4545330
peeush.middha@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches