February 16, 2024

Dhariwal Infrastructure Limited: Ratings upgraded to [ICRA]A- (Stable)/[ICRA]A2+; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	2,314.35	2,314.35	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ and outlook revised to Stable from Positive
Long-term – Working capital limits	250.0	250.0	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ and outlook revised to Stable from Positive
Long term/Short term - Non-fund based limits	135.0	135.0	[ICRA]A- (Stable)/[ICRA]A2+; upgraded from [ICRA]BBB+/[ICRA]A2 and outlook revised to Stable from Positive
Total	**2,699.35**	**2,699.35**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade factors in the improvement in the company's financial performance over the past three years, reflected in its improved profitability and debt coverage metrics. This has been supported by higher generation from Unit-1 (300 MW) with the sale of power under short-term PPAs to Maharashtra state utility till March 2022 and to the railways since April 1, 2022 under a medium-term PPA, along with the reduction in the debt level. Further, the ratings continue to factor in the strong parentage of Dhariwal Infrastructure Limited (DIL) as a part of the RP-Sanjiv Goenka (RP-SG) Group, the satisfactory operating performance of its 600-MW thermal power project, the availability of long-term power purchase agreements (PPAs) for Unit 2 (300 MW) and a medium-term PPA for a major share of Unit 1 (300 MW) and low fuel supply risks. The company also benefited from the sharp increase in tariffs for the power sold in the short-term market in 9M FY2024 and FY2023, led by the healthy electricity demand growth in the country. The sustainability of these tariffs remains a key monitorable for DIL.

The ratings continue to factor in the limited offtake risks for Unit 2 of the plant, wherein the entire capacity is tied up with Noida Power Corporation Limited (NPCL) under cost-plus tariff, and with Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) under competitive bid-based tariff. The ratings also consider the low fuel-supply risk because of the long-term fuel supply agreement (FSA) for 530 MW of the 600-MW capacity. The operating performance of the project under DIL remains satisfactory, with plant availability remaining well above the normative requirement and the plant load factor (PLF) improving to 82.1% in 10M FY2024 and 80% in FY2023 from 76% in FY2022.

The company has earlier received funding support from its fellow subsidiary, Haldia Energy Limited (HEL; rated [ICRA]A1+), and its parent, CESC Ltd. (CESC; rated [ICRA]A1+). However, it has remained self-sufficient over the last three years and did not require any support from the Group. While ICRA does not envisage the requirement of any incremental funding support from the parent/Group companies over the medium term, any such support, if required, is expected to be available from the parent/Group companies, as demonstrated in the past.

The ratings remain constrained by the unavailability of long-term PPA for Unit 1 of DIL's power plant, though the tie-up of a three-year PPA with the Indian Railways from April 1, 2022 offers enhanced revenue visibility over the medium term and mitigates the offtake risk to a large extent. Nevertheless, DIL's ability to tie up PPA for the balance capacity and secure new PPAs at reasonable tariffs in the future will remain a key credit monitorable. The capacity without long-term or medium-term PPAs would remain exposed to volume and tariff risks in the short-term market, as well as fuel pricing risk.

The company also remains exposed to counterparty credit risk on account of its exposure to the state utility of Tamil Nadu. There have been significant delays in receiving payments from TANGEDCO in the past, while the payment pattern from NPCL and the railways has been satisfactory. Nonetheless, the payment pattern from TANGEDCO has improved post June 2022, following the implementation of the late payment surcharge (LPS) rules as notified by the Ministry of Power. The ratings also reflect the company's exposure to regulatory risks, given the ongoing legal proceedings before the Supreme Court challenging the jurisdiction of Uttar Pradesh Electricity Regulatory Commission (UPERC) in approving the 187-MW PPA with NPCL. Any adverse regulatory outcome in the matter remains a key rating driver. ICRA also takes note of the capex requirement towards installing flue gas desulphurisation (FGD) system to comply with the revised environmental norms. While this would be a pass through to the customers under change in law, timely approval of such capex by the regulators remains important.

The Stable outlook on the long-term rating factors in the improved revenue visibility for the company following the commencement of supply under the three-year PPA with the Indian Railways, the healthy operating performance and attractive tariffs in the short-term market.

Key rating drivers and their description

Credit strengths

Strong parentage with DIL as part of RP-SG Group – DIL is a 100% subsidiary of CESC, which is the flagship company of the RP-SG Group. By virtue of its parentage and Group linkages, DIL has benefited in the past as the RP-SG Group extended financial support during FY2015-FY2021. While the company did not require any incremental support over the past three years, such need-based support from the parent/the RP-SG Group is expected to continue, in case of any cash flow mismatches.

Availability of long-term and medium-term PPAs limits offtake risks – The availability of long-term PPAs for the capacity under Unit 2 limits the offtake risk. However, DIL faced significant offtake risk for the 300-MW capacity under its Unit 1 which did not have a long-term PPA and was relying on short-term arrangements for the sale of power till March 2022. The company has tied up a three-year PPA for 210 MW out of the 300 MW capacity of Unit 1 with the Indian Railways at a base tariff of Rs. 4.38/unit (fixed and variable charge of Rs 2.19/unit each), with annual escalation available in both the fixed and variable components. The supply under this PPA commenced from April 1, 2022. With this, the exposure to the short-term market will decline compared to the earlier years. There was no funding support required from CESC/Group companies in FY2022, FY2023 and FY2024 so far due to the presence of adequate internal accruals and no incremental support is expected in the near to medium term for DIL.

Fuel-supply agreement with SECL mitigates fuel availability risks – DIL has an operational FSA with SECL since March 2016, which mitigates fuel availability risk and ensures competitive energy cost for the station. The FSA is for the supply of 2.73 MTPA of coal; however, as DIL was not able to secure a long-term PPA for Unit 1, the active FSA was only to the extent of 1.43 MTPA (revised to 1.58 MTPA since October 2020), mapped to the 300-MW installed in Unit 2. Coal shortage, if any, was being met through e-auctions or imports. Following the commencemnt of supply under the 210-MW PPA with the Indian Railways from Unit 1, DIL is drawing coal from SECL and WCL under its FSA arrangement, which further mitigates the fuel supply risk.

Favourable regulatory orders from CERC and UPERC – DIL has received favourable regulatory orders from the CERC and UPERC under its long-term PPAs for compensation for change-in-law events along with reimbursement for the additional coal consumed due to lower materialisation of FSA coal. The company has billed the compensation approved by the regulators and most of it has already been received. Further, the company has received a multi-year tariff order for its cost-plus PPA with NPCL for the period from FY2020 to FY2024, with enhanced fuel cost recovery.

Sustained improvement in leverage and debt coverage metrics – With the gradual improvement in profitability, accruals and scheduled debt repayment along with part prepayment in FY2023, the overall external debt of the company has reduced to Rs. 1,858 crore as of 9M FY2024-end from Rs. 2,193 crore as of FY2023-end and Rs. 2,555 crore as of FY2022-end. This reduction in debt coupled with improved profitability has resulted in improved debt coverage metrics, reflected in the total external debt/OPBITDA of 3.52 times for 9M FY2024 against a total external debt /OPBITDA of 4.05 times for FY2023 and 5.34 times for FY2022. The DSCR is expected to remain above 1.4 times in FY2024 and FY2025.

Credit challenges

Absence of long-term PPA for Unit 1 – While the offtake is secured for the 300-MW capacity in Unit 2 through long-term PPAs, and a medium-term PPA for 210 MW under Unit 1, the ability of the company to tie up PPA for the balance capacity and renew the PPAs at reasonable tariffs in the future will remain the key credit monitorables. Further, DIL remains exposed to coal availability and pricing risk for the capacities not contracted under a long-term PPA. Also, there are fuel cost pass-through risks for the capacities not contracted on a cost-plus basis. ICRA, however, notes that the escalation in fuel cost is passed on to the consumers to a certain extent on the basis of the escalation factor notified by the CERC on a bi-annual basis and the quoted escalable energy charges in the PPA with TANGEDCO. For the PPA with the railways, the escalation in tariff is linked to WPI.

Counterparty risk on account of exposure to state utility of Tamil Nadu – DIL remains exposed to counterparty credit risk on account of its exposure to the state utility of Tamil Nadu, which has a weak financial profile. However, following the implementation of LPS rules, the receivables have come down with regular payment of the ongoing bills post July 2022 and recovery of past dues through instalments. The outstanding debtors from TANGEDCO declined to Rs. 176 crore on December 31, 2023 from Rs. 221 crore as on March 31, 2023, while the overall outstanding receivables declined to Rs. 267.4 crore as on December 31, 2023 from Rs. 426.95 crore as on March 31, 2023. The sustainability of the improvement will remain a key monitorable. ICRA draws comfort from the timely payments from NPCL and the railways.

Exposure to regulatory risk pertaining to ongoing case in Supreme Court – DIL is exposed to regulatory risk pertaining to the approval of the PPA with NPCL. This approval by UPERC has been challenged before APTEL, wherein the decision is in favour of the company. This has been challenged before the Supreme Court. Any adverse regulatory outcome in the matter remains a key rating driver.

Liquidity position: Adequate

The liquidity profile of the company is adequate with the cash flow from operations expected to be sufficient to meet the debt servicing obligations, driven by the availability of long-term and medium-term PPAs. Also, the company has free cash balance of Rs. 156 crore as on December 31, 2023. Moreover, ICRA expects the promoter group to infuse additional funds, if required, as demonstrated in the past.

Rating sensitivities

Positive factors – ICRA could upgrade DIL's ratings if there is an improvement in the company's earnings and debt protection metrics on a sustained basis, supported by healthy operating performance and remunerative tariffs in relation to its cost of power generation.

Negative factors – The ratings could be downgraded if there is any adverse regulatory ruling, leading to uncertainty over the 187-MW PPA with NPCL, resulting in a material drop in DIL's earnings. Also, the inability to ensure adequate plant availability adversely impacting DIL's earnings, or material delays in payments from customers affecting the liquidity profile could trigger a downgrade. Moreover, any change in linkages with the CESC Group or weakening of the credit profile of CESC may trigger a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Power - Thermal
Parent/Group support	Parent/Group: Parent: CESC Limited; Group: RP-SG Group The ratings assigned to DIL factor in the high likelihood of its parent, CESC Limited [rated [ICRA]A1+], extending financial support to DIL out of the need to protect its reputation from the consequences of a Group entity's distress; there also exists a consistent track record of the RP-SG Group extending timely financial support to DIL in the past, whenever a need arose
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

Dhariwal Infrastructure Limited (DIL) is a part of the Kolkata-based RP-SG Group. It is a wholly-owned subsidiary of CESC Limited (rated [ICRA]A1+), the flagship company of the RP-SG Group. The company has 2X300 MW thermal-based power generation units at Chandrapur, Maharashtra. The two units with a capacity of 300 MW each were commissioned on February 11, 2014 (Unit 1) and August 2, 2014 (Unit 2).

Key financial indicators (audited)

	FY2022	FY2023	9MFY2024*
Operating income	1647.80	1908.87	1403.12
PAT	136.70	243.52	189.01
OPBDIT/OI	29.06%	28.31%	28.23%
PAT/OI	8.30%	12.76%	13.47%
Total outside liabilities/Tangible net worth (times)	5.21	3.46	NA
Total debt/OPBDIT (times)	7.03	5.56	3.52
Interest coverage (times)	1.94	2.63	2.75

*Source: Company, ICRA Research; * Provisional numbers; NA: Not available; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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 as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 16, 2024	Jul 31, 2023	Jul 22, 2022	May 31, 2021	-
1	Fund-based – Term loan	Long-term	2314.35	1858.43	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	-
2	Working capital limits	Long-term	250.0	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	-
3	Non-fund based limits	Long term/ Short term	135.0	-	[ICRA]A- (Stable) /[ICRA]A2+	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based – Term loan	Simple
Long term – Working capital limits	Simple
Long term/Short term - Non-fund based limits	Very Simple

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	**Term Loan**	Between FY2017-FY2018	NA	September 2035	2314.35	[ICRA]A- (Stable)
NA	**Working capital limits**	NA	NA	NA	250.0	[ICRA]A- (Stable)
NA	**Non-fund based limits**	NA	NA	NA	135.0	[ICRA]A- (Stable)/[ICRA]A2+

Source: Company

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

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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.

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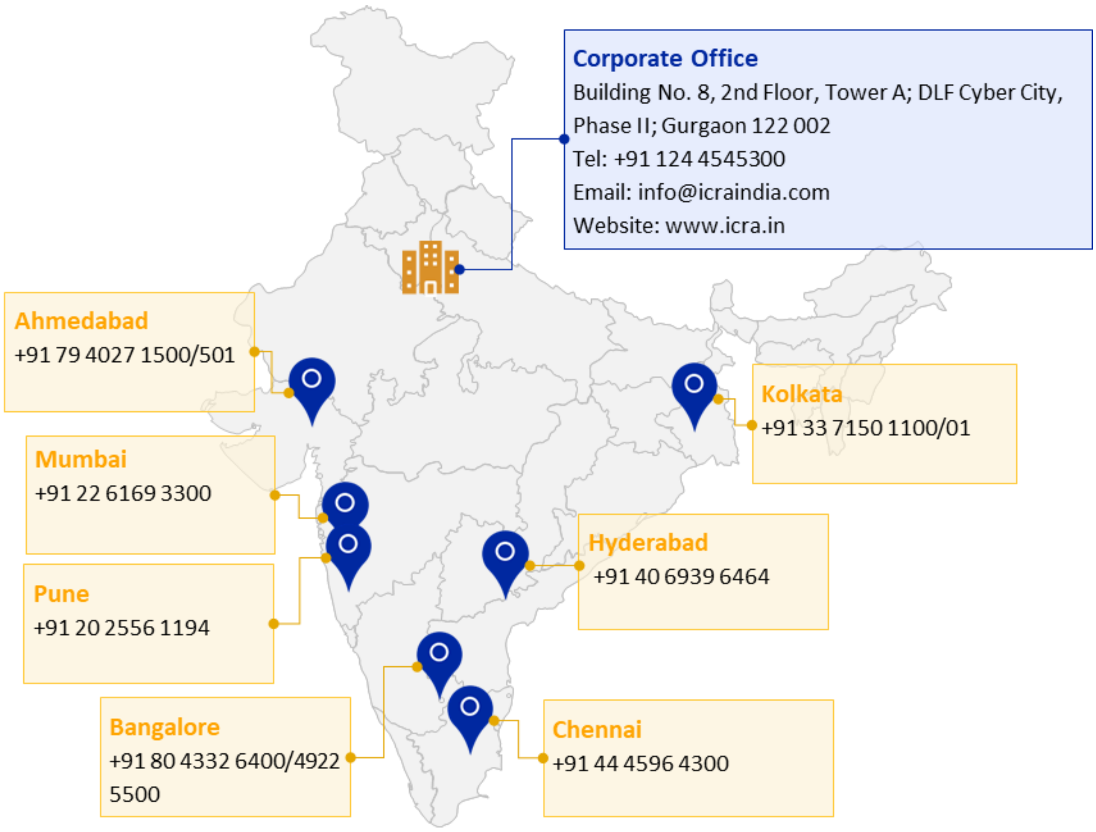

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