November 29, 2021

Aravali Power Company Private Limited: Long-term rating upgraded; short-term rating reaffirmed; rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	7,839.13	3,762.38	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable)
Fund-based Working Capital Limits	1,200.00	1,200.00	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable)
Non-fund Based Limits	125.00	125.00	[ICRA]A1+ reaffirmed
Total	**9,164.13**	**5,087.38**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the long-term rating for Aravali Power Company Private Limited (APCPL) factors in the significant reduction in its outstanding receivables driven by collection of past overdues, which has further strengthened its liquidity position. As on March 31, 2020, the company's total receivables stood at Rs 2,010 crore, of which the two Delhi discoms - BSES Rajdhani Power Ltd (BRPL) and BSES Yamuna Power Ltd (BYPL) - accounted for Rs 788 crore and Rs 482 crore, respectively. The receivables (excluding unbilled revenues) reduced by 45% to Rs 1,112 crore as on March 31,2021, led by a recovery of all the past dues from BRPL and some of the overdues from the state discoms of Uttar Pradesh and Andhra Pradesh in FY2021. The receivables have further reduced to Rs 843 crore as on October 25,2021 on account of a recovery of ~Rs 180 crore of past dues from BYPL and Rs 170 crore from Jammu & Kashmir (J&K) discom coupled with timely payments from its key offtakers - Haryana distribution utilities (discoms) and Tata Power Delhi Distribution Limited (TPDDL) - which account for 87% of APCPL's capacity. This has enhanced the company's liquidity position, evident from the healthy free cash balance of Rs 1,196.80 crore as on September 30, 2021 against Rs. 176.90 crore as on March 31, 2020.

The ratings continue to take into account APCPL's strong credit profile, backed by the presence of power purchase agreements (PPAs) with cost-plus tariff for the entire 1500 MW capacity, adequate fuel supply agreements and the strong collection efficiency demonstrated over the past four fiscals. The company has been able to earn higher-than-normative return on equity on the approved capital cost on account of the late payment surcharges (LPS) on delayed payments by offtakers, savings in operations and maintenance (O&M) costs and savings in interest on working capital with limited dependence on working capital debt. This is despite the disallowance of capital costs worth Rs. 500 crore by the Central Electricity Regulatory Commission (CERC) while determining the tariff. The company's capital structure and debt protection metrics have consistently improved over the past few years and remain strong. The company's gearing stood comfortable at 0.52 time as on September 31,2021, while its debt coverage indicators remained healthy with total debt/OPBDITA of 2.19 times, interest coverage of 7.24 times and DSCR of 2.13 times in H1 FY2022. The company has also refinanced its outstanding project loans in January 2021 at a lower interest rate of 6.75% per annum compared to the earlier rate of 8.42% per annum, which will result in savings in interest cost for the company. The ratings also consider the extension in timeline granted by the Ministry of Environment and Forestry (MoEF) for complying with the revised pollution control norms and the satisfactory progress made by the company in implementing flue gas desulphurisation (FGD). The company has incurred 41% of the budgeted cost in installing the FGD system and is scheduled to complete the same by June 2022. Additionally, APCPL benefits from the in-house technical and managerial expertise provided by NTPC Limited (holds a 50% stake in APCPL), which reduces the operational and maintenance risks for the project in addition to assistance in the filing of tariff petitions and enabling the company to recover its dues from discoms.

The rating concerns emanate from APCPL's high cost of power due to the high landed cost of coal, which adversely impacts its competitiveness and results in a low plant load factor (PLF). The variable/energy charge stood at Rs. 3.25 per unit for FY2021 (excluding compensation for partial loading). This limits the ability of the company to market its power elsewhere in case of delays in payments from the contracted beneficiaries. Further, the company remains exposed to any disallowances in costs by the regulator or tightening of the normative parameters under the cost-plus tariff principles. The company has filed true-up petition for FY2014-19, seeking approval for additional capital expenditure of Rs. 496 crore in tariff. The project returns could be impacted if the regulator approves lower-than-incurred project costs. The ratings also take note of the counterparty credit risk pertaining to its offtakers - Haryana's discoms (46%.2 capacity), Delhi's discoms of TPDDL, BRPL & BYPL (46.2% capacity) and the discoms allocated by Ministry of Power (MoP) for 7.6% capacity. While the payments from the Haryana discoms and TPDDL are regular, there are sizeable pending dues from BYPL and some of the other state discoms, a timely recovery of which remains important. Further, any increase in the allocation of power to BRPL and BYPL within Delhi's allocated share of 46.2% by the regulator (Delhi Electricity Regulatory Commission) and any subsequent delay in receipts from these two discoms will be a key risk for APCPL.

The Stable outlook reflects ICRA's expectation that the company will continue to report satisfactory plant availability and efficiency levels, allowing it to adequately bill and recover the fixed capacity charges as per the tariff order/PPA, and recover the payments in a timely manner from its key offtakers (Haryana discoms and TPDDL).

Key rating drivers and their description

Credit strengths

Presence of long-term PPAs (cost-plus tariff) for entire capacity and managerial expertise provided by NTPC – The PPAs for the entire quantum of power generated by APCPL are in place, which limit the offtake risks for the company. The power is mainly sold to the Haryana and Delhi discoms (46.2% each to both state discoms) and the balance 7.6% is allocated as per the directions of the Ministry of Power (MoP) from time to time. The company also benefits from the in-house technical and managerial expertise provided by NTPC Limited, which reduces the operational and maintenance risks for the project in addition to assistance in the filing of tariff petitions and enabling the company to recover its dues from the discoms.

Cost-plus tariff and late payment surcharge to continue supporting profitability – The tariff payable by the beneficiaries is based on the CERC regulations, which allows for full recovery of the variable and fixed costs with 15.5% return on equity (subject to achieving normative operating parameters) and any incentives (for better-than-normative performance). In addition, the regulations allow for a levy of late payment surcharge (LPSC) on delayed payments from beneficiaries. Internal accruals and LPSC received over the course of operations for the last eight years have supported the company's profitability and improved its net worth substantially.

Improving capital structure and debt coverage metrics – The company's capital structure and debt coverage indicators have consistently improved over the last five fiscals, driven by limited capital expenditure, scheduled debt repayments and increase in net worth from healthy accruals supported by the cost-plus tariff mechanism. The gearing has remained less than 1 time in the last four fiscals and stood at 0.52 time as on September 30,2021. The debt coverage indicators have also improved and stood healthy with interest coverage of 7.24 times, TD/OPBDITA of 2.19 times and DSCR of 2.13 times for H1 FY2022.

Strong collection efficiency; enhanced liquidity position on account of recovery of past overdue receivables- APCPL's collection efficiency has remained strong over the past few years - 104% in FY2018, 99% in FY2019, 104% in FY2020 and 125% in FY2021. While the payments from Haryana discoms and TPDDL (accounting for 87% APCPL's of capacity) have been regular, the company's receivables remained high in the past few fiscals due to the pending dues from the two counterparties – BRPL and BYPL. As on March 31, 2020, the company's total receivables stood at Rs 2,010 crore, of which the receivables from BRPL and BYPL were Rs 788 crore and Rs 482 crore, respectively. In FY2021, the company recovered all the past dues from BRPL and a large part of the overdues from the state discoms of Uttar Pradesh and Andhra Pradesh. As a result, the total outstanding receivables (excluding unbilled revenues) came down by 45% YoY to Rs 1,112 crore as on March 31, 2021 compared to Rs 2,010 crore as on March 31,2020. The receivables have further reduced to Rs 843 crore as on October 25,2021 on account of a recovery of ~Rs 180 crore dues from BYPL and Rs 170 crore from J&K discom. The company's liquidity continues to be strong backed by the cost-plus nature of operations and regular payments from two of its largest offtakers, the Haryana discoms and TPDDL. The liquidity has been further enhanced by the recovery of past dues, reflected in the healthy free cash balances of Rs 1196.80 crore as on September 30, 2021 against Rs. 176.90 crore as of March 2020.

Extension in timeline received for FGD implementation from MoEF; required funding in place and execution underway – The MoEF, in its notification dated March 31, 2021, has revised the timeline for coal-based thermal power projects to implement the FGD systems to comply with the revised emission norms. The revised timeline for APCPL is now June 2022. The company has incurred Rs 450 crore out of the estimated FGD cost of Rs 1,100 crore till September 30, 2021 and is scheduled to complete the capex within the revised timeline. The capex is being funded in a debt to equity mix of 70:30. The entire debt for FGD capex of Rs 770 crore has been tied up.

Credit challenges

High cost of power affecting tariff competitiveness for offtakers – Since the commissioning of the plant, higher fuel charges have resulted in high average tariff, which in turn has impacted the PLF levels of the plant. The landed cost of coal is relatively high due to the inland location of the plant, resulting in high variable cost of power and affecting tariff competitiveness. Lower offtake does not impact the company's ability to recover its fixed charges, subject to maintaining normative plant availability (85%) and energy charges (compensation for partial loading allowing for under-recovery for normative energy charge resulting from operating at reduced load from FY2020 onwards); however, it does limit APCPL's ability to market its power in the event of delays in receipt of payments from the discoms.

Risk of non-approval for the entire capital cost incurred would limit the potential project returns - Although the tariff is of a cost-plus nature, the regulatory framework allows for the recovery of only the approved capital costs. Any under-recovery of the fixed costs will impact the project's returns vis-à-vis other projects of similar nature. At present, an aggregate of ~Rs. 500 crore of the incurred project costs has been disallowed, while the capex (post the cut-off date of March 31, 2016) will be assessed at the time of the true-up. The company has filed the true-up petition for FY2015–FY2019, seeking approval for additional capital expenditure of Rs. 496 crore in tariff, and the tariff petition for FY2020-24. The quantum of allowance for these project costs by the regulator will be a key determinant of the returns, going forward.

Counterparty credit risks pertaining to offtakers – APCPL is exposed to counterparty credit risks pertaining to Haryana discoms (46%.2 capacity), Delhi discoms (46.2% capacity) and the discoms allocated for 7.6% capacity through central pool allocation by the MoP. The presence of a payment security mechanism in the form of letters of credit (LC) mitigates the risk to some extent. The payments from the Haryana discoms and TPDDL, which account for 87% of APCPL's capacity, have been regular. However, there are significant pending dues from some of the other offtakers, especially the Jammu & Kashmir discom and BYPL, the timely recovery of which remains important. Additionally, any increase in the allocation of power to BRPL and BYPL within Delhi's allocated share of 46.2% by the regulator and subsequent delays in receipts from these two discoms will be a key risk for APCPL.

Liquidity position: Strong

APCPL's liquidity is expected to remain strong, backed by the cost-plus nature of operations, healthy collections from the off-takers and the available cash balances. As on September 30,2021, the company had a healthy free cash balance of Rs 1196.80 crore and restricted cash balance of Rs 202.48 crore. The company is expected to generate adequate cashflows for debt servicing and still have surplus cash from operations. The debt for its ongoing capital expenditure for installing the FGD system has been tied up with 30% of the capex requirement to be funded from internal accruals. The company's liquidity is further supported by the cushion available in the form of unutilised fund-based working capital limits of Rs 138.19 crore.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if the company continues to demonstrate a healthy operating performance with timely collections from counterparties on a sustained basis, leading to strong cashflows and reduction in the leverage level. Approval of pending capital costs without any major disallowances by the regulator, leading to a further improvement in the debt coverage and return indicators would be another key trigger for a rating upgrade.

Negative factors – Deterioration in the operating parameters impacting the company's ability to bill for the full capacity charges or significant delays in receiving payments from the customers or large dividend outflow adversely impacting the liquidity position of APCPL could lead to a rating downgrade. Additionally, the company's inability to comply with the revised emission norms within the stipulated timeline impacting project operations would affect its ratings. Disallowances in capital or operating costs by the regulator adversely impacting the debt coverage metrics of the company and causing the cumulative DSCR to fall below 1.40 times on a sustained basis would be the other negative triggers.

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

APCPL is a joint venture company of NTPC Ltd (50%), Haryana Power Generation Company Ltd (HPGCL; 25%) and Indraprastha Power Generation Company Ltd (IPGCL; 25%). It has constructed a 1,500-MW coal-based power plant near Jharli village, Jhajjar district (Haryana), named Indira Gandhi Super Thermal Power Project (IGSTPP). All the three units of the project have been commissioned with the last unit achieving COD on April 26, 2013. The cost of the project is Rs. 10131 crore, funded in a D:E ratio of 70:30. As per initial allocation, fuel supply agreements have been signed with Mahanadi Coalfields Ltd (MCL) — 3.907 MTPA, Eastern Coalfields Ltd (ECL) — 1.0 MTPA and Northern Coalfields Ltd (NCL) — 1.0 MTPA. Presently, company has FSAs with NCL of 1.50 MMT, ECL of 0.58 MMT and CCL of 3.5430

With a majority ownership of NTPC (50%), APCPL has been designated a central generating station, whereby the MOP can regulate its power as per the notification issued in April 2000 for the allocation of power from the central generating stations. As per the initial allocation, the MOP allocated 46.2% of capacity each to the Haryana and Delhi discoms and retained 7.6% of the total capacity as unallocated quota, which can be allocated to other beneficiary states.

Key financial indicators

Parameter	FY2020 (Audited)	FY2021 (Audited)	H1 FY2022 (unaudited)
Operating Income (Rs. crore)	3301.06	3049.24	1871.02
PAT (Rs. crore)	619.67	726.78	390.45
OPBDIT/OI (%)	45.51%	52.00%	37.41%
PAT/OI (%)	18.77%	23.83%	20.87%
Total Outside Liabilities/Tangible Net Worth (times)	0.64	0.68	0.70
Total Debt/OPBDIT (times)	2.30	2.05	2.19
Interest Coverage (times)	4.64	6.11	7.24

**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

SN	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					29-Nov-2021	19-Oct-2020	11-Feb-2020	31-Dec-2019	6-Sep-2018
1	Term Loans	Long-Term	3762.38	3065.34	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Working Capital Facilities	Long-Term	1200.00		[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+&	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	Non-fund Based Limit	Short-Term	125.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1

* As on September 30,2021

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term, Fund based, Term loans	Simple
Long-term, Fund based, Working capital	Simple
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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Lender	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Axis Bank	Term loans	FY2021	-	FY2028	1492.38	[ICRA]AA- (Stable)
NA	ICICI Bank	Term loans	FY2021	-	FY2028	1500.00	[ICRA]AA- (Stable)
NA	State Bank of India	Term loans	FY2021	-	FY2036	770.00	[ICRA]AA- (Stable)
NA	Punjab National Bank	Fund based, Working Capital	-	-	-	160.00	[ICRA]AA- (Stable)
NA	State Bank of India	Fund based, Working Capital	-	-	-	140.00	[ICRA]AA- (Stable)
NA	Unallocated	Fund based, Working Capital	-	-	-	900.00	[ICRA]AA- (Stable)
NA	Punjab National Bank	Non-Fund based	-	-	-	75.00	[ICRA]A1+
NA	State Bank of India	Non-Fund based	-	-	-	50.00	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not applicable	Not applicable	Not applicable

Source: *Company*

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 4067 6518
vikram.v@icraindia.com

Tushar Bharambe
+91 22 6169 3347
tushar.bharambe@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.

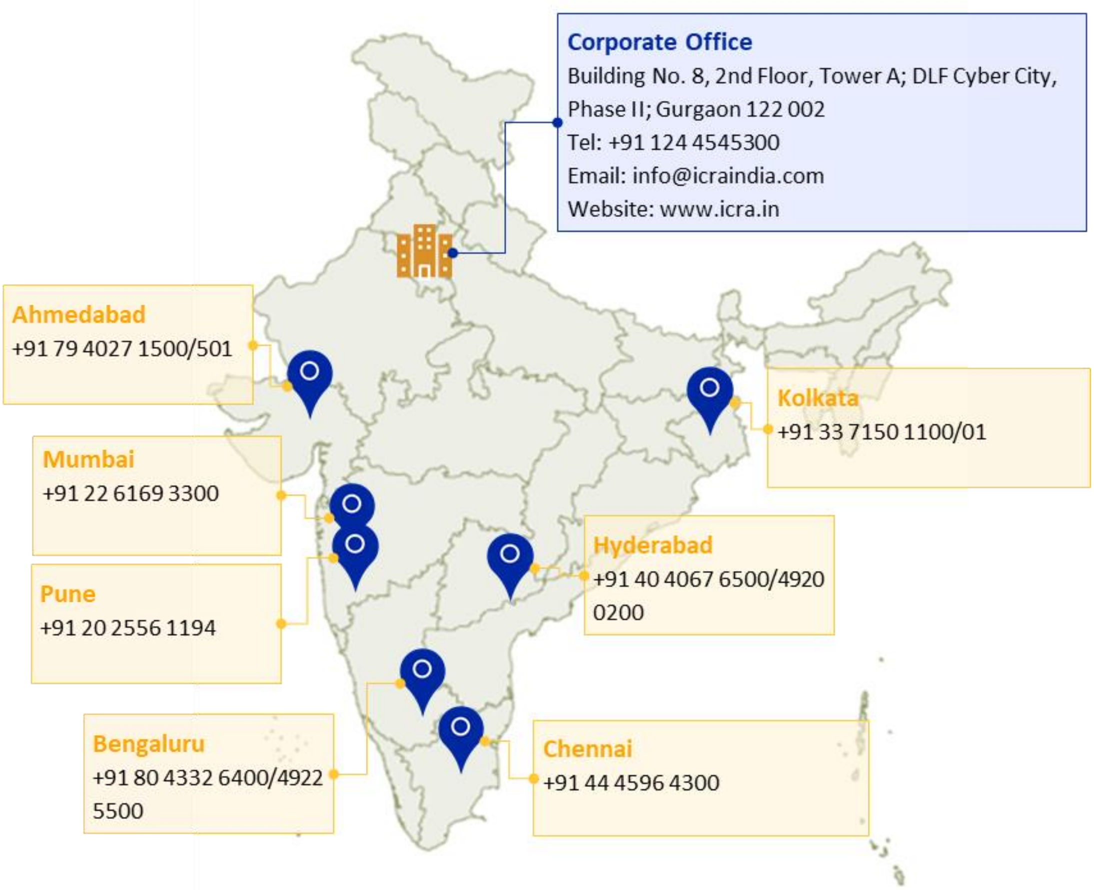
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.