June 07, 2022

OPG Energy Private Limited: Ratings downgraded & removed from Watch with Developing Implications; negative outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	35.28	21.41	[ICRA]BBB- (Negative); rating downgraded from [ICRA]BBB& and removed from Watch with Developing Implications; negative outlook assigned
Short-term – Non-fund Based	20.00	16.00	[ICRA]A3; rating downgraded from [ICRA]A3+& and removed from Watch with Developing Implications
Total	**55.28**	**37.41**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's rating action for OPG Energy Private Limited (OEPL) factors in the significant rise in domestic natural gas prices in H1 FY2023, which is expected to adversely impact the company's profitability in FY2023 given the lack of fuel cost pass-through mechanism under the power sale agreements for its 25.47 gas-based power plant. Further, the outlook on the long-term rating is Negative, considering the possibility of further rise in gas prices in H2 FY2023 amid the geo-political tensions in Europe and the challenges in securing tariff hike by the company from its customers to pass on such higher costs. This would in turn moderate the company's debt coverage metrics in FY2023.

Further, the ratings remain constrained by the limited availability of natural gas in the nearby gas fields, which has led to sub-50% PLF for OEPL's gas-based project in the last few years, in turn constraining its profitability and return metrics. Also, ICRA takes note of the demand and tariff risks arising from the short/medium-term nature of the existing PPAs for the gas-based plant expiring in March 2024, given the competition from other Group captive/third party-based generation entities, including those based on renewable sources.

The ratings are also constrained by the relatively weak credit profile of most of the Group captive consumers, reflected in the relatively high receivable position over the past three years. While the company has been able to improve its receivable position in recent months, the sustainability of the same is yet to be seen. ICRA also takes note of the continuing large investments in Group companies, with the total investments increasing to Rs. 123.3 crore as on March 31, 2022 from Rs. 92.98 crore as on March 31, 2021. It has also extended loans and advances to related parties amounting to Rs. 16.47 crore as on March 31, 2022. The quantum of investments and advances to Group companies and its impact on the liquidity and financial risk profile remain a key monitorable, going forward.

Further, ICRA notes that the group captive model remains exposed to the regulatory risk pertaining to the draft norms by the Ministry of Power, Government of India, on the ownership eligibility criterion for captive consumers. Moreover, the operations of the company's 5-MW solar asset remain exposed to the risk of variation in solar generation due to the climatic conditions as the PPA tariff is single part fixed in nature and the regulatory challenges of implementing the scheduling and forecasting framework.

The ratings draw comfort from the power sale agreements with commercial & industrial (C&I) customers and the fuel supply agreement with GAIL India Limited (GAIL) for the gas-based power plant. The tariffs offered by the gas-based power project remain competitive in relation to the grid tariffs, thereby supporting power offtake. Further, the 5-MW solar plant in Rajasthan enjoys a remunerative tariff of Rs. 17.91 per unit under the long-term power purchase agreement (PPAs) with NTPC Vidyut Vyapar Nigam Limited (NVVN), which continues to make timely payments. Also, the generation performance of the solar power plant has remained satisfactory with PLFs improving after the refurbishment of the modules. ICRA also draws comfort from the comfortable capital structure of OEPL with gearing at 0.12 times as on March 31, 2022 and total debt to OPBDITA of 1.1 times in FY2022, led by the ongoing repayment and prepayment of the debt availed for the solar power project in FY2022 funded through the internal accruals and realisation of debtors and advances extended to Group entities.

ICRA notes that the demerger process of the 5-MW solar power plant and the investments in Group companies, along with the associated assets and liabilities from OEPL into two other entities is underway and awaits the NCLT's approval. ICRA would continue to monitor the developments in this regard and would take appropriate rating action upon the completion of the demerger process.

Key rating drivers and their description

Credit strengths

Operational gas-based plant having FSA with GAIL and solar power plant having healthy PLFs – The company's gas power plant has been operational since March 2004. The solar plant, commissioned on November 2011, has been operating at a healthy PLF level. While it has an FSA with GAIL for gas supply, the limited supply of gas led to sub-50% PLF in the last few years.

PPAs with Group captive consumers – The company has signed PPAs with Group captive customers, including its Group companies at a largely fixed tariff, which is at a discount to the corresponding grid tariff. Also, the company supplies majority of the power generated to its Group concern, Avanti Metals Pvt. Ltd. (AMPL), which operates a billet manufacturing unit. This unit remains entirely dependent on OEPL for power supply. This limits the demand risk, to a certain extent, for its gas-based facility.

Revenue and cash flow visibility due to long-term PPA with NVVN for entire solar generation capacity – The entire 5-MW solar power capacity of the company has been tied up with NVVN for a period of 25 years at a tariff rate of Rs. 17.91/unit. This limits the demand risk for the solar power generated by the company. Also, the payments from NVVN are timely.

Comfortable capital structure – The company has prepaid the outstanding term loan from India Infrastructure Finance Company Limited (IIFCL) availed for its solar power project in FY2022. The prepayment, along with the ongoing repayment, reduced the external debt to Rs. 21.41 crore as on March 31, 2022 from Rs. 33.29 crore as on March 31, 2021. The debt repayment has improved OEPL's capital structure with gearing at 0.12 times as on March 31, 2022 and TD/OPBDITA at 1.14 times in FY2022. Also, the coverage metrics was comfortable in FY2022 with DSCR above 2.0 times (without considering the prepayment).

Credit challenges

Tariff risks due to short-term nature of existing PPAs; credit profile of captive consumers remains weak – The short to medium nature of the PPAs exposes the company to demand and tariff risks, given the competition from other power generators in the region, with sharp decline in renewable power tariffs. Nonetheless, comfort can be drawn from the demonstrated track record of OEPL in renewing PPAs with Group captive consumers. However, the credit profile of these customers remains weak, exposing the company to high counterparty credit risks. While the receivable position witnessed a significant improvement in FY2022, the sustainability of the same remains to be seen.

Revenues and profitability exposed to availability of natural gas, volatility in natural gas prices and movement in foreign exchange rates; profitability likely to be impacted in FY2023 amid increase in natural gas prices – The operations of the gas-based power plant are constrained by the limited supply of natural gas, leading to sub-50% PLF for the last few years. The PLF has declined to 32.2% in FY2022 from 38.7% in FY2021. Further, OEPL's profitability remains vulnerable to the fluctuations in natural gas prices as determined by the Government from time to time and foreign exchange rates, given the lack of any pass-through clause in the PPA. However, this is partly mitigated by the favourable tariff realisation from the captive customers. The recent upward revision in domestic gas prices is expected to put pressure on OEPL's profitability in FY2023 as the tariffs are unlikely to be revised to the same extent, leading to weakening of the debt coverage metrics.

Continuing large investments in Group companies – The company's investment in Group companies has remained high, with total investments increasing to Rs. 123.3 crore as on March 31, 2022 from Rs. 92.98 crore as on March 31, 2021. It has also given loans and advances to related parties amounting to Rs. 16.47 crore as on March 31, 2022. Though the loans and advances have declined from Rs 35.7 crore as on March 31, 2020, the quantum of investments and advances to the Group companies and its impact on OEPL's liquidity and financial risk profile remains a key monitorable.

Policy risk associated with amendment norms proposed for Group captive power plants – OEPL's gas-based facility has Group captive customers as its counterparties. Hence, the company is exposed to the risk of policy changes in the eligibility criterion for Group captives pertaining to the ownership structure and equity requirements of consumers. As per the draft, the ownership definition comprises a minimum 26% shareholding by captive consumers in the paid-up equity capital with full rights, based on a normative debt-to-equity structure of 70:30.

Cash flows susceptible to variation in solar radiation levels – The operations of OEPL's solar plant may be affected by factors such as the solar radiation levels, losses in PV systems due to temperature and climatic conditions, design parameters of the plant, inverter efficiency and module degradation owing to ageing. However, the variation in solar radiation levels has historically been much lower than other sources of renewable energy, such as wind and hydropower projects.

Liquidity position: Adequate

While the profitability of the company is expected to be adversely impacted in FY2023 amid the rise in gas prices, the liquidity position of the company is expected to be supported by the profitable operations of solar power plant, modest debt levels and available liquidity of Rs. 21.0 crore as of March 31, 2022. While the company has extended short-term advances from the available liquidity post March 2022, the company has noted that the advances are realisable on a short notice, if required.

Rating sensitivities

Positive factors – Given the Negative outlook, the rating is unlikely to be upgraded in the near term. The outlook can be revised to Stable if the economics of the gas-based power plant improves, either through higher tariffs or reduction in gas prices.

Negative factors – The ratings may be downgraded if there is any sharp decline in gas availability or further increase in gas prices without a commensurate increase in tariffs, adversely impacting the revenue and profitability. Also, an increase in the receivable cycle or any further rise in investments in Group companies or related-party transactions adversely impacting the liquidity profile could lead to a downgrade. Further, any adverse impact on the company's Group captive model as a result of policy amendment in the eligibility criterion for Group captives (mainly pertaining to the ownership structure and equity requirements of consumers) could result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers Rating Methodology for Solar Power Producers
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone profile.

About the company

OEPL was promoted by Kanishk Steel Industries Limited and was incorporated in September 2000 for setting up a 17.98-MW natural gas-based power plant at Maruthur village, Tamil Nadu. The plant was set up under the captive power policy of the Tamil Nadu Electricity Board. The 17.98-MW plant was commissioned in March 2004, which was increased to 19.38 MW, following the installation of a 1.4-MW waste heat recovery-based generating unit in December 2007. The capacity was further augmented to 25.47 MW in May 2011 with the addition of 3x2 MW gas generation sets. The equipment and machinery for the 17.98-MW plant was supplied by Wartsila (Finland) and the operations and maintenance (O&M) contract was also handed to them. The company has an FSA with GAIL (India) Limited till July 6, 2026. It also established a 5-MW solar plant in the Jodhpur district of Rajasthan at a project cost of Rs. 84.5 crore commissioned in November 2011. The energy from the solar plant is supplied to NVVN under a long-term PPA of 25 years. At present, it is held by the Gupta family (promoters of OPG Group) through promoter companies, namely Tamil Nadu Property Developers Limited and Salem Food Products Private Limited.

Key financial indicators (audited)

	FY2020	FY2021	FY2022*
Operating Income (Rs. crore)	68.32	58.16	57.39
PAT (Rs. crore)	4.57	9.36	9.46
OPBDIT/OI (%)	33.38%	44.79%	36.58%
PAT/OI (%)	6.69%	16.09%	16.49%
Total Outside Liabilities/Tangible Net Worth (times)	0.33	0.22	0.15
Total Debt/OPBDIT (times)	2.54	1.48	1.14
Interest Coverage (times)	3.49	4.93	5.93

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, (*) – Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating as on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					June 07, 2022	-	Mar 12, 2021	Jan 13, 2020
1	Term Loan	Long-term	21.41	21.41	[ICRA]BBB- (Negative)	-	[ICRA]BBB &	[ICRA]BBB (Negative)
2	Non-fund Based	Short-term	16.00	-	[ICRA]A3	-	[ICRA]A3+ &	[ICRA]A3+

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Short-term – Non-Fund-based	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan	FY2011	-	FY2025	21.41	[ICRA]BBB- (Negative)
NA	Short - term – Non-fund Based	NA	NA	NA	16.00	[ICRA]A3

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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