July 22, 2022

Dhariwal Infrastructure Limited: Ratings reaffirmed; outlook on long-term rating revised to positive; rated amount reduced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	2,769.77	2,314.35	[ICRA]BBB+ reaffirmed; outlook revised to positive from stable
Working Capital Limits	250.00	250.00	[ICRA]BBB+ reaffirmed; outlook revised to positive from stable
Non-Fund Based Limits	135.00	135.00	[ICRA]BBB+ reaffirmed; outlook revised to positive from stable /[ICRA]A2 reaffirmed
Total	**3,154.77**	**2,699.35**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in the strong parentage of Dhariwal Infrastructure Limited (DIL) as a part of the RP-SG Group, the satisfactory operating performance of its 600-MW thermal power project, limited demand risks for Unit 2 (300 MW) with the availability of long-term power purchase agreements (PPAs) and low fuel supply risks. The company's financial performance has improved over the past two years, reflected in its improved profitability and debt coverage metrics, led by higher generation from Unit-1 (300 MW) with sale of power under short-term PPAs to Maharashtra and reduction in the debt level with support from the Group. The company received a cumulative funding support of Rs. 2,017 crore from its fellow subsidiary, Haldia Energy Limited (HEL; rated [ICRA]A1+), and its parent, CESC Ltd. (CESC; rated [ICRA]A1+) till March 31, 2022. Further, ICRA has revised the outlook on the long-term rating of DIL to positive, considering the improved revenue visibility for the company following the signing of the medium term PPA of three years to supply 210 MW (gross capacity of 230 MW) to the Indian Railways from Unit 1 of the project at a remunerative tariff.

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 out of the 600-MW capacity. While ICRA does not envisage the requirement of any incremental funding support from the parent/Group companies, any such support, if required, is expected to be available from the parent/Group companies, as demonstrated in the past.

However, the ratings continue to be constrained by the unavailability of a long-term PPA for Unit 1 of DIL's power plant, though the recent tie-up of a three-year PPA with the Indian Railways effective 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 70-MW capacity and secure new PPAs at reasonable tariffs in the future will remain key credit monitorable. 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 has been satisfactory. This apart, ICRA notes that despite the recent improvement, the leverage level for the company continues to be high and the coverage metrics are likely to remain moderate in the near term. The rating also reflects the company's exposure to regulatory risks, given the ongoing legal proceedings before the Honourable 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 said matter remains a key rating driver.

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 worth ~Rs. 2,017 crore during FY2015–FY2022. Such need-based support from the parent/the RP-SG Group is expected to continue, in case of any cash flow mismatches.

Reduction in offtake risk; lower dependence on CESC/Group companies for funding requirement – DIL faced a significant offtake risk for 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. The capacity under Unit 2 is already tied-up under a long-term PPA arrangement, thus does not face any offtake risk. Recently, DIL has tied up a three-year PPA for 210 MW (gross capacity of 230 MW) out of 300 MW of its Unit 1 capacity with the Indian Railways at a base tariff of Rs. 4.10/unit (fixed and variable charge of Rs 2.05/unit each), with annual escalation available in both the fixed and variable components. The supply under this PPA has commenced from April 1, 2022. With this, only 70 MW capacity under DIL remains untied, against 300 MW earlier. There was no funding support required from CESC/Group companies in FY2022 on the back 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 for Unit II and ensures competitive energy cost for the station. The FSA is for 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. For the power being supplied to Mahagenco from Unit 1 under the short-term arrangement till March 31, 2022, the coal was sourced through Western Coalfields Limited (WCL) and Mahagenco ensured coal availability. Coal shortage, if any, was being met through e-auctions or imports. Out of 1.30 MTPA earmarked for Unit 1 from SECL, 0.90 MTPA has been transferred to WCL to leverage freight advantage. The 210-MW net capacity, recently tied-up with the Indian Railways under Unit 1, is eligible for drawing coal from SECL and WCL under its FSA arrangement, which further mitigates the fuel supply risk.

DIL remains exposed to coal availability risk for the capacities not contracted with a long-term PPA. Also, there are price volatility risk for capacities not contracted on a cost-plus basis, i.e. TANGEDCO PPA. ICRA, however, notes that the escalation in fuel costs to a certain extent is passed on to the consumer on the basis of escalation factor notified by the CERC on a bi-annual basis and the quoted escalable energy charges in the PPA (for TANGEDCO) by DIL. It has been seen that DIL has so far been able to recover its variable cost under the present tariff mechanism from TANGEDCO.

Favourable regulatory orders from CERC and UPERC – DIL has received favourable regulatory orders from the CERC and UPERC under its long-term PPAs regarding compensation for change-in-law events along with the reimbursement for 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.

Sustained improvement in leverage and coverage metrics – With the gradual improvement in profitability, accruals and continuous funding support from the Group, the overall external debt of the company has reduced to Rs. 2,555 crore as on FY2022-end from Rs. 3,385 crore as on FY2019-end. This reduction in debt has moderated the capital structure and improved the coverage metrics, reflected in the total external debt/OPBITDA of 5.34 times for FY2022 against a total external debt /OPBITDA of 9.49 times for FY2019. The DSCR also improved to 1.16 times in FY2022 from 0.82 times in FY2019. However, ICRA notes that even though the capital structure has improved over the last two fiscals, it continues to be leveraged.

Credit challenges

Absence of long-term PPA for Unit 1 – While the offtake is secured for 300-MW capacity in Unit 2, the 300-MW capacity in Unit 1 does not have a long-term PPA. The company continued to sell power from Unit I in the short-term market, either through short-term bilateral PPAs or on the energy exchange till March 31, 2022. It has recently tied up a medium-term PPA of three years with the Indian Railways, with supply commencing from April 1, 2022, which has reduced the offtake risk for 210 MW (gross capacity of 230 MW) out of 300 MW of capacity under Unit 1. The ability of the company to tie up PPA for the balance 70 MW capacity and renew the PPAs at reasonable tariffs in future will remain key credit monitorables. However, the Company has been taking advantage by selling the balance capacity at a significantly higher exchange price prevailing over the last six months or so.

Counterparty risk on account of exposure to state utilities – DIL remains exposed to counterparty credit risk profile on account of its exposure to the state utilities in Tamil Nadu. The receivable cycle for TANGEDCO has remained at ~7 months as of March 2022-end.

Exposure to regulatory risk pertaining to ongoing case in Honourable Supreme Court – DIL is exposed to regulatory risk pertaining to the approval of PPA with NPCL. This approval by UPERC has been challenged at APTEL where it has been rejected and subsequently referred to Supreme Court. Any adverse regulatory outcome in the said 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, especially given the tie-up of medium-term PPA for 210 MW (gross capacity of 230 MW) out of the 300-MW capacity of Unit 1. Also, the company has free cash balance of Rs. 83.88 crore as on March 31, 2022. While the working capital limits were fully utilised in March 2022, the average utilisation remained fairly low in FY2022 at Rs. 98 crore against the sanctioned limits of Rs. 250 crore. In case of a shortfall, ICRA expects the promoter group to infuse additional funds, as demonstrated in the past.

Rating Sensitivities

Positive factors – ICRA could upgrade DIL's rating if there is an improvement in the company's earnings and debt protection metrics on a sustained basis.

Negative factors – The rating 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. Moreover, any change in linkages with the CESC Group or weakening of the credit profile of CESC may also trigger a rating revision.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers Rating Approach – Implicit Parent or Group Support
Parent/Group support	Parent/Group: Parent: CESC Limited; Group: RP-SG Group The rating assigned to DIL factors 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 rating is based on the company's standalone financial profile

About the Company

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

	FY2021 (Audited)	FY2022 (Audited)
Operating income (Rs. crore)	1499.61	1647.80
PAT (Rs. crore)	105.66	136.70
OPBDIT/OI	32.18%	29.06%
PAT/OI	7.05%	8.30%
Total outside liabilities/Tangible net worth (times)	6.96	5.21
Total debt/OPBDIT (times)	7.36	7.03
Interest coverage (times)	1.73	1.94

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; all ratios as per ICRA's calculations

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 June 30, 2022 (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					July 22, 2022	May 31, 2021	-	March 20, 2020
1	Term Loan	Long term	2314.35	2314.35	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB (Stable)
2	Working Capital Limits	Long Term	250.0	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	-	-
3	Non-Fund Based Limits	Long term/ short term	135.0	-	[ICRA]BBB+ (Positive)/ [ICRA] A2	[ICRA]BBB+ (Stable)/[ICRA] A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Working Capital Limits	Simple
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: www.icra.in

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	-	September 2035	2314.35	[ICRA]BBB+ (Positive)
NA	Working Capital Limits	-	-	-	250.0	[ICRA]BBB+ (Positive)
NA	Non-Fund Based Limits	-	-	-	135.0	[ICRA]BBB+ (Positive)/ [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.

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.

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