August 05, 2022

R K M Powergen Private Limited: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	846.06	846.06	[ICRA]BB (Stable); upgraded from [ICRA]B+ (Stable)
Non-Fund Based – Bank Guarantee/Letter of Credit	1,029.61	1,029.61	[ICRA]BB (Stable); upgraded from [ICRA]B+ (Stable)
Fund Based – Cash Credit	436.32	436.32	[ICRA]BB (Stable); upgraded from [ICRA]B+ (Stable)
Total	**2,311.99**	**2,311.99**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the improved performance of RKM Powergen Private Limited's (RKMPPL) 1,440-MW thermal power plant in FY2022 and Q1 FY2023, led by higher demand and a sharp increase in tariffs in the short-term power trading market, which improved its credit metrics and liquidity position. Further, the signing of a medium-term power purchase agreement (PPA) with Haryana state distribution utilities (discoms) at a remunerative tariff for 350-MW capacity has improved the visibility on the company's revenues and cash flows over the medium term. The power supply under this PPA is expected to commence from August 2022. RKMPPL is currently supplying to Uttar Pradesh distribution utilities (UP discoms) under a long-term (25-year) PPA for a net capacity of 350 MW, taking the share of long-term and medium-term PPAs to 53% of project capacity.

The company has stopped supplying power to the Telangana discoms under the three-year PPA with PTC India Limited (PTC; aggregator) for 550 MW, which was slated to expire in February 2023, due to payment delays from the customer. The balance capacity is being sold in the short-term power market, based on the tariff economics and coal availability. The plant load factor (PLF) for the project has improved to 54.5% in FY2022 from 38.2% in FY2021 and 17.20% in FY2020 following the recovery in electricity demand in the country, leading to higher demand for power in the short-term market. The improvement in the PLF levels has also been supported by the implementation of the resolution plan for the company in September 2020 and enhanced working capital funding. The ability of the company to secure long-term/medium-term PPAs for the balance capacity, remunerative tariffs from sale in the short-term market and timely payments by the offtakers will remain the key monitorables.

However, the rating remains constrained by the lack of long-term or medium-term PPAs for ~47% of the project capacity, exposing the company to volume and tariff risks in the short-term market. While the company has benefited from the high tariffs in the short-term market in recent months, the sustainability of the same over a longer period remains to be seen. Further, ICRA takes note of the counterparty credit risks arising out of its exposure to UP discoms, which have a weak financial profile. The collection efficiency from UP discoms remained modest at 84% in FY2022, though the same improved in the first two months of FY2023.

Further, ICRA takes note of the project's fuel cost pass-through risks for the sale of power in the short-term market as the coal requirement for short-term sales is met through e-auctions and the short-term tariff remains exposed to demand-supply trends. Moreover, the lack of railway siding adversely impacts the cost competitiveness of tariffs offered by the project. The company's enhanced liquidity position is expected to aid in funding the additional capex to complete the auxiliary works related to railway siding and towards complying with the revised emission norms over the next two to three years. The timely completion of the capex and within the budgeted costs remains important.

The Stable outlook on the long-term rating reflects the visibility on the company's revenues offered by the long-term and medium-term PPAs for ~53% of the capacity and the remunerative tariffs in the short-term market in the near term.

Key rating drivers and their description

Credit strengths

Operational coal-based project with long-term PPA with Uttar Pradesh discoms and medium-term PPA with Haryana discoms - The entire 1,440 MW-power generation capacity of RKMPPL was commissioned by March 2019. The company is supplying power to Uttar Pradesh discoms under a 25-year long-term PPA for 350 MW. The company has also signed a three-year PPA with Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL) through Haryana Power Purchase Centre (HPPC) for the supply of 350 MW of power; the power supply under this PPA is expected to commence from August 2022. The fuel for the project is met through a mix of linkage coal and e-auction coal. The long-term and medium-term PPAs provide visibility on the company's revenues over the medium term.

Improved performance strengthens credit metrics and liquidity - The plant load factor (PLF) for the project has improved to 54.5% in FY2022 from 38.2% in FY2021 and 17.20% in FY2020, led by the recovery in electricity demand. The improved demand, along with higher tariffs in the short-term market, led to a ~45% growth in revenues from the sale of power to Rs. 2,623.9 crore in FY2022 from Rs 1,804.9 crore in FY2021. Also, the operating profit improved by 26% to Rs. 1,096.8 crore in FY2022 from Rs. 869.3 crore in FY2021, improving the credit metrics with the interest coverage ratio at 1.63x in FY2022 against 1.26x in FY2021. The company's performance has further improved in the current fiscal, with the company reporting a revenue of ~Rs. 1,200.0 crore in Q1 FY2023 (provisional figures) with a profit before tax of ~Rs 516.0 crore. The higher tariffs in the short-term market and commencement of supply to the Haryana discoms from August 2022 is expected to improve the financial performance in FY2023 over FY2022.

Credit challenges

Lack of long-term PPA for entire operational capacity; subdued PLF because of inadequate power offtake - Despite the improvement in PLF in recent period, the PLF levels of the project have remain subdued owing to the lack of PPAs for the entire project capacity, given the non-operationalisation of the long-term PPA with the Chhattisgarh state utility and lack of progress in signing new long-term PPAs. As a result, the company remains exposed to volume and tariff risks in the short-term market, as well as the availability and pricing of coal from the open market. A sustainable improvement in the operating performance would remain contingent on the company's ability to renew medium-term PPAs/tie-up new PPAs, along with sales through the short-term route at remunerative tariffs.

High counterparty credit risks - The counterparty credit risks remain high for RKMPPL because of the exposure to UP discoms, which have weak financial health. Notwithstanding this, the undisputed receivables from UPPCL stood moderate at ~Rs. 338.0 crore as on March 31, 2022, of which, ~88% were outstanding for a period of 0-60 days and ~60% were outstanding for a period of within 30 days. Further, as PTC defaulted on its payment to the company owing to non-receipt of funds from the Telangana discoms, the company stopped supplying power to them since October 2021 under the under the three-year 550-MW PPA with PTC India Limited (aggregator), which was slated to expire in February 2023. The total receivables from PTC were ~Rs. 336.0 crore as of July 2022 (including an interest penalty of around Rs. 32.0 crore). Going forward, a sustained track record of timely collections from the PPA counterparties (UP and Haryana discoms - new PPA) would remain critical for the company to maintain its liquidity position.

Relatively moderate tariff cost competitiveness - The company's variable cost of generation is relatively high due to the dependence on open-market purchases for a portion of the fuel requirement, lack of railway siding and moderate operating efficiencies in terms of station heat rate and auxiliary consumption. This affects the cost competitiveness of the tariffs offered by the project, impacting its merit order dispatch position and ability to secure PPAs for the untied capacity.

Capex required to comply with revised emission norms and complete pending auxiliary works - The company is required to incur additional capex of around Rs. 900-950.0 crore to complete the auxiliary works related to railway siding and comply with the revised emission norms (FGD) over the next two to three years. The ability of the company to fund the stated capex will remain important from a credit standpoint. Nonetheless, the enhanced liquidity position provides comfort with respect to the adequacy of funding tie-up for the capex.

Liquidity position: Adequate

The company's liquidity position remains adequate, marked by free cash and bank balance of Rs. 1,061.0 crore as on June 30, 2022. Also, apart from the free cash and bank balances, the company is maintaining a DSRA balance of Rs. 140.0 crore which is equivalent to one quarter's debt servicing (principal + interest).

Rating sensitivities

Positive factors - Tie-up of new long-term PPAs at remunerative tariffs and operationalisation of the long-term PPA signed with the Chhattisgarh state utility could lead to a rating upgrade. A sustained improvement in the operating performance of the plant coupled with timely payments by the offtakers on a sustained basis, resulting in enhanced liquidity and improved credit metrics, may also trigger a rating upgrade.

Negative factors - Negative pressure on the rating could emerge if any significant deterioration in the operating performance of the plant or build-up of receivables due to delayed payments by the offtakers impacts the company's credit metrics and liquidity position. A specific credit metric that could lead to a rating downgrade is the DSCR remaining below 1.10 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Thermal Power
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

RKMPPL is a special purpose vehicle promoted by the Chennai-based R.K. Powergen Group, Malaysia-based Mudajaya Group and Enerk International Holdings Limited for the development of a 1,440-MW domestic coal-based power project in Janjgir Champa district of Chhattisgarh. The first unit of the project was commissioned in November 2015, followed by unit-2 in February 2016, unit-3 in November 2017 and unit-4 in March 2019. The project cost stood at Rs. 13,827.71 crore (Rs. 9.60 crore per MW) as of March 2019 against the appraised cost of Rs. 6,653.60 crore (Rs. 4.62 crore per MW). The project has a long-term PPA for 350 MW with Uttar Pradesh Power Corporation Limited (UPPCL) and a medium-term PPA (for a period of three years) for 350 MW with Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL) and Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL) through Haryana Power Purchase Centre (HPPC). While the company had also signed a PPA with Chhattisgarh State Utility for 30% of its gross capacity under the implementation agreement with the state government, the

PPA currently remains non-operational. The company has signed FSAs with SECL for 4.07 MTPA (million tonnes per annum) of coal.

Key financial indicators

	FY2021 (Audited)	FY2022 (Provisional)
Operating income (Rs. crore)	1,875.2	2,680.2
PAT (Rs. crore)	369.8%*	7.0%
OPBDIT/OI (%)	46.4%	40.9%
PAT/OI (%)	71.2%	8.5%
Total outside liabilities/Tangible net worth (times)	1.6	1.6
Total debt/OPBDIT (times)	6.7	5.3
Interest coverage (times)	1.3	1.6

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year). * PAT stood high as the company booked exceptional gain on account of fair valuation of borrowings consequent to restructuring.*

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 Mar 31, 2022 (Rs. crore)	Date & rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Aug 05, 2022	Aug 16, 2021	Feb 12, 2021	Dec 17, 2019
1	Fund Based – Term Loan	Long-term	846.06	826.35	[ICRA]BB (Stable)	[ICRA]B+ (Stable)	[ICRA]D	[ICRA]D
2	Non-Fund Based – Bank Guarantee/Letter of Credit	Long-term	1029.61	-	[ICRA]BB (Stable)	[ICRA]B+ (Stable)	[ICRA]D	[ICRA]D
3	Fund Based – Cash Credit	Long-term	436.32		[ICRA]BB (Stable)	[ICRA]B+ (Stable)	[ICRA]D	[ICRA]D

Instrument	Complexity Indicator
Term Loan	Simple
Bank Guarantee/Letter of Credit	Very Simple
Cash Credit	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-1: Instrument details

ISIN No/ Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Sep-2020	NA	Apr-2041	846.06	[ICRA]BB (Stable)
NA	Bank Guarantee/Letter of Credit	NA	NA	NA	1029.61	[ICRA]BB (Stable)
NA	Cash Credit	NA	NA	NA	436.32	[ICRA]BB (Stable)

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

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ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

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

Sanket Thakkar
+91 79 4027 1528
sanket.thakkar@icraindia.com

Rishi S Tekchandani
+91 79 4027 1519
rishi.tekchandani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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:

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ICRA Limited

Registered Office

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

Branches