May 31, 2023

Haldia Energy Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme**	450.00	450.00	[ICRA]A1+; reaffirmed
Total	**450.00**	**450.00**	

**Instrument details are provided in Annexure-I; ** The rating of the aforementioned instrument is based on the condition that total short-term borrowings (including commercial paper, short-term debt and bank borrowings) of the company at any given point of time should not exceed the company's drawing power or the bank sanctioned fund-based limits (whichever is lower)*

Rationale

The rating continues to factor in the strong parentage of Haldia Energy Limited (HEL) as a part of the RP-Sanjiv Goenka (RP-SG) Group, which lends it a high degree of financial flexibility, and the strategic importance of HEL to its parent CESC Limited (CESC; rated [ICRA]A1+), given that HEL's 600-MW coal-based power plant meets around 35-40% of the annual power demand in CESC's distribution territory in Kolkata. The rating considers HEL's low offtake risks for its coal-based generation unit, with the entire capacity tied up under a regulated cost-plus tariff-based long-term power purchase agreement (PPA) with CESC.

The company has limited fuel availability risks as it has a fuel supply agreement (FSA) of 2.57 MTPA with Mahanadi Coalfields Limited (MCL), which is a subsidiary of Coal India Limited (CIL). Over the last few years, HEL has been receiving more than 90% of the annual contracted quantity (ACQ) of coal through the FSA. The remaining requirement of coal is met through e-auction, where the cost is a pass-through under the terms of the PPA. The rating reaffirmation also factors in HEL's efficient operations with the company's actual parameters like station heat rate (SHR), plant availability factor (PAF), auxiliary energy consumption, fuel oil consumption and plant availability factor (PAF) being better than the normative parameters, resulting in sizeable efficiency gains and incentive income. The healthy liquidity cushion in the form of free cash balances of Rs. 649 crore as on March 31, 2023 provides additional rating comfort.

The rating, however, remains constrained by the company's exposure to regulatory risks associated with the delay in the issuance of tariff orders and any disallowance of costs by the state regulatory commission, given the cost-plus nature of the tariff under the PPA. ICRA notes that the West Bengal Electricity Regulatory Commission (WBERC) had earlier delayed issuing tariff orders and is yet to issue the true-up orders for the previous years. The WBERC had approved the tariff order for FY2021 to FY2023 in July 2022, wherein the fuel and fixed charges approved were lower against the claims made by the company. Also, there is a disallowance in the project cost approved, with the WBERC allowing Rs. 3,832.6 crore (including additional capitalisation of Rs. 229.7 crore) against Rs. 4,067.2 crore claimed by HEL. While the company expects these costs to be allowed at the time of true-up, the timely approval and recovery of such costs remains important to sustain the healthy return indicators achieved by the company in the past. The rating also factors in the moderation in the debt coverage metrics for HEL, in view of the recent regulatory orders. Nonetheless, the company's cash flows are expected to remain adequate in relation to the debt servicing requirements.

ICRA also notes that HEL has extended significant advances to its fellow subsidiary, i.e., Dhariwal Infrastructure Limited (DIL) and to its parent, CESC. Despite some recovery in FY2022 and FY2023, the outstanding advances remain sizeable, the recovery of which would be a key monitorable. Going forward, ICRA does not expect any significant increase in advances to DIL as its performance has improved over the last two years and is expected to remain self-sustainable in the near term. Further, the company would have to incur additional capex to comply with the revised emission norms prescribed by the Ministry of

Environment, Forests and Climate Change (MoEF), Government of India. The additional capex is expected to be recoverable under the PPA with CESC as the revised emission norms are considered as a change-in-law event.

Key rating drivers and their description

Credit strengths

Strong parentage of RP-SG Group – HEL is a 100% subsidiary of CESC, which is the flagship company of the RP-SG Group. HEL benefits from high financial flexibility because of its parentage and Group linkages, demonstrated in its ability to access the capital markets and borrow at competitive rates. Moreover, the entire power generated from this 600-MW thermal power plant is procured by CESC, which is the distribution licensee for the Kolkata region. HEL supplies 35-40% of CESC's annual energy requirement and is thus strategically important to the latter.

Limited offtake risks because of 25-year PPA with CESC – HEL has a PPA with CESC for 25 years at a tariff determined on the cost-plus basis. It benefits from the long-term PPA and the assured offtake arrangements by CESC, which has a strong credit profile (rated [ICRA]A1+). Moreover, the power sourced from HEL's plant is cost competitive for CESC and meets the base load requirement along with the Budge-Budge unit (750 MW), while the ageing Southern (135 MW) unit serves more as a peak load station.

Low fuel availability risks due to FSA with MCL – HEL has an FSA for sourcing 2.57 million tonnes per annum (MTPA) of coal from MCL. The company has been receiving more than 90% of the annual contracted quantity (ACQ) from MCL since FY2017, which is considerably higher than the guaranteed supply volume of 75% of the ACQ. The FSA insulates the company from fuel availability risk to a great extent, while any price fluctuation is passed on under the PPA. In addition to sourcing domestic coal, either through linkage or e-auction, HEL's plant has the flexibility to source imported coal as its location is close to the Haldia port.

Efficient plant operations – HEL reported PAF of 96.8% and PLF of 80% in FY2023 against a PAF of 95% and PLF of 81% in FY2022. The operating parameters of HEL's generation unit, including SHR, auxiliary energy consumption, fuel oil consumption, PLF and PAF, remain much better than the norms prescribed by the WBERC. This results in sizeable efficiency gains and incentive income for the company.

Credit challenges

Regulatory risks related to timely issuance of tariff order and disallowances in cost items – HEL's tariff is on a cost-plus basis as determined by the WBERC, exposing the company to the regulatory risk associated with the delay in receiving tariff orders and disallowance of costs by the state regulatory commission. The company faces the risk of lower returns in case of disallowance in any of the major cost items. The WBERC had approved the tariff order for FY2021 to FY2023 in July 2022, wherein the fuel and fixed charges approved were lower against the claims made by the company. Also, there is a disallowance in the project cost approved, with the WBERC allowing Rs. 3,832.6 crore (including additional capitalisation of Rs. 229.7 crore) against Rs. 4,067.2 crore claimed by HEL. While the company expects these costs to be allowed at the time of true-up, the timely approval and recovery of the costs remains important to sustain the healthy return indicators.

Leveraged capital structure and moderation in debt protection metrics – HEL's plant was funded in a debt-to-equity ratio of 75:25, leading to a leveraged capital structure. While the gearing level moderated to 0.92 times as on March 31, 2023 from 1.06 times as on March 31, 2022, the debt to OPBDITA remains moderately high at 4.6 times in FY2023. The company's debt protection metrics moderated in FY2023 with the recent disallowances in the tariff approved by the WBERC. ICRA observes that despite the steady earnings by HEL, its leverage level has not shown a commensurate reduction. This is mainly because the company has deployed a large part of the surplus generated through the years as advances to CESC and DIL, leading to a gradual reduction in its debt levels. That said, HEL's credit profile derives comfort from the elongated maturity profile of the project debt (15-year tenure) and the high degree of stability and predictability of its profitability and cash flows. Also, some portion of the advances has been repaid to HEL in FY2022 and FY2023.

Substantial exposure to DIL – Given its healthy earnings, HEL has been supporting other entities of the RP-SG Group, mainly DIL, to meet the latter's cash flow deficit in meeting its scheduled debt service commitments. However, DIL's own performance has improved over the past three years. Going forward, ICRA does not envisage any material increase in the advances to DIL. The company has recovered Rs. 200 crore of advances from DIL in FY2022 and the current exposure to DIL is Rs. 810 crore.

Liquidity position: Adequate

The liquidity profile of the company is adequate with the internal cash flow generation expected to be sufficient to meet the debt servicing obligations. Moreover, it had surplus cash of Rs. 649 crore as of March 31, 20223. ICRA expects HEL's cash flows from operations to remain over Rs. 500 crore in FY2024 against the scheduled long-term debt repayment of Rs. 386.9 crore, providing adequate cushion. Moreover, being a strategically important entity to CESC, HEL's liquidity profile benefits from the parent's high financial flexibility and willingness to support its operations in case of a cash flow mismatch.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on HEL's rating may arise if there is a marked deterioration in the credit profile of CESC, HEL's parent and the sole customer. Further, any large disallowance of HEL's project cost and capacity charges at the time of true up/or tightening of normative operating norms by the WBERC, significantly tempering HEL's return indicators and debt coverage metrics may lead to a downgrade. Further, large support to DIL/other Group companies adversely impacting the company's liquidity profile may impact the rating negatively.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers
Parent/Group support	The rating assigned to HEL factors in the high likelihood of its parent, CESC Limited [rated [ICRA]A1+], extending financial support to HEL because of the close business linkages between the entities and out of the need to protect its reputation from the consequences of a Group entity being in distress
Consolidation/Standalone	Standalone financial profile

About the company

HEL is a part of the Kolkata-based RP-SG Group. It is a wholly-owned subsidiary of CESC. The company operates a 2X300 MW thermal-based power generation unit in Haldia, West Bengal. The two units were commissioned on January 28, 2015 and February 21, 2015, respectively. The entire capacity has been tied up under a long-term cost-plus PPA with CESC.

Key financial indicators (audited)

Standalone	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Provisional)
Operating income (Rs. crore)	2383.09	2329.96	2156.99
PAT (Rs. crore)	361.40	333.42	261.03
OPBDIT/OI (%)	49.00%	41.59%	32.82%
PAT/OI (%)	15.17%	14.31%	12.10%
Total outside liabilities/Tangible net worth (times)	1.60	1.49	1.31
Total debt/OPBDIT (times)	3.00	3.61	4.59
Interest coverage (times)	3.61	3.45	2.71

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 March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 31, 2023	May 31, 2022	May 31, 2021	April 30, 2020
1	Commercial paper	Short term	450.00	Nil	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	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
-	Commercial paper*	-	-	-	450.00	[ICRA]A1+

*Source: Company; *Yet to be placed*

Annexure II: List of entities considered for consolidated analysis: Not applicable

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