

March 19, 2024

Aravali Power Company Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Actions
Long term - Fund based - Term loans	3,762.38	2,381.28	[ICRA]AA(Stable); reaffirmed
Long term - Fund based - Cash credit	1,200.00	800.00	[ICRA]AA(Stable); reaffirmed
Long term - Unallocated	-	1,781.10	[ICRA]AA(Stable); reaffirmed
Short term – Non-fund based - LC/BG	125.00	125.00	[ICRA]A1+; reaffirmed
Total	5,087.38	5,087.38	

*Instrument details are provided in Annexure-I

Rationale

The rating action factors in the healthy receivable and liquidity position of Aravali Power Company Private Limited (APCPL) owing to the clearance of past dues and timely inflow of current dues from all the discoms. Liquidation of the past dues of BSES Rajdhani Power Limited (BRPL), BSES Yamuna Power Ltd (BYPL) and Jammu & Kashmir (J&K) discom along with the 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, have significantly improved the company's liquidity position, despite paying a high dividend of Rs. 950 crore in FY2023 and ~Rs. 750 crore in YTD FY2024. The improvement in the working capital cycle is visible from the receivable days (including unbilled revenue), which stood at 74 days as on March 31, 2023, and 51 days as on December 31, 2023, compared to 122 days as on March 31, 2022.

The company had to install flue gas desulphurisation (FGD) units for all its plants, the timeline for which was deferred to December 2024 by the Ministry of Power (MoP) from June 2022 earlier. The company is on track to complete the FGD capex by Q1 FY2025 for all the three units and thus will be able to meet the stipulated timeline comfortably within the envisaged capital outlay, adding to the rating comfort.

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 1,500-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 the offtakers, and savings in operations and maintenance (O&M) costs and working capital interest. While the LPS income will reduce significantly following the timely inflow of dues from the discoms, the company will continue to benefit from the savings in O&M expenses and interest on working capital.

The company's capital structure and debt protection metrics have consistently improved over the past few years and remain strong. The company's gearing was comfortable at 0.44 times as on December 31, 2023, while its debt coverage indicators remained healthy with total debt/OPBDITA of 1.6 times, interest coverage of 9.0 times and DSCR of 2.0 times in 9M FY2024. 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.

Rating concerns emanate from APCPL's high cost of power due to the high landed cost of coal, which adversely impacts its competitiveness. The variable/energy charge stood at Rs. 4.09 per unit for FY2023, excluding compensation for partial loading. Although APCPL's plant forms part of the lower quartiles of the merit order despatch (MoD) for the Delhi and Haryana discoms, the regulatory support to allow the company to bill the entire fixed charge remains dependent on the plant availability and not the PLF, and remains a key mitigant to the risk of lack of offtake of power by the beneficiaries.

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 the MoP for 7.6% capacity.

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 return tariff) for entire capacity; 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 MoP from time to time. APCPL also benefits from the in-house technical and managerial expertise provided by NTPC Limited, which reduces the operational and maintenance risks for the project. The presence of NTPC also helps the company file tariff petitions and recover dues from the discoms.

Healthy capital structure, characterised by stable cash generation and improving credit metrics - 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 the levy of late payment surcharge (LPS) on the delayed payments from the beneficiaries. The tariff structure - being two part in nature - allows billing of the entire fixed charge to the beneficiaries, subject to the company ensuring higher-than-normative plant availability (PAF of 85%). The cash generation has remained stable over the years because of the cost-plus nature of the tariff and the company ensuring its compliance to normative PAF. Additionally, there have been no major disallowances in the capital cost for the FY2015-FY2019 and FY2020-FY2024 periods, indicating stable cash generation.

Strong collection efficiency; enhanced liquidity position on account of recovery of past overdues - APCPL's collection efficiency has remained healthy over the years along with the timely clearance of dues by two of its major beneficiaries i.e. Haryana discoms and Tata Power Delhi Distribution Limited (TPDDL, rated [ICRA]AA (Stable)/[ICRA]A1+), which has aided its liquidity position. All past dues have been cleared and the current dues are also being paid in a timely manner by all the discoms, which is expected to result in a continued healthy liquidity position.

Credit challenges

High cost of power affecting tariff competitiveness for offtakers - Since the commissioning of the plant, higher fuel charges have increased the 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 the tariff competitiveness. Lower offtake does not impact the company's ability to recover its fixed charges, subject to maintaining normative plant availability of 85% and energy charges (compensation for partial loading allowing for under-recovery of normative energy charge resulting from operating at reduced load from FY2020 onwards).

Counterparty credit risk from exposure to discoms in Haryana and Delhi - APCPL is exposed to counterparty credit risks pertaining to the 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. Post implementation of Late payment scheme (LPS), June 2022, the payments have been timely, however the company will remain exposed to counterparty credit risk emanating from offtakers with weaker credit profile.

Liquidity position: Strong

APCPL's liquidity is expected to remain strong, backed by the cost-plus nature of operations, healthy collections from the offtakers and the available cash balances. As on December 31, 2023, the company had a healthy free cash balance of Rs 1,178.04 crore. The company is expected to generate adequate cash flows for debt servicing and still have surplus cash from operations. ICRA expects the incremental liquidity released to be paid out in the form of dividends, thus limiting the upside to the liquidity, which remains strong.

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 cash flows and reduced leverage. 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 an upgrade.

Negative factors – Any deterioration in the operating parameters, impacting the company's ability to bill for the full capacity charges, and/or under recovery on energy charges materially impacting the cash generation may result in a downgrade. Significant delays in payments from the counterparties affecting the liquidity will also weigh on the ratings. Further, disallowances in capital or operating costs by the regulator adversely impacting the company's debt coverage metrics with the cumulative DSCR falling below 1.40 times on a sustained basis may warrant a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power – Thermal
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. 1,0131 crore, funded in a D:E ratio of 70:30. Presently, the company is having FSA with NCL – 1.50 MMT, ECL – 0.58 MMT and CCL – 3.54 MMT.

With 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% capacity each to the Haryana and Delhi discoms and retained 7.6% of the total capacity as unallocated quota, which can be allocated to the other beneficiary states.

Key financial indicators (audited)

APCPL	FY2022	FY2023
Operating income	4,405.1	5,329.3
PAT	823.1	496.5
OPBDIT/OI	35.4%	21.7%
PAT/OI	18.7%	9.3%
Total outside liabilities/Tangible net worth (times)	0.7	0.7
Total debt/OPBDIT (times)	1.89	2.23
Interest coverage (times)	8.36	6.96

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
			Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. Crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 19, 2024	Jan 06, 2023	Nov 29, 2021	Oct 19, 2020
1	Term loans	Long-Term	2,381.28	2,305.8	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
2	Working capital facilities	Long-Term	800.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)
3	Unallocated	Long-Term	1,781.10	-	[ICRA]AA (Stable)	-	-	-
4	Non-fund based limit	Short-Term	125.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based - Term loans	Simple
Long term - Fund based - Cash credit	Simple
Long term-Unallocated	NA
Short term - Non-fund based - LC/BG	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
NA	Term loans	FY2021	-	FY2028	807.69	[ICRA]AA (Stable)
NA	Term loans	FY2021	-	FY2028	803.59	[ICRA]AA (Stable)
NA	Term loans	FY2021	-	FY2036	770.00	[ICRA]AA (Stable)
NA	Fund based, working capital	-	-	-	300.00	[ICRA]AA (Stable)
NA	Fund based, Working capital	-	-	-	500.00	[ICRA]AA (Stable)
NA	Unallocated	-	-	-	1781.10	[ICRA]AA (Stable)
NA	Non-fund based	-	-	-	75.00	[ICRA]A1+
NA	Non-fund based	-	-	-	50.00	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

ANALYST CONTACTS

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Vikram V

+91 40 6939 6410

vikram.v@icraindia.com

Siddhartha Kaushik

+91 124 4545 323

siddhartha.kaushik@icraindia.com

Saurabh Gupta

+91 22 6169 339

saurabh.gupta@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, 2024 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.