March 27, 2024

OPG Energy Private Limited: Ratings reaffirmed and outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based - Term loan	21.41	21.41	[ICRA]BB-(Stable); reaffirmed and outlook revised to Stable from Negative
Short term – Non-fund based	16.00	16.00	[ICRA]A4; reaffirmed
Total	**37.41**	**37.41**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook to Stable for OPG Energy Private Limited (OEPL) takes into account the realisation of payments from group company and the reduced debt level in FY2024. The project economics are expected to remain weak on account of high gas prices, weak PPA termination clauses and low offtake, which is expected to result in subdued operating cash flows for the company. Stalled payments from NTPC Vidyut Vyapar Nigam Limited (NVVN), pending novation in the power purchase agreement in favour of group company Brics Power Generation Private Limited (BPGPL)[1] have adversely impacted the level of support expected from BPGPL to OEPL. The receipt of payments from NVVN has allowed OEPL to partly recover the advances extended to BPGPL.

The ratings remained constrained by elevated gas prices and the inability of the company to fully pass on the increase through higher tariffs to its customers for its 25.47-MW gas-based power plant, adversely impacting its profitability and debt coverage metrics. Under the revised domestic gas pricing guidelines, the price of the gas supplied to OEPL has been capped at $6.5/MMBTU, which remains relatively high compared to the rates before April 2022. The revised gas pricing mechanism is applicable from April 2023, with the ceiling price applicable for two years, post which it will be increased by 25 cents/MMBTU annually. While the company has increased the tariff charged to its captive customers, the tariff hike does not fully cover the increase in fuel cost.

Further, the ratings remain constrained by the limited availability of natural gas in the nearby gas fields, which has led to a modest 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, 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 and the regulatory risks associated with the ownership eligibility criterion for captive consumers under the group captive model.

Key rating drivers and their description

Credit strengths

Operational gas-based plant having FSA with GAIL and PPAs with industrial customers – The company's gas power plant has been operational since March 2004, with a fuel supply agreement (FSA) in place with GAIL for gas supply. The company has signed PPAs with group captive customers, including its group companies, at tariffs which are at a discount to the

[1] *The solar assets of OEPL were transferred to BPGPL as part of demerger in FY2023. At present, OEPL is raising invoices to NVVN and remitting payments to BPGPL.*

corresponding grid tariff. Also, the company supplies majority of the power generated to its group concern, AAA Plus Trading Private Limited, which operates a billet manufacturing unit leased from another group company - Avanti Metals Pvt. Ltd. (AMPL). This limits the demand risk, to a certain extent, for its gas-based facility.

Credit challenges

Revenues and profitability exposed to availability of natural gas and forex rates; profitability and debt coverage metrics to remain subdued in near term amid elevated natural gas prices – The operations of the gas-based power plant are constrained by the limited supply of natural gas, leading to sub-40% PLF for the last few years. 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 PPAs. While the recent revision in gas pricing guidelines caps the price of gas sourced by OEPL at $6.5/MMBTU for the next two years compared to $8.57/MMBTU in H2 FY2023, the prices remain elevated compared to the previous years. Higher gas prices along with the limited increase in tariffs are likely to keep the profitability and debt coverage metrics subdued for the company in the near term.

Tariff risks from short-term nature of existing PPAs; credit profile of captive consumers remains weak – The short to medium-term nature of the PPAs exposes the company to demand and tariff risks, given the competition from other power generators in the region, with a 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. The receivables for OEPL have also remained higher as of September 2023.

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 the equity requirements of consumers.

Liquidity position: Stretched

The liquidity position of the company is constrained by the adverse impact of increased gas prices on its profitability and operating cash flows. The company would remain dependent on the available liquidity and funding support from the promoter group to meet its debt obligations in the near term. The company has cash balances of Rs. 2.75 crore as on December 31, 2023, including a debt service reserve of Rs. 2.63 crore.

Rating sensitivities

Positive factors – The ratings can be upgraded if the economics of the gas-based power plant improves, either through higher tariffs or significant reduction in gas prices.

Negative factors – The ratings may be downgraded in case of a further deterioration in the liquidity profile of the company, either due to adverse economics for its gas-based unit or delays in payments from the customers. Also, failure to recover the advance extended to the group entity, BRICS Power Generation Pvt Ltd, could lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Thermal
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the rated entity

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 after 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 given to it.

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. The solar plant was demerged from OEPL to BPGPL after receiving approval from the NCLT in July 2022. Also, the investments in group companies held by OEPL were transferred to Dhanvarsha Enterprises & Investments Private Limited as part of the demerger. At present, OEPL 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)

Standalone	FY2022	FY2023
Operating income	40.8	50.5
PAT	0.4	0.1
OPBDIT/OI	12.6%	0.9%
PAT/OI	1.0%	0.1%
Total outside liabilities/Tangible net worth (times)	0.8	0.6
Total debt/OPBDIT (times)	4.2	39.1
Interest coverage (times)	1.9	0.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th colspan="2" rowspan="3">Instrument</th><th colspan="5">Current rating (FY2024)</th><th colspan="4">Chronology of rating history for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount rated (Rs. crore)</th><th rowspan="2">Amount outstanding as on Dec 31,2023 (Rs. crore)</th><th colspan="2">Date & rating in FY2024</th><th colspan="2">Date & rating in FY2023</th><th>Date & rating in FY2022</th><th>Date & rating in FY2021</th></tr>
<tr><th>Mar 27, 2024</th><th>May 16, 2023</th><th>November 09, 2022</th><th>June 07, 2022</th><th>-</th><th>Mar 12, 2021</th></tr>
<tr><td>1</td><td>Term loan</td><td>Long-Term</td><td>21.41</td><td>5.71</td><td>[ICRA]BB- (Stable)</td><td>[ICRA]BB- (Negative)</td><td>[ICRA]BB (Negative)</td><td>[ICRA]BBB- (Negative)</td><td>-</td><td>[ICRA]BBB &</td></tr>
<tr><td>2</td><td>Non-fund based</td><td>Short-term</td><td>16.00</td><td>-</td><td>[ICRA]A4</td><td>[ICRA]A4</td><td>[ICRA]A4</td><td>[ICRA]A3</td><td>-</td><td>[ICRA]A3+ &</td></tr>
</table>

&= 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 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 loan**	FY2011	-	FY2025	21.41	[ICRA]BB- (Stable)
NA	**Short term – Non-fund based**	NA	NA	NA	16.00	[ICRA]A4

Source: Company

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

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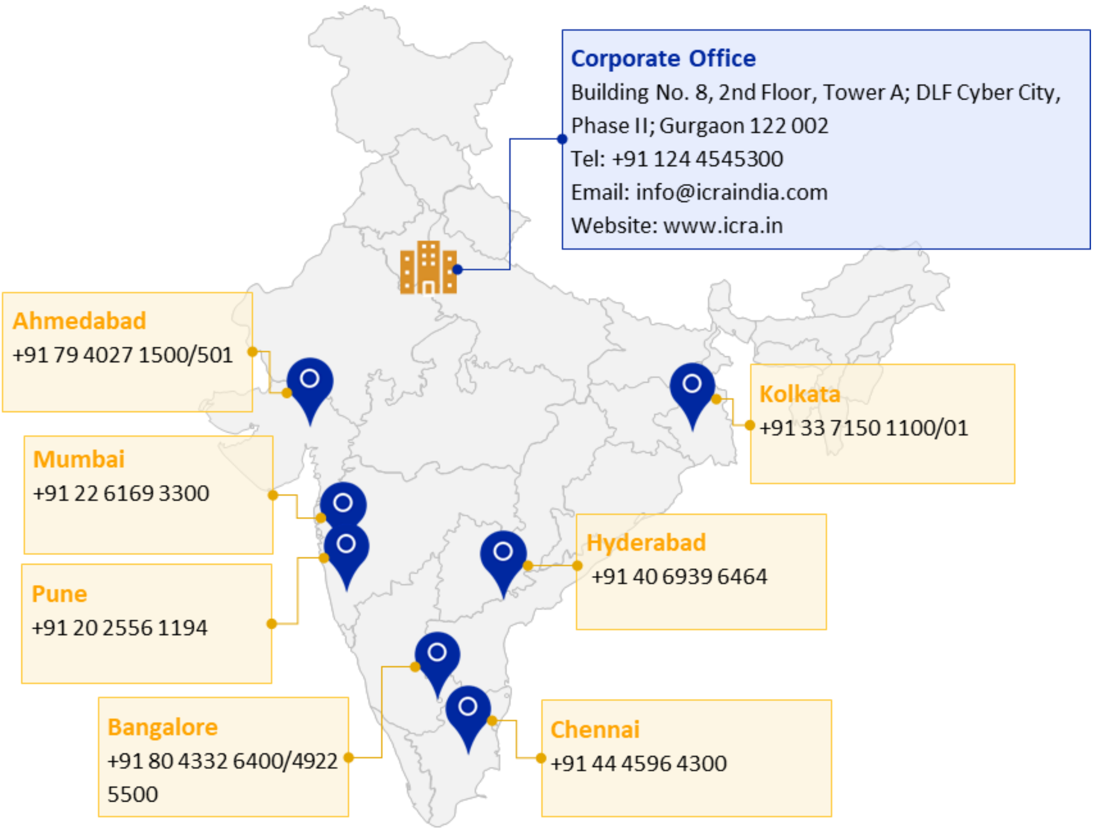

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