

Dhariwal Infrastructure Limited

October 31, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	3154.77	3154.77	[ICRA]BBB(Stable) reaffirmed
Total	3154.77	3154.77	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA Triple B) to the Rs. 3,154.77-crore¹ term loan facilities of Dhariwal Infrastructure Limited (DIL or the company)². The outlook on the long-term rating remains Stable.

Rationale

The rating reaffirmation derives strength from the status of the company as a part of the RP-SG Group, the operationalisation of fuel-supply agreement with South Eastern Coalfields Ltd. (SECL), mitigating fuel availability risks, and the tie-up of long-term power purchase agreements (PPA) for the entire capacity of the Unit II (300 MW), partially mitigating off-take risks. The rating further derives comfort from the competitive capital cost of the project (Rs. 6.4 crore/MW), which coupled with its efficient plant operations, leads to a competitive generation cost. The rating is, however, constrained by the large losses posted by the company between FY2014 and FY2018 because of high capital charges post commissioning and sub-optimal generation levels from the Unit II during this period. DIL's past losses have resulted in a highly leveraged capital structure and depressed debt coverage indicators. Nonetheless, the continued funding support from the RP-SG Group over the years provides comfort to the long-term rating. The rating also reflects the company's exposure to regulatory risks, given that the multi-year-tariff (MYT) order for the control period FY2017 – FY2019 is awaiting approval from the Uttar Pradesh Electricity Regulatory Commission (UPERC), and the company's long receivable period from Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO), leading to a high working capital intensive nature of operations. However, ICRA notes that the counterparty risk from sale to TANGEDCO remain low.

DIL has been regularly supplying power of 100-MW to TANGEDCO from December 2015, and 170-MW to Noida Power Company Limited (NPCL) from April 2017, which has led to an improvement in the company's operating profile and reduced its dependence on the Group for bridging cash flow mismatches. Supported by healthy offtake from TANGEDCO and NPCL, DIL's gross plant load factor (PLF) for the Unit II improved from 59% in FY2017 to 81% in FY2018. In the first six months of the current fiscal (April – September), Unit II's PLF has remained at a comfortable 81%. Moreover, the commencement of 185-MW power supply to Maharashtra State Power Generation Co. Limited (Mahagenco) from April 2018, along with a rise in traded sales following a steady increase in spot tariffs in the day-ahead market from September 2018, is expected to lead to a healthy utilisation level for Unit I as well in the current fiscal. ICRA notes that DIL's gross PLF for Unit I improved to 48% in H1 FY2019 against a low level of 7% in H1 FY2018. However, given that the agreement with Mahagenco would expire in November 2018, the company's ability to tie up such interim power off-take arrangements till it is able to firm-up a long-term PPA for the Unit I would remain an important rating driver.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes that DIL will continue to receive funding support from the RP-SG Group to tide over cash-flow shortfalls in meeting its debt service obligations. In the current fiscal, the company's reliance on group support is expected to remain limited on the back of a healthy utilisation level of the Unit I, as well as remunerative spot tariffs. The outlook may be revised to 'Positive' if the company is able to consistently achieve a healthy utilisation level for both the Unit I and the Unit II in the near to medium term. The outlook may be revised to 'Negative' if DIL is unable to maintain an adequate level of PLF for the Unit I, and borrowing levels increase in the absence of timely Group support.

Key rating drivers

Credit strengths

Demonstrated funding support from the RP-SG Group – DIL has received demonstrated support from the RP-SG group, accumulating to Rs. 1,207 crore between FY2015 and FY2018, and ICRA expects such timely group support to continue going forward.

Fuel-supply agreement with SECL, mitigating fuel availability risks – DIL has operationalised the fuel-supply agreement with SECL from March 2016, which mitigates fuel availability risk, and ensures a competitive energy cost for the station. In FY2018, majority of the coal consumed by DIL was met by supply of linkage coal from SECL.

Tie-up of long-term PPA of the entire Unit II capacity (300 MW), partially mitigating off-take risks – DIL has tied-up the entire capacity for the Unit II with TANGEDCO and NPCL. This has helped the company achieve a healthy PLF of 81% in FY2018 and 81% in H1 FY2019 against just 59% in H1 FY2017.

Competitive capital cost of the project, which coupled with its efficient plant operations, leads to competitive generation cost – DIL's capital cost remains competitive at Rs 6.4 crore/MW, which coupled with its efficient operating parameters, leads to a competitive generation cost.

Credit challenges

Large net losses posted by the company since commissioning because of high capital charges and sub-optimal generation levels – DIL has been reporting net losses over the years, dragged down by initial challenges with fuel availability and power off-take. However, with fuel-availability risks being mitigated now, and the company firming up Unit II capacity against long-term PPA, the net losses have been steadily decreasing in recent years. ICRA expects DIL to report a positive net cash-accrual in FY2019, against a cash loss of Rs. 32 crore in FY2018, supported by better utilisation rates for the Unit I during the current fiscal.

Highly leveraged capital structure and depressed debt coverage indicators – DIL's capital structure remained adverse, as indicated by a gearing of 6.7 times as on March 31, 2018. The total Debt/OPBITDA also remained suppressed at 13.5 times in FY2018. However, ICRA expects an improvement in DIL's debt protection metrics in FY2019, supported by higher utilisation of the Unit I.

Exposure to regulatory risks, given that the MYT order for FY2017 – FY2019 for the 170-MW PPA with NPCL is awaiting regulatory approval - DIL has submitted the MYT petition for the control period FY2017 – FY2019 to UPERC for approving the tariff for the 170-MW PPA with NPCL. Till the tariff order is approved by the commission, DIL would remain exposed to regulatory risks.

High working capital intensive nature of operations – DIL’s cash conversion cycle from TANGEDCO generally ranges from 60 to 90 days. As the company procures coal from SECL largely against advances, DIL’s working capital intensity remain high, as indicated by the ratio of net working capital relative to operating income of 40% in FY2018.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Thermal Power Generators](#)

About the company:

DIL is a part of the Kolkata based RP-SG Group. It is a wholly-owned step-down subsidiary of CESC Limited (rated [ICRA]A1+), the flagship company of RP-SG Group (with CESC Infrastructure Ltd. being the parent company of DIL). The company has 2X300 MW thermal-based power generation units in Chandrapur, Maharashtra. The two units with capacity of 300 MW each were commissioned on February 11, 2014 (Unit-I) and August 2, 2014 (Unit-II).

In FY2018, the company reported a net loss of Rs. 198.58 crore on an operating income of Rs. 859.27 crore, as compared to a net loss of Rs. 483.90 crore on an operating income of Rs. 445.05 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	445.05	859.27
PAT (Rs. crore)	-483.90	-198.58
OPBDIT/OI (%)	8.19%	29.65%
RoCE (%)	-0.71%	3.10%
Total Debt/TNW (times)	4.77	6.69
Total Debt/OPBDIT (times)	93.87	13.55
Interest coverage (times)	0.08	0.79

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018				Date & Rating in FY2017
				Oct 2018	Nov 2017	Aug 2017	Jun 2017	Mar 2017	
1 Term Loans	Long Term	3154.77	3015.83*	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	

*as on September 30, 2018

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loans	Between FY2017 and FY2018	~9.85%	Till September 2035	3154.77	[ICRA]BBB(Stable)

Source: Company

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