

January 13, 2020

OPG Energy Private Limited (OEPL): Ratings downgraded to [ICRA]BBB/ [ICRA]A3+; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term - Fund Based TL	59.00	59.00	[ICRA]BBB (Negative); Revised from [ICRA]BBB+, Outlook revised to Negative from Stable
Short-Term – Non-Fund Based	15.00	15.00	[ICRA]A3+; revised from [ICRA]A2
Total	74.00	74.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings revision takes into account the increase in receivables position of the company mainly from OPG group entities and its continuing large investment exposure towards its Group entities, which have been debt-funded to some extent. Further, a significant increase in interest rate by one of the lenders has affected OEPL's financial performance in the current fiscal.

The ratings continue to remain constrained by the relatively modest scale of the company's gas-based power capacity as well as limited availability of natural gas in nearby gas fields, which has led to below 50% PLF for the last few years. The ratings also factor in the exposure of the company's profitability to natural gas prices that are revised every six months based on the Government-declared formula that was introduced in October 2014. The ratings further take into account the tariff risk arising from short / medium term nature of existing power purchase agreements (PPAs), which expire in April 2021, given the competition from such group captive/third party-based generation entities based on renewable sources. ICRA notes the relatively weak credit profile of most of the group captive consumers and relatively high customer concentration risk towards the Group entity, Avanti Metals Private Limited. Further, ICRA notes that the group captive model remains exposed to a regulatory risk pertaining to the draft norms by the Ministry of Power, Government of India, on the ownership eligibility criterion for captive consumers. As per the draft, the ownership definition comprises a minimum 26% shareholding by captive consumers in the paid-up equity capital with full rights, based on normative debt-equity structure of 70:30. ICRA also notes that the operations of the company's solar asset of 5 MW remains exposed to risk of variation in solar generation due to climatic conditions given the single part fixed nature of PPA tariff and the regulatory challenges arising from the implementation of a scheduling and forecasting framework.

The ratings, however, continue to draw comfort from the satisfactory tariff rates that the company earns for its gas-based power plant through short/medium term contracts with captive consumers who also benefit from the tariff in PPAs with a discount to grid tariff. The ratings continue to note the fuel supply agreement (FSA) with GAIL (India) Limited, which was renewed in a timely manner and reduces the fuel supply risks for the company to some extent. ICRA also notes that plant load factor (PLF) increased in FY2019 due to higher availability of natural gas,

which helped OEPL register improvement in its operating income and maintain comfortable cash accruals. Further, its solar plant (5 MW) in Rajasthan enjoys a remunerative tariff of Rs. 17.91 per unit for power sales to NTPC Vidyut Vyapar Nigam Limited (NVVN), who makes timely payments.

Key rating drivers and their description

Credit strengths

Operational power plant with in-place PPAs and FSAs reduces demand and fuel supply risks – The company’s gas power plant has been operational since March 2004 and the solar plant, commissioned on November 2011, has been operating at a healthy PLF level. The company’s FSA with GAIL limits the fuel supply risk to some extent for its gas-based power plant. However, limited availability of gas in the nearby gas fields has led to sub-50% PLF for the last few years.

PPAs tied-up with Group captive consumers - The company has signed PPAs with 16 Group captive customers at a weighted average tariff rate of ~Rs. 6.08/unit, which is at a discount to the corresponding grid tariff. This limits the demand risk to a certain extent for its gas-based facility. Further, from September 2018, OEPL has also started supplying power to its Group company, Avanti Metals Private Limited, which manufactures billets.

Revenue and cash flow visibility associated due to long-term PPA with NTPC Vidyut Vyapar Nigam Ltd (NVVN) for sales from solar plant for entire generation capacity - The entire 5MW capacity of the company’s solar asset has been tied up with NVVN for a period of 25 years at a tariff rate of Rs. 17.91/unit. This limits the demand risk for the solar power generated by the company.

Credit challenges

Credit profile of captive consumers remains weak; delay in collection of receivables leading to high debtor days as of March 2019 - The power generated from the gas-based power plant is being sold to 16 captive consumers whose credit profile remains weak. Further, the company’s liquidity has weakened due to stretch in receivables cycle, which has led to high debtor days at 190 in FY2019.

Continuing large investments in Group companies; increase in interest rates by one of the lenders – The company’s investment in group companies has remained high. Further, due to fair value adjustments in FY2019, the total investments decreased to Rs. 89.25 crore from Rs. 118.31 crore in FY2018. Moreover, the interest rates of its term loans from one of its lenders was increased due to credit concern with respect to one of its Group companies.

Modest scale of operations, which remain exposed to availability of natural gas in nearby wells - The scale of operations of the company remained modest over the years with operating income of Rs. 52.86 crore and Rs. 58.65 crore registered in FY2018 and FY2019, respectively. The operations of the gas-based power plant are constrained by the limited availability of natural gas in the nearby gas fields, leading to sub-50% PLF for the last few years. However, gas availability is expected to improve since new gas wells have been discovered in the vicinity.

Profitability exposed to volatility in natural gas prices and movement in foreign exchange rates – While the price of natural gas is revised every six months as per the Government declared formula, the foreign exchange rates during fuel purchase is denominated in Dollar terms. Hence, OEPL’s profitability remains vulnerable to adverse fluctuations in natural gas prices and foreign exchange rates.

Tariff risk arising from short-term nature of existing PPAs – Most of the company’s PPAs with captive consumers are short-term in nature, which expire in April 2021. Thus, it faces tariff risk given the competition from such group captive/third party-based generation entities based on renewable sources. However, the company has a demonstrated track record in renewing PPAs with group captive consumers and its ability to renew them at a cost reflective tariff remains important.

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 amendment in the eligibility criterion for Group captives mainly pertaining to ownership structure and equity requirements of consumers. As per the draft, the ownership definition comprises a minimum 26% shareholding by captive consumers in the paid-up equity capital with full rights, based on normative debt-to-equity structure of 70:30.

Variance in cash flows due to variation in solar irradiance, albeit lower than other renewables projects - The key factors that may impact the operations of OEPL’s solar plant are solar radiation levels, losses in PV systems due to temperature and climatic conditions, design parameters of the plant, inverter efficiency and module degradation due to aging. However, the variance in solar irradiance levels has historically been much lower than that of other sources of renewable energy, such as wind and hydropower projects.

Challenges arising from implementation of forecasting and scheduling regulations - The regulatory challenges from the proposed implementation of the scheduling and forecasting framework for solar power projects in Rajasthan pose risks, given the limited experience of Indian industry players in scheduling and forecasting and the variable nature of solar energy generation.

Liquidity position: Stretched

The liquidity position of the company remains **stretched** due to build-up in the receivable position and declining profitability coupled with high debt repayment obligations in the medium term. OEPL had a free cash and bank balance of Rs. 0.92 crore and DSRA balance of Rs. 6.70 crore as on March 31, 2019. Further, the company had external term loans of Rs. 61.57 crore outstanding as on March 31, 2019. The firm has not availed any fund-based working capital limits.

Rating sensitivities

Positive triggers - The rating may be upgraded if the firm witnesses higher availability of natural gas leading to improvement in PLF levels. Improvement in receivables cycle leading to better working capital management could also trigger a rating upgrade.

Negative triggers - The ratings may be downgraded if there is any further decline in gas availability, leading to decrease in PLF levels, or increase in receivables cycle causing deterioration in working capital management. Any further increase in investments in Group companies or related party transactions or any negative impact on the company's group captive model as a result of policy amendment in the eligibility criterion for Group captives (mainly pertaining to the ownership structure and equity requirements of consumers) could also result in a lowered rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

OEPL was promoted by Kanishk Steel Industries Limited and was incorporated in September 2000 for setting up a 17.98MW natural gas-based power plant at Maruthur Village, Tamil Nadu. The plant was set up under the captive power policy of TNEB. The plant commissioned its 17.98MW capacity plant in March 2004, which was increased to 19.38MW, following installation of a 1.4-MW waste heat recovery-based generating unit in December 2007. The capacity was further augmented to 25.47MW in May 2011 with the addition of 3 x 2 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 handed to them. The company has an FSA with GAIL (India) Limited till July 5, 2021. The company 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 NTPC Vidyut Vyapar Nigam Limited pursuant to a long-term PPA of 25 years.

The company reported a net profit of Rs 2.83 crore on an OI of Rs. 58.65 crore in FY2019 and a net profit of Rs. 5.35 crore on an OI of Rs. 52.86 crore in FY2018.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	52.86	58.65
PAT (Rs. crore)	5.35	2.83
OPBDIT/OI (%)	45.33%	39.29%
RoCE (%)	5.62%	5.58%
Total Outside Liabilities/Tangible Net Worth (times)	0.45	0.39
Total Debt/OPBDIT (times)	3.09	3.00
Interest Coverage (times)	3.41	3.10
DSCR	0.95	1.14

*OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital Employed
Source: Financial statements of Rasayano and ICRA research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					13-Jan-2020	06-July-2018	30-June-2017	31-May-2016
1	Term Loan	Long-term	59.00	28.65	[ICRA]BBB (Negative)	[ICRA]BBB+ (stable)	[ICRA]A- (stable)	[ICRA]A- (stable)
2	Fund-based limits	Short- term	15.00	-	[ICRA]A3+	[ICRA]A2	[ICRA]A2+	[ICRA]A2+

Amount in Rs. crore

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
NA	Term Loans-I	FY2011	-	FY2025	39.00	[ICRA]BBB (Negative)
NA	Term Loans-II	FY2016	-	FY2030	20.00	[ICRA]BBB (Negative)
NA	Letter of Credit	-	-	-	15.00	[ICRA]A3+

Source: OPG Energy Private Limited

Annexure-2: List of entities considered for consolidated analysis – NA

Analyst Contacts

Sabyasachi Majumdar

+91 124 4545 304

sabyasachi@icraindia.com

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Sourabh Kannoje

+91 22 6169 3349

sourabh.kannoje@icraindia.com

Viraj Kadwadkar

+91 22 61143457

viraj.kadwadkar@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:

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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 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