February 15, 2021 Revised

Jindal Power Limited: Ratings upgraded to [ICRA]BBB+(Stable)/[ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based term loans	6,443.80	6,672.46	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Long-term fund-based cash credit	678.00	678.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Long-term non-fund-based	700.00	700.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Short-term fund-based	25.00	25.00	[ICRA]A2; upgraded from [ICRA]A3+
Unallocated	1,541.20	1,312.54	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Total	**9,388.00**	**9,388.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in an improvement in operating performance of Jindal Power Limited (JPL) in the current fiscal, supported by increased sales in the short-term power exchange market, which in turn has been facilitated by improved coal availability at competitive prices. Further, higher sales in the short-term exchange market where collection cycle is faster, as well as realisation of sizeable (~Rs. 430 crore) dues from Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO)[1] have supported an improvement in the company's liquidity profile. ICRA expects JPL's debt coverage metrics to remain comfortable, supported by a steady operating performance, a sustained correction in its receivables position and regular interest income from the parent entity, Jindal Steel and Power Limited (JSPL)[2], despite an increase in its scheduled annual repayment obligations between FY2022 and FY2024. In this context, a material improvement in the credit risk profile of JSPL during the current fiscal has strengthened JPL's financial flexibility, and provided increased comfort on timely receipt of interest income from the former. While upgrading the ratings, ICRA has also noted the recent favourable development with respect to captive mine allocation, wherein JPL emerged as the successful bidder for Gare Palma (IV/I) coal mines (having annual approved extraction of ~6 mtpa) in the mining auctions held in November 2020. Although this could potentially render support to JPL's operational profile, timing of vesting, successful commissioning and ramp-up of the mines remains to be seen.

The ratings remain constrained by the high counter-party credit risk, as TANGEDCO remains the largest off-taker for JPL (~400MW, i.e., ~49% of the total 810MW capacity tied-up under long-term PPAs at present), and the company's continued inability to secure incremental long-term/ medium-term Power purchase agreements (PPAs) for three-fourth of its 3,400-MW installed capacity. In addition to constraining return and coverage metrics, lack of long-term PPAs may constrain the company's ability to raise incremental debt, required for its planned capital outlay (to be incurred in FY2022-FY2023, subject to further extensions allowed by the Government), for compliance with the latest emission norms, as per the Ministry of Environment and Forests (MoEF). Nevertheless, there is increased comfort on need-based fund infusion by the parent for funding the regulatory capex, if required. The ratings also continue to derive comfort from JPL's competitive capital cost as well as cost-

[1] *The dues have been cleared by TANGEDCO, supported by the ongoing implementation of the liquidity support scheme approved by the Government of India in May 2020. The said scheme allows power distribution companies (or discoms) to avail long tenure loans from Power Finance Corporation (PFC) and the Rural Electrification Corporation (REC), backed by State Government Guarantee.*

[2] *ICRA upgraded the long-term/ short-term ratings outstanding for JSPL's bank lines/ NCD programme to [ICRA]BBB+(Stable)/ [ICRA]A2 in December 2020, from [ICRA]BBB-(Stable)/ [ICRA]A3 earlier. For details, please refer to ICRA's website: www.icra.in.*

efficient operations supported by the location of its plant in proximity to various coal blocks and linkage for part capacity, which enables it to compete effectively on tariffs.

The Stable outlook on JPL's long-term rating reflects ICRA's expectation of a sustained improvement in its overall receivables position, which is expected to support its liquidity profile. Besides, a steady operating performance, together with cash flow support from JSPL in the form of regular interest income are expected to support JPL's debt coverage metrics at comfortable levels.

Key rating drivers and their description

Credit strengths

Competitive capital cost - Supported by efficient project management, lower interest during construction (facilitated by upfront equity funding) and a large capacity setup providing benefits of allied infrastructure, the company has established a large-scale 3,400 megawatt (MW) thermal power capacity at a highly competitive capital cost of ~Rs. 4.4 crore/MW. The relatively lower capital cost than its peers provides a competitive edge to JPL while bidding for PPAs.

Established track record of cost-efficient operations - ICRA draws comfort from JPL's experience and its demonstrated track record of efficient operations in thermal power generation. Even though the plant operates at sub-optimal capacity utilisation, the company's continued focus on cost optimisation has facilitated reduction in cost of power generation during the past few years. The low cost of power generation favourably impacts its merit order position while supplying to state utilities under PPAs and enabling it to explore other avenues for sale of power, such as sales to bulk customers and merchant sales. In this context, ICRA notes JPL's favourable positioning in a tender floated under the aggregation scheme of the Central Government in Q4 FY2020, wherein JPL emerged as the preferred bidder for 420 MW.

Vantage location of plant in proximity to various coal blocks - The location of JPL's power plants in proximity to multiple coalfields results in lower logistics cost (which can be 15-25% of the coal cost), thereby providing it with access to coal at competitive costs, despite coal linkages for only 1,200 MW capacity. Further, the company has conveyor belt connectivity in proximity to the Gare Palma (IV/I) coal mines, for which JPL has emerged as the successful bidder in recent auctions. Commissioning of supply from these mines can, thus, help the company reduce its transportation cost further.

Improved financial and liquidity profile, supported by a tangible correction in receivables position - During Q3 FY2021, the company received a payment of ~Rs. 430 crore from TANGEDCO, towards clearance of past dues resulting in an improvement in its overall receivables position. With TANGEDCO being the largest off-taker for JPL, delays in payments from TANGEDCO had resulted in a stretched liquidity position for the company in the past. Together with moratorium availed on debt servicing under the RBI's relief package for Covid, this contributed to eased liquidity. Enhanced liquidity has also contributed to better operating performance of JPL in the current fiscal, by facilitating higher coal stocking and in turn increased activity in the short-term power exchange market. Moreover, availability of coal at competitive rates has contributed to improved profitability. This apart, a material improvement in the credit risk profile of the parent entity, JSPL, during the current fiscal has strengthened JPL's financial flexibility, and provided increased comfort on timely receipt of interest income from the former, which supplements JPL's cash flows.

Credit challenges

High dependence on debt, partly due to sizeable advances extended to the parent entity - While the capital cost of JPL's thermal power generation assets was highly competitive, its dependence on debt increased considerably during the four-year period ending FY2017 due to higher working capital requirements, advances extended to JSPL (~Rs. 4,386-crore[3] advances, including Rs. 2,854 crore for purchasing a captive power plant from JSPL) and payment of additional levy to the Government post cancellation of captive coal blocks. With sizeable scheduled repayments made in the last three years (FY2018-FY2020),

3 *Excludes investments/ loans and advances to subsidiaries and other Group companies*

JPL's debt level has declined. Together with improvement in operating profits and interest income on advances extended to JSPL, this has supported a decline in Total Debt / Profit Before Depreciation Interest and Taxes (TD/PBDITA)[4] from ~6.9 times in FY2017 to ~3.8 times in FY2021E. However, despite significant reduction in debt levels over the past few years, the company's dependence on debt remains high.

Exposure to high off-take risks - Of the total of 3,400 MW of thermal power capacity, JPL has long-term PPAs for only 810 MW (approximately 25%), keeping the balance 75% capacity exposed to off-take and price risks. Since the all-India thermal PLF has been under pressure over the past seven years (with only a marginal uptick in FY2019), lack of adequate capacity tie-up under long-term PPAs is posing challenges for JPL in achieving optimal capacity utilisation at remunerative rates. The company has demonstrated its ability to intermittently enter into short-term PPAs and undertake merchant sales at remunerative tariffs in the past, as also reflected by its improved off-take in the short-term market in the current fiscal, which supported an improvement in PLF levels in 9M FY2021. However, its ability to do so in a consistent manner remains constrained by volume risks in the short-term market and fuel availability issues. The lack of long-term PPAs may also constrain the company's ability to raise incremental debt, required for its planned capital outlay (to be incurred in FY2022-FY2023 for installation of fuel gas desulpherisers (FGD) systems in line with the revised emission norms, subject to further extensions allowed by the Government), for compliance with the latest emission norms, as per the MoEF.

Raw material availability/cost risks – At present, JPL enjoys coal linkage for only ~35% of its capacity (1,200 MW), with the coal supply limited to the extent of PPAs. For the remaining 2,200 MW, it remains dependent upon market purchase and e-auctions. ICRA notes the positive developments with respect to captive mine allocation in the recent mining auctions held in November 2020, which render support to JPL's operational profile. JPL has emerged as the successful bidder for Gare Palma (IV/I) coal mines, having annual approved extraction of ~6 mtpa. Going forward, successful commissioning and ramp-up of the mines is likely to aid an improvement in raw material availability, JPL's PLF and profitability and will remain a rating monitorable.

High dependence on debt and limited capacity tie-up under PPAs constrain debt-coverage metrics - JPL's annual repayment obligations stand higher at ~Rs. 880-930 crore between FY2022-FY2024, compared to Rs. 615 crore in FY2021 after availing moratorium under the Covid-19 Relief Package announced by the RBI. Although the debt servicing is expected to remain comfortable despite increased repayment obligations (partly supported by improved cash flow visibility on interest income from JSPL), the company's ability to tie-up incremental capacity under LT PPAs remains crucial for a sustainable improvement in coverage metrics.

Counter-party credit risk - Of the ~810 MW capacity tied-up at present under medium/long-term PPAs for JPL, TANGEDCO alone accounts for nearly 50%. Given the high dependence of revenues and receivables from the state distribution utilities, JPL faces the risk of an elongated receivable cycle, which is an industry-wide characteristic. More specifically, delay in payments from TANGEDCO resulted in an increase in receivable turnover period[5] for the company from 121 days in FY2018 to 167 days in FY2019 and further to ~203 days in FY2020. Moreover, with Covid-19 related challenges resulting in a further stretch in liquidity for discoms, the receivables level stood higher at ~234 days at the end of July 2020E. While the improved liquidity position of discoms has been facilitated by the GoI's support (under the liquidity infusion scheme) in the current fiscal (estimated receivable turnover period at less than ~150 days by the end of FY2021E), the risk of recurrence of delays in payments from the discoms and the possibility of a build-up in receivables remains.

Liquidity position: Adequate

JPL's liquidity position, at present, stands healthy at ~Rs. 800 crore (including free cash balances and undrawn working capital limits, as on January 12, 2021), supported by sizeable recovery of payments from TANGEDCO in the recent months. ICRA expects JPL's liquidity position to remain adequate, supported by a steady operating performance, a sustained correction in the receivables position and timely receipt of interest income from JSPL. Together, these are expected to result in the

[4] *Excluding interest income accrued, but not yet received*

[5] *Including billed/unbilled amount on account of change in law, surcharge, escalation bills, etc.*

company's retained cash flows remaining adequate vis-à-vis the increasing repayment obligations, as well as for meeting margin requirements for capex.

Rating sensitivities

Positive factors – A positive movement in JPL's ratings could be driven by the tie-up of sizeable incremental capacity under long/ medium-term PPAs at remunerative tariffs providing improved revenue visibility. Besides, commencement of and healthy ramp up in coal mining from the allocated coal mines, which assures raw material availability at competitive rates and contributes to sustainable improvement in profitability will be a positive trigger. Successful debt refinancing at favourable terms, which facilitates a sustained improvement in coverage metrics will also be a credit positive. Specific metrics could drive a positive rating movement to include DSCR of more than 1.4 times on a sustained basis. Besides, an improvement in the credit profile of its parent could also be a positive trigger for the rating.

Negative factors – Negative pressure on JPL's rating could arise in case of recurrence of delays /stretched receivable cycle for TANGEDCO, which puts pressure on JPL's cash flows/ liquidity profile. Besides, prolonged delay in tie-up of incremental capacity resulting in continued pressure on coverage metrics could also be a downgrade trigger. A significant bunched up capital outlay towards FGD requirements, which together with inadequate funding tie-up materially affects the company's liquidity profile, or any adverse regulatory development, including inability to get timely extensions for compliance with FGD norms, which affects operations could also be negative triggers for the rating. A weakening of credit profile of its parent may also result in downward pressure on JPL's ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers Liquidity Analysis of Entities in the Non-financial Sector Impact of Parent or group Support on Issuer's Credit Rating
Parent/Group Support	Parent: Jindal Steel and Power Limited Although JPL is a key entity in the Group, in the event of any restructuring/ reorganisation/ de-linking by the parent of its steel and power businesses, ICRA may review its rating approach in terms of assessing the parent-subsidiary linkages.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financial statements of JPL, while it reviews both standalone and consolidated financials of the company. ICRA has also taken into account the linkages with the parent. Although JPL has several subsidiaries (primarily in the hydro-power and real estate sectors), these either remain non-operational or have insignificant operations. The standalone business and balance sheet, thus, principally drive the company's credit risk. Also, the company does not have any plans to make any material incremental investments or extend any financial support to these subsidiaries.

About the company

Incorporated in 1995, JPL is involved in the power-generation business with 3,400 MW of thermal power-generation capacity at Tamnar in Raigarh district of Chhattisgarh. JPL is promoted and 96.43% owned by Jindal Steel & Power Limited (JSPL).

JPL's first power plant (EUP-1), with a 1,000 MW (250 MW X 4) capacity, commenced operations from September 2008. Thereafter, the company established an incremental 2,400-MW capacity adjacent to EUP-1. The 2,400-MW plant is divided into two phases with each phase having two units of 600 MW each. The first phase of the 1,200-MW (EUP-2) capacity has a coal supply linkage with Coal India Limited (CIL), while coal for the second phase of the 1,200-MW (EUP-3) capacity as well as that for EUP-1 are not tied at present. However, JPL has emerged as the successful bidder for Gare Palma (IV/I) coal mines, having annual approved extraction of ~6 mtpa.

Key financial indicators (audited)

JPL Standalone	FY2019	FY2020	9M FY2021 Prov.
Operating Income (Rs. crore)	3,858.5	3,758.4	3,239.0
PAT (Rs. crore)	(434.6)	(228.8)	6.0*
OPBDIT/OI (%)	30.1%	32.5%	30.0%*
PAT/OI (%)	-11.3%	-6.1%	0.2%*
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.8	NA
Total Debt/OPBDIT (times)	6.7	5.9	NA
Interest Coverage (times)	1.3	1.4	1.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: JPL's financial statements
*Note: *PAT and OPBDIT were lower by Rs. 438 crore in 9M FY2021, due to one-time expenses of Rs.140 crore towards relinquishment charges and Rs. 298 crore on account of provision for doubtful debts*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)						Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2020 (Rs. crore)	Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					Feb 15, 2021	Sep 21, 2020	Apr 30, 2020/ May 22, 2020	Jul 29, 2019	Jun 22, 2018	Aug 28, 2017	Jul 31, 2017
1	Term Loans	LT	6,672.46	6,672.46	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)
2	Cash Credit	LT	678.00	--	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)
3	Non-fund-based	LT	700.00	--	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)
4	Fund-based	ST	25.00	--	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A2	[ICRA]A2+	-	-
5	Unallocated	LT	1,312.54	--	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)
6	NCDs	LT	--	--	--	--	[ICRA]BBB (Negative)*	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)

**Rating withdrawn in May-2020*

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 click here

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	FY2014	-	FY2034	6,672.46	[ICRA]BBB+(Stable)
NA	Cash Credit	-	-	-	678.00	[ICRA]BBB+(Stable)
NA	Non-fund-based	-	-	-	700.00	[ICRA]BBB+(Stable)
NA	Fund-Based	-	-	-	25.00	[ICRA]A2
NA	Unallocated	-	-	-	1,312.54	[ICRA]BBB+(Stable)

Source: *Jindal Power Limited*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

Corrigendum:

Document dated February 15, 2021 has been revised, with a correction in rating history table. The date of rating action in FY2020 has been corrected to July 29, 2019, instead of July 29, 2020.

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