October 26, 2021

Lalitpur Power Generation Company Limited: Long-term rating upgraded; short-term rating assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	13363.78	13363.78	[ICRA]BB- (Stable); upgraded from [ICRA]B (Stable)
Fund-based Cash Credit	2800.00	2800.00	[ICRA]BB- (Stable); upgraded from [ICRA]B (Stable); [ICRA]A4; assigned
Non-fund Based Facilities	1326.90	1326.90	[ICRA]BB- (Stable); upgraded from [ICRA]B (Stable); [ICRA]A4; assigned
Total	**17490.68**	**17490.68**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's rating action factors in the reduction in long-term debt with pre-payment of principle installments for the next four quarters by Lalitpur Power Generation Company Limited (LPGCL) leading to saving in interest costs and easing the debt servicing requirement for this period. This was funded from the large realisation of dues amounting to Rs. 4,781 crore in March 2021 and Rs. 1,288 crore in August 2021 from the state power distribution utilities (discoms) of Uttar Pradesh (UP) (represented by Uttar Pradesh Power Corporation Limited (UPPCL)), who are the sole offtakers for the power generated by the company's 1,980-MW coal-based power project. The dues were cleared by UPPCL following a release of funds under the liquidity support scheme / Atmanirbhar package for state discoms by the Government of India (GoI). These funds were infused in UPPCL in the form of long tenure loans from the Power Finance Corporation (PFC) and the Rural Electrification Corporation (REC). Further, it has created one quarter DSRA of Rs. 600 crore and the remaining cash balances are parked in the cash credit (CC) account, with undrawn working capital limit of Rs. 1,223 crore as on September 30, 2021.

The ratings factor in the favourable orders from the Uttar Pradesh Electricity Regulatory Commission (UPERC) for recovery of additional dues of Rs. 2,183 crore (including the carrying cost) from UPPCL, related to unpaid capacity charges of the previous years. Timely realisation of balance dues from UPPCL, including additional claims, wherein the company has received favourable orders from Appellate Tribunal for Electricity (APTEL), along with an improvement in monthly collections are important for a sustainable improvement in its company's liquidity profile. The ratings note the presence of a long-term (25-year) power purchase agreement (PPA) with UPPCL for the entire capacity of 1,980 MW under cost-plus tariff principles. The cost-plus tariff allows the recovery of normative capacity charges[1] as approved by the UPERC, subject to plant availability (PAF) meeting the normative PAF (currently at 85%). It also enables pass-through of fuel cost, subject to the project meeting the normative operating performance related to station heat rate and auxiliary consumption. Further, ICRA considers the fuel supply tied-up with subsidiaries of Coal India Limited (CIL) under the SHAKTI scheme for 7.12 million tonnes per annum (MTPA). While the FSAs are sufficient to meet its fuel requirement, the current coal stock level remains low owing to the coal supply constraints in the country.

[1] *Normative fixed capacity charges comprise of operation & maintenance cost, interest on normative working capital, interest on term loan, depreciation, return on equity, tax and hedging cost if any, as per the prevailing tariff norms set by UPERC under cost-plus tariff principles*

However, the ratings are constrained by the high counterparty credit risks given the weak financial health of the discoms in Uttar Pradesh. The overall pending dues remained high at ~Rs. 5,714 crore as on August 31, 2021 (provisional), (Rs. 5,238 crore as on March 31, 2021) despite the large realisation of dues in March 2021 and August 2021. While the collections are gradually improving (with collection efficiency of 63% in September 2021) with the implementation of the escrow mechanism, the monthly collection efficiency was modest at 45% in H1 FY2022 (excluding the one-time payment received in August 2021). A sustainable improvement in the collection efficiency under this mechanism remains to be seen and is thus a key monitorable for the company. Further, the approval for the final project cost by the UPERC is pending. The provisional cost approved was Rs. 14,269 crore against the final project cost of Rs. 17,725 crore (excluding margin money for working capital of Rs. 850 crore). The approval of the final project cost without any disallowances and the consequent increase in capacity charges for the previous year would be a positive for the company. Moreover, there were delays in servicing the debt obligations by LPGCL between January 2021 and March 2021 due to deferred payments from UPPCL, including the disbursement under tranche-II of the GoI's liquidity scheme. However, all the overdues to lenders have been cleared as on March 31, 2021, supported by realisation of large dues from UPPCL.

While the project's variable cost of generation affects the company's position in merit order dispatch for UP discoms, also reflected in the moderate plant load factor (PLF) level, the cost-plus based tariff structure of PPA provides a comfort. Moreover, its PLF level improved significantly to 65.4% in 5M FY2022 (5MFY2021:40.4%), driven by a sharp uptick in electricity demand. Further, the plant's operating performance in terms of efficiency levels such as station heat rate and auxiliary consumption has remained satisfactory so far. ICRA notes the company's high leverage level, with a gearing ratio at 2.3 times and debt/OPBDITA at 6.1 times as on March 31, 2021 (provisional). Though the leverage has improved over the past one year, it continues to be high, given the limited term debt repayments since project commissioning and the high dependence on working capital debt. Further, with reference to compliance of the emission norms prescribed by the Ministry of Environment and Forests and Climate Change (MoEF), GoI, the company has received an interim relief from the Supreme Court against any coercive action in this regard. Moreover, the MoEF, GoI has recently provided an extension in timeline for compliance with the revised norms by thermal power plants. Nonetheless, the compliance with respect to the emission norms as per timelines set by the MoEF, GoI, along with the timely recovery of any additional capex towards the same under change in law from UPPCL are important.

The Stable outlook on the long-term rating of LPGCL reflects the presence of a long-term PPA under cost-plus tariff principles, the availability of fuel under long-term linkage and the improvement in liquidity profile supported by the large realisation of dues in March 2021 and August 2021.

Key rating drivers and their description

Credit strengths

Limited demand risks – LPGCL has signed a long-term PPA with UPPCL for the entire 1,980-MW project capacity under cost-plus tariff principles, thus mitigating demand risks. The two-part tariff structure allows the company to recover capacity charges linked to plant availability and pass-through of fuel costs, subject to achieving the normative operating efficiency.

Full project capacity is operational and adequate availability levels – All the three units of the project are operational since December 2016, thus mitigating the execution-related challenges. The plant availability remained higher than the normative level over the past 3.5 years.

Fuel supply tied-up with subsidiaries of CIL – The company has tied-up fuel supply agreements (FSAs) with subsidiaries of CIL under the SHAKTI scheme in January 2018 (5.64 MTPA) and September 2020 (1.48 MTPA). While the FSAs are largely sufficient to meet its fuel requirement, the current coal stock level remains low owing to the coal supply constraints in the country.

Realisation of large dues from UPPCL in March 2021 and August 2021 supporting liquidity – The company received Rs. 4,781 crore from UPPCL in March 2021 and Rs. 1,288 crore in August 2021, mainly from the GoI's liquidity support scheme for the state discoms. This has enabled a significant improvement in its liquidity profile with creation of one quarter's DSRA. It also prepaid the principal installments for the next four quarters using the liquidity inflow, thereby leading to savings in interest cost and easing the debt servicing requirement for this period.

Credit challenges

High counterparty credit risks associated with exposure to UPPCL despite improvement in receivable position – The counterparty credit risks remain high for LPGCL because of the exposure to Uttar Pradesh discoms, which have weak financial health leading to payment delays. The overall pending dues, including contested claims, remained high at Rs. 5,714 crore as on August 31, 2021 (Rs. 5,238 crore as on March 31, 2021 and Rs. 7,053 crore as on March 31, 2020) despite the large realisation of dues in March 2021 and August 2021. This is also due to the additional claims related to the previous period, wherein the company has received favourable orders from APTEL and UPERC. The monthly collections from UPPCL continue to remain subdued, despite the implementation of escrow mechanism. Going forward, the realisation of the balance dues including additional claims from UPPCL and improvement in monthly collections are crucial for sustaining its liquidity position.

Pending approval of final project cost and tariff by UPERC – The capital cost for the 1,980-MW project of LPGCL increased by 53% to Rs. 18,575 crore against the initially appraised cost of Rs. 12,112 crore, because of a mix of issues including delays in execution and additional costs associated with auxiliary infrastructure (transmission, water intake system and railway siding). The company has attributed the same to delays in commissioning of the transmission line by the state transmission utility and the additional cost to works executed on behalf of UP discoms. The approval for the final project cost and tariff from UPERC are pending, with provisional cost approved at Rs. 14,269 crore. The approval of the final project (Rs. 17,725 crore excluding margin money for working capital of Rs. 850 crore), without any disallowances and the consequent increase in capacity charges for the previous years, would be a credit positive for the company.

Delays in debt servicing till March 2021 – There were delays in debt servicing by LPGCL between January 2021 and March 2021 due to deferred payments from UPPCL, including the disbursement under tranche-II of the GoI's liquidity scheme. However, the debt servicing remained timely post March 2021 and the company has prepaid the debt installments for the next four quarters, i.e. from December 2021 to September 2022, along with partial payment for December 2022 quarter.

Variable cost of generation impacts the merit order position of LPGCL – While the variable cost of generation for the project impacts the company's position in merit order dispatch for Uttar Pradesh discoms, the cost-plus based tariff structure of PPA provides a comfort. Further, the operating performance of the plant in terms of efficiency levels like station heat rate and auxiliary consumption remained satisfactory so far.

High leverage level – The leverage level for the company remains high despite improvement over the past one year, with gearing ratio at 2.3 times and debt/OPBDITA at 6.1 times as on March 31, 2021. Its projected debt coverage metrics are modest and sensitive to the final capital cost approval by UPERC and interest rates.

Liquidity position: Adequate

LPGCL's liquidity is **adequate**, with available liquidity in the form of DSRA equivalent to one quarter's debt servicing and undrawn working capital lines of Rs. 1,223 crore as on September 30, 2021. Moreover, the company has prepaid the quarterly instalments till September 2022 to its lenders. The available liquidity and the ongoing collections from UPPCL are expected to be sufficient for the company to meet its operating costs and debt servicing obligations in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade LPGCL's ratings if the company demonstrates a sustainable improvement in monthly collections from UPPCL with at least 90% collection efficiency, along with the recovery of outstanding dues from UPPCL enabling a reduction in debt levels. Further, the receipt of final approval of the project cost and tariff by UEPRC without any disallowances and subsequent implementation by UPPCL, could be another positive trigger.

Negative factors – The ratings could face downward pressure if deterioration in the payment cycle from UPPCL leads to further build-up of receivables, adversely impacting the company's liquidity. Further, any significant disallowance in approval of the project capital cost by the UPERC would be another negative trigger. In addition, any under-performance in operating parameters in relation to the normative values prescribed by UPERC, leading to under-recovery in revenues, would also be a negative trigger.

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	The ratings are based on the company's standalone financial statement

About the company

LPGCL was originally promoted by Uttar Pradesh Power Corporation Limited (UPPCL) for development of a 1,980 MW (3 x 660 MW) thermal power project in the Lalitpur district of Uttar Pradesh (UP) based on super-critical technology. Pursuant to the expression of interest (EoI) call by UPPCL in November 2009 for setting up power generation projects in UP, Bajaj Energy Group was identified as the selected bidder for owning, implementing and operating the project. Accordingly, the Group signed a Memorandum of Understanding (MoU) with the Government of Uttar Pradesh (GoUP) and the ownership of LPGCL was transferred to the Bajaj Energy Group in December 2010. The shareholding of LPGCL is among Bajaj Hindusthan Sugar Limited, Bajaj Energy Limited and Bajaj Power Ventures Private Limited.

LPGCL entered into a 25-year PPA with the state distribution utilities of UP, through UPPCL, on a cost-plus tariff principle for 90% of the project capacity in December 2010. Subsequently in May 2011, LPGCL received GoUP's approval for tying up the remaining 10% of the project capacity through long-term PPA with UPPCL. The supplementary PPA for this capacity was signed in June 2011. LPGCL implemented the project through two major packages, with the boiler turbine generator (BTG) package awarded to BHEL and the balance of plant (BoP) package to Carbery Infrastructure Pvt. Ltd (CIPL) in May 2011. The first unit of the project was commissioned in December 2015, followed by the second unit in October 2016 and the third unit in December 2016. The actual cost of the project stood at Rs. 18,575 crore.

Key financial indicators

	FY2020 (Audited)	FY2021 (Provisional)
Operating Income (Rs. crore)	5177.86	4,715.57
PAT (Rs. crore)	225.43	671.93
OPBDIT/OI (%)	54.33%	47.94%
PAT/OI (%)	4.35%	14.25%
Total Outside Liabilities/Tangible Net Worth (times)	3.16	2.53
Total Debt/OPBDIT (times)	5.55	6.06
Interest Coverage (times)	1.43	1.23

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

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Aug 31, 2021 (Rs. crore)	Date & Rating in		Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019
					Oct 26, 2021	Apr 30, 2021	Feb 12, 2021	Aug 26, 2020	Jan 06, 2020	Nov 22, 2019	Oct 03, 2018
1	Term Loan	Long Term	13363.78	12,340	**[ICRA]BB- (Stable)**	[ICRA]B (Stable)	[ICRA]D	[ICRA]BB+ (Stable)	[ICRA]B+ (Stable)	[ICRA]D	[ICRA]D
2	Cash Credit	Long Term/ Short Term	2800.00	-	**[ICRA]BB- (Stable)/ [ICRA]A4**	[ICRA]B (Stable)	[ICRA]D	[ICRA]BB+ (Stable)	[ICRA]B+ (Stable)	[ICRA]D	[ICRA]D
3	Non-fund Based Facilities	Long Term/ Short Term	1326.90	-	**[ICRA]BB- (Stable)/ [ICRA]A4**	[ICRA]B (Stable)	[ICRA]D	[ICRA]BB+ (Stable)	[ICRA]B+ (Stable)	[ICRA]D	[ICRA]D

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based Term Loan	Simple
Fund-based Cash Credit	Simple
Non-fund Based Facilities	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	August-2011	NA	September-2037	13363.78	[ICRA]BB- (Stable)
NA	Cash Credit	NA	NA	NA	2800.00	[ICRA]BB- (Stable)/ [ICRA]A4
NA	Non-fund Based Facilities	NA	NA	NA	1326.90	[ICRA]BB- (Stable)/ [ICRA]A4

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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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

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