June 28, 2024

R K M Powergen Private Limited: Rating upgraded to [ICRA]BBB- (Stable); rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Term loans	846.06	4,962.52	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)/assigned for enhanced amount
Long term – Non-fund based – Bank guarantee/Letter of credit	1,029.61	993.17	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Long term – Fund based – Cash credit	436.32	436.32	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Total	**2,311.99**	**6,392.01**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade factors in the improvement in the company's performance in FY2024, driven by healthy power demand in the short-term market, resulting in robust cash accruals. Also, the award of 600-MW capacity under the SHAKTI (Scheme to Harness and Allocate Koyla Transparently in India) Policy, 2017, through PFC Consulting, at remunerative tariff rates, has improved the visibility on the company's revenues and cash flows over the medium term. Under this scheme, the company will supply power to MP Power Management Company Limited (MPPMCL; Madhya Pradesh), New Delhi Municipal Council (NDMC; Delhi), Jammu and Kashmir Power Development Department (JKPDD; Jammu and Kashmir) and Haryana Power Purchase Centre (HPPC; Haryana). The PPAs have been signed with NDMC, JKPDD and HPPC, while the PPA with MPPMCL is expected to be signed soon. Also, the power supply to Haryana and Delhi has commenced, while it is expected to begin by the end of June 2024 for Jammu and Kashmir. With the commencement of supply under these 600-MW PPAs, the share of the operational long-term and medium-term PPAs will increase to 73% from 27% of the total project capacity[1].

The company's receivables have also reduced over the last two fiscals to Rs. 439.83 crore as on March 31, 2024 (provisional numbers) from Rs. 534.18 crore as on March 31, 2023 and Rs. 985.17 crore as on March 31, 2022. The company had stopped supplying power under the 550-MW PPA with PTC India. Ltd. (power supplied to Telangana discoms) from October 15, 2021 owing to payment delays. The total receivables outstanding from PTC were ~Rs. 336.00 crore as of July 2022, including the interest penalty, which reduced to ~Rs. 65.91 crore as of February 2024. Also, as there were payment delays from Uttar Pradesh Power Corporation Limited (UPPCL; UP discoms) in the recent past, dues of ~Rs. 128.00 crore were converted to instalments under the late payment surcharge (LPS) scheme in July 2022. The company is now receiving the LPS instalments and current bills on a timely basis from the UP discoms as well, thereby reducing the receivables to a large extent. This has led to an improvement in the company's liquidity position, resulting in healthy free cash and bank balances.

The rating, however, remains constrained by the lack of long-term or medium-term PPAs for ~27% of the project capacity, exposing the company to volume and tariff risks in the short-term market. While the company has benefited from the high tariffs in the short-term market in recent times, it remains to be seen whether this tariff trend will sustain over a longer period. ICRA also takes note of the counterparty credit risks arising out of the company's exposure to the state discoms (under the long-term/medium-term PPAs), some of which have weak financial risk profiles.

[1] *After adjusting for auxiliary consumption of 10%*

Further, ICRA takes note of the project's fuel cost pass-through risks for the sale of power in the short-term market as the coal requirement for short-term sales is met through e-auctions and the short-term tariff remains exposed to demand-supply trends. Also, the company's long-term and medium term PPAs have partial pass-through of fuel costs through the escalable component and not full pass-through. Additionally, the lack of railway siding leads to higher transportation costs, adversely impacting the cost competitiveness of the tariffs offered by the project. Notwithstanding this, the company's enhanced liquidity position is expected to aid in funding the capex for railway siding and complying with the revised emission norms over the next two to three years. The timely completion of the capex within the budgeted costs remains important.

The Stable outlook on the long-term rating reflects the visibility on the company's revenues offered by the long-term and medium-term PPAs for ~73% of the capacity and the expected remunerative tariffs in the short-term market in the near term. Moreover, ICRA expects the company to continue to report satisfactory plant availability and efficiency levels, allowing it to adequately bill and recover the fixed capacity charges as per the tariff order/PPA, and recover the payments in a timely manner from its key offtakers.

Key rating drivers and their description

Credit strengths

Operational coal-based project with long-term and medium term PPAs - The entire 1,440-MW power generation capacity of RKMPPL was commissioned by March 2019. The company has been supplying power to the Uttar Pradesh discoms under a 25-year long-term PPA for 350 MW. The company has been awarded 600-MW capacity under the Government of India's SHAKTI policy, 2017, through the bidding conducted by PFC Consulting. Under this scheme, the company will supply power to MPPMCL (Madhya Pradesh; 145.46 MW), NDMC (Delhi; 90.90 MW), JKPDD (Jammu and Kashmir; 181.82 MW) and HPPC (Haryana; 181.82 MW). The PPAs have been signed with NDMC, JKPDD and HPPC, while the PPA with MPPMCL is expected to be signed soon. Also, the power supply to Haryana and Delhi has commenced, while it is expected to begin by the end of June 2024 for Jammu and Kashmir. The coal procurement source is already arranged under this scheme and the company has signed the fuel supply agreements (FSA), which would become operational once power supply under the PPAs starts.

At present, the company has an FSA for the UPPCL PPA for coal supply of 1.79 MMTPA. For the 600-MW PPAs awarded under SHAKTI policy, the company has FSAs for 3.50 MMTPA of coal. This will take the total FSA linkage of the plant to 5.29 MMTPA, supporting the company's profitability levels.

Comfortable liquidity position; improved coverage metrics - The company's liquidity position remains comfortable owing to healthy cash accruals in FY2024 and the reduction in receivables. The company had free cash and bank balances of ~Rs. 1,496.3 crore as of April 2024. Apart from this, the company was maintaining one quarter's DSRA balance of Rs. 193.00 crore. Also, with the tie-up of the 600-MW medium-term PPAs under the SHAKTI scheme, the company's revenue and cash flow visibility has improved over the medium term, while reducing the exposure to volume/tariff risks in the short-term market and availability/pricing risks arising from the dependence on e-auction coal procurement. The debt service coverage ratio (DSCR) is expected to remain comfortable above 1.35x over FY2025-FY2026.

Credit challenges

Lack of long-term/medium-term PPAs for entire capacity exposes profitability to volatility in short-term rates and coal prices - The project's PLF levels have remained subdued owing to the lack of PPAs for the entire project capacity. However, the PLF improved to 58.50% in FY2024 from 47.55% in FY2023 owing to higher sales in the short-term market, driven by remunerative tariff rates. The PLF levels are expected to improve in the near to medium term with the commencement of supply under the recently awarded 600-MW PPAs. Despite the medium-term PPAs for 600 MW, ~27% of the project capacity remains untied, exposing the company to volume and tariff risks in the short-term market. The exposure to the short-term market also makes the company's profitability and cash flows vulnerable to the pricing and availability risks arising from coal procurement through the e-auction/open market. A sustainable improvement in the operating performance would remain contingent on the company's ability to renew medium-term PPAs/tie-up new PPAs, along with sales through the short-term route at remunerative tariffs.

High counterparty credit risks - The counterparty credit risks remain high for RKMPPL because of the existing exposure to UP discoms, which have moderately weak financial risk profiles. Also, there were payment delays from UP discoms in the recent past, owing to which dues of ~Rs. 128.00 crore were converted to instalments under the late payment surcharge (LPS) scheme in July 2022. The company is now receiving the LPS instalments and current bills on a timely basis and the receivables from UP discoms reduced to Rs. 154.44 crore as on February 29, 2024 (more than six months receivables of Rs. 56.90 crore) from Rs. 220.90 crore as of March 2023.

The 600-MW PPAs awarded under the SHAKTI policy also expose the company to the financially weak state discoms of Madhya Pradesh and Jammu & Kashmir.

Capex required to comply with revised emission norms and complete pending auxiliary works - The company is required to incur additional capex of Rs. 950-980.0 crore to complete the auxiliary works related to railway siding and comply with the revised emission norms (FGD) over the next two years (by FY2026). The ability of the company to fund the stated capex will remain important from a credit standpoint. Nonetheless, the enhanced cash balances and anticipated cash inflows are expected to remain adequate to fund this capex.

Liquidity position: Adequate

The company's liquidity position remains adequate, marked by free cash and bank balance of Rs. 1,496.3 crore as of April 2024 and undrawn fund-based working capital limits of ~Rs. 436.00 crore as of April 2024. The company is also maintaining a DSRA balance of Rs. 193.00 crore, which is equivalent to one quarter's debt servicing (principal + interest). Further, the company is expected to generate adequate cash flow from operations against an annual debt repayment obligation of ~Rs. 284.0 crore in FY2025.

Rating sensitivities

Positive factors – Tie-up of long-term PPAs for the untied capacity at remunerative tariff rates along with sustained improvement in the operating performance of the plant with timely payments by the offtakers, while maintaining adequate liquidity and comfortable debt coverage metrics, could lead to a rating upgrade.

Negative factors – Pressure on the rating could emerge if any significant deterioration in the operating performance of the plant or a build-up of receivables due to delayed payments by the offtakers impacts the company's credit metrics and liquidity position. A specific credit metric for downgrade would be the cumulative DSCR remaining below 1.20 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for Power - Thermal
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

RKMPPL is a special purpose vehicle promoted by the Chennai-based R.K. Powergen Group, Malaysia-based Mudajaya Group and Enerk International Holdings Limited to develop a 1,440-MW domestic coal-based power project in the Janjgir Champa district of Chhattisgarh. The first unit of the project was commissioned in November 2015, followed by unit-2 in February 2016, unit-3 in November 2017 and unit-4 in March 2019. The project cost stood at Rs. 13,827.71 crore (Rs. 9.60 crore per MW) as of March 2019 against the appraised cost of Rs. 6,653.60 crore (Rs. 4.62 crore per MW).

Key financial indicators

Standalone	FY2023	FY2024*
Operating income	3,091.2	3,889.7
PAT	154.8	402.2
OPBDIT/OI	33.0%	31.2%
PAT/OI	5.0%	10.3%
Total outside liabilities/Tangible net worth (times)	1.4	1.3
Total debt/OPBDIT (times)	5.3	4.1
Interest coverage (times)	1.5	2.0

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

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 (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 29, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 28, 2024	Sep 13, 2023	Aug 05, 2022	Aug 16, 2021
1	Fund based – Term loans	Long term	4,962.52	4,962.52	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable)
2	Non-fund based – Bank guarantee/ Letter of credit	Long term	993.17	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable)
3	Fund Based – Cash credit	Long term	436.32	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Term loan	Simple
Long term – Non-fund Based – Bank guarantee/Letter of credit	Very Simple
Long term – Fund based – Cash credit	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 loans**	Sep-2020	10.00%	Apr-2041	4,962.52	[ICRA]BBB- (Stable)
NA	**Bank guarantee/Letter of credit**	NA	NA	NA	993.17	[ICRA]BBB- (Stable)
NA	**Cash credit**	NA	NA	NA	436.32	[ICRA]BBB- (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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.

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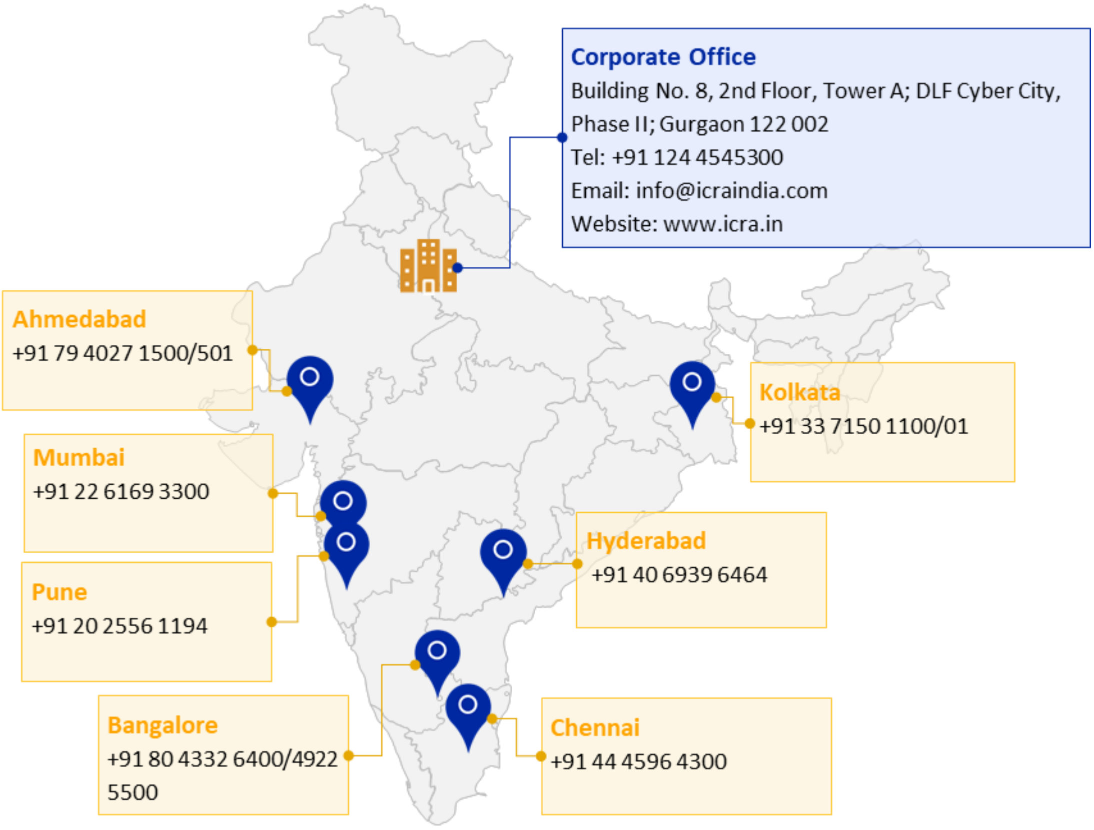

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