

August 30, 2024

Arunachal Pradesh Power Corporation Pvt Ltd: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund-based – Overdraft	10.00	27.00	[ICRA]A3+; reaffirmed and assigned for enhanced amount
Short-term fund-based – Working capital demand loan	10.00	10.00	[ICRA]A3+; reaffirmed
Short-term non-fund based – LC/BG	20.00	108.00	[ICRA]A3+; reaffirmed and assigned for enhanced amount
Short term-unallocated-unallocated	60.00	0.00	-
Proposed working capital facility	0.00	5.00	[ICRA]A3+; reaffirmed
Total	100.00	150.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings on the bank loan facilities of Arunachal Pradesh Power Corporation Private Limited (APPCPL) factors in the largely stable performance of the company's core trading business. The operating profitability improved in FY2024, mainly on account of the higher margin earned by company from the trading segment compared to the previous year. APPCPL's liquidity position is adequate, supported by a steady growth in internal accruals and minimal repayment obligations, which have resulted in cash & cash equivalents of Rs. 16.1 crore and available overdraft limits of Rs. 22 crore as on June 30, 2024. Further, APPCPL's financial risk profile continued to be healthy, marked by a gearing of 0.9 times as on March 31, 2024 (0.7 times as on March 31, 2023). APPCPL has plans to invest in other ventures/group companies which can moderate its liquidity and coverage indicators going forward and shall remain a key monitorable.

The rating is, however, constrained by APPCPL's small scale of operations with its trading volumes constituting 4.3% of the overall short-term trade in FY2023. The increase in scale will not only contribute to the improved profitability but also help diversify its customer base, lowering the counterparty credit risk from its exposure to distribution utilities. Although the payment terms are back-to-back in the trading contracts, the risk of delays in payments from customers cannot be ruled out, considering the weak financial profile of most state utilities. This in turn can erode the liquidity buffer that the company has maintained over the years.

Going forward, the company's ability to improve its market share and profitability, while maintaining a comfortable liquidity position will remain important from a credit perspective.

Key rating drivers and their description

Credit strengths

Steady operating performance of trading business – The company's operating performance has remained stable, marked by gross profit margin in the range of 3-5% over the last few years, except for FY2023, wherein it was lower at below 2%. The company's trading business has also grown at a steady pace in the last few years, to ~10,558 million units in FY2024 from ~4,433 million units in FY2021.

Healthy financial profile - APPCPL's financial risk profile remains healthy, marked by a gearing of 0.9 times as on March 31, 2024 (0.7 times as on March 31, 2023) and interest coverage of 8.6 times in FY2024. The company's internal accruals have consistently improved, backed by a steady growth in revenues, retention of profits, low capital expenditure and minimal repayment obligations, that has resulted in an adequate liquidity position. The company had cash & cash equivalent of Rs. 16.1 crore and available overdraft limits of Rs. 22 crore as on June 30, 2024. APPCPL has plans to invest in other ventures/group companies which can moderate its liquidity and coverage indicators going forward and shall remain a key monitorable.

Credit challenges

Modest scale of operations- APPCPL's share of trading volumes in the STT (short-term trade) market has remained low over the past three years and was 4.31% in FY2023 (though improved from 3.7% in previous year). The margins in the STT segment have been declining for the industry as a whole over the last few years with the shift in transactions to the energy exchanges. An increase in scale will not only contribute to improved profitability but also help diversify its customer base, lowering the counterparty credit risk arising out of its exposure to distribution utilities. With the increasing participation in power exchange transactions, the profitability from its core trading business is expected to remain low.

Exposure to counterparty credit risks- APPCPL is exposed to counterparty credit risks because of its exposure to power distribution companies and delays in payments from other customers. Although the payment and other contractual terms are back-to-back in the trading contracts, the risk of delays in payments from the customers cannot be ruled out, considering the weak financial profile of most state utilities. The stretching of payments by customers can result in a quick decline in the company's available liquid funds and constrain its ability to enter into incremental trading contracts, lowering its operating profits and ability to service debt. Comfort is drawn from the fact that the STT segment is highly sensitive to the payment track record of the counterparties. Despite the small volumes of the STT segment compared to the overall electricity demand of the country, it helps distribution companies meet their immediate demand arising out of supply/load mismatches and hence the likelihood of payment delays in this segment are minimal.

Liquidity position: Adequate

APPCPL's liquidity is adequate, supported by a steady growth in internal accruals, low capital expenditure and minimal repayment obligations, which have resulted in healthy cash balances. Its working capital limits are largely backed by fixed deposits. The free cash flows are expected to remain adequate to meet its debt servicing obligations. Further, the company's liquidity position is supported by cash & cash equivalents of Rs. 16.1 crore and available overdraft limits of Rs. 22 crore as on June 30, 2024. Any large investment in group companies or delays in realisation of payments from the state distribution utilities will remain a key monitorable.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if the company demonstrates a significant improvement in earnings, improving credit metrics while maintaining the comfortable liquidity position.

Negative factors – Pressure on APPCPL's rating could arise if any significant debt-funded capital expenditure deteriorates its coverage indicators. Other factors that may affect the rating are delays in payments from customers elongating the working capital cycle and elevating the working capital borrowings or increase in loans to Group companies lowering the liquidity buffer. ICRA may also downgrade the rating if the total outside liabilities to tangible net worth remains above 1.8x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity

About the company

APPCPL, incorporated in 2009, is involved in trading power through bilateral transactions and power exchanges, in addition to energy banking and trading of RECs. Its clients include power distribution utilities, industrial and commercial consumers as well as generators. It is a trader member of the Indian Energy Exchange (IEX) and has been trading on the IEX platform since August 2009. APPCPL holds a category-II licence issued by the CERC for inter-state trading of electricity since November 2016. It is also involved in the installation and operation of solar photovoltaic rooftop plants either through own ownership or as an EPC player.

Key financial indicators

APPCPL (Audited)	FY2023	FY2024*
Operating income	2361.4	2754.8
PAT	6.8	13.2
OPBDIT/OI	0.6%	0.8%
PAT/OI	0.3%	0.5%
Total outside liabilities/Tangible net worth (times)	1.9	1.8
Total debt/OPBDIT (times)	3.8	3.3
Interest coverage (times)	4.4	8.6

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

		Current (FY2025)		Chronology of rating history for the past 3 years					
		FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs crore)	Aug 30, 2024	Date	Rating	Date	Rating	Date	Rating
Short term-working capital demand loan-fund based	Short Term	10.00	[ICRA]A3+	30-MAY-2023	[ICRA]A3+	-	-	-	-
Short term-overdraft-fund based	Short Term	27.00	[ICRA]A3+	30-MAY-2023	[ICRA]A3+	-	-	-	-
Short term-unallocated-unallocated	Short Term	0.00		30-MAY-2023	[ICRA]A3+	15-MAR-2023	[ICRA]A3+	21-FEB-2022	[ICRA]A3+
Short term-proposed-fund based/non fund based	Short Term	5.00	[ICRA]A3+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based overdraft limits	Simple
Fund-based working capital demand loan	Simple
Non-fund based limit – LC/BG	Very Simple
Proposed working capital facility	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 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	Working capital limit	NA	NA	NA	27.00	[ICRA]A3+
NA	Working capital demand loan	NA	NA	NA	10.00	[ICRA]A3+
NA	LC/BG Limit	NA	NA	NA	108.00	[ICRA]A3+
NA	Proposed working capital facility	NA	NA	NA	5.00	[ICRA]A3+

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

ANALYST CONTACTS

Girishkumar Kadam

+91 22 61143441

girishkumar@icraindia.com

Vikram V

+91 40 4547 4829

vikram.v@icraindia.com

Siddhartha Kaushik

+91 124 4545323

siddhartha.kaushik@icraindia.com

Chinmay Sheth

+91 79 4027 1550

chinmay.sheth@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@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



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2024 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.