ICRA

February 07, 2017

Lalitpur Power Generation Company Limited

Instruments*	Amount Rated (Rs. Cr.)	Rating Action
Term Loans	13932 (revised from 14139)	[ICRA]BBB- (Reaffirmed) (Outlook revised to 'Negative'
Cash Credit	2167#	[ICRA]BBB- (Negative) (Assigned)
Non Fund Based Limits	1654 (enhanced from 1221)	[ICRA]BBB- (Reaffirmed) (Outlook revised to 'Negative'

**Instrument details are provided in Annexure-1*
#includes Rs. 167 Cr. of non fund based limits

Rating Action

ICRA has reaffirmed the long term rating of [ICRA]BBB- (pronounced ICRA triple B minus)[1] outstanding on the Rs. 16431.0 Cr.[2] bank facilities of Lalitpur Power Generation Company Limited (LPGCL). ICRA has also assigned the long term term rating of [ICRA]BBB- (pronounced ICRA triple B minus) on the Rs. 1322.0 Cr. bank facilities of LPGCL. The outlook on the long term rating has been revised to 'Negative' from 'Stable'.

Rationale

The revision in the outlook factors in the financial risks arising out of the substantial increase in the capital cost from Rs. 12112 Cr. (Rs. 6.12 Cr. per MW) at the time of inception to Rs. 18575 Cr. (Rs. 9.38 Cr. per MW) for the company's 1980 MW thermal power plant located in UP. The aforesaid cost increase necessitates substantial revision in tariffs which is in process of upward revision based on UPERC regulation on actual expenditure incurred till September, 2015. However, the current approved (provisional) tariffs are based on a lower capital cost estimate (Rs. 12868 Cr.) and given the political situation in UP, delays in tariff finalization cannot be ruled out. This apart ICRA has taken note of the proposed disallowances of certain cost elements by UPERC pending the finalization of a firm long term Fuel Supply Arrangement (FSA).

ICRA's reaffirmation of the ratings in the investment grade category however factors in the commencement of generation in all 3 units of the project within the stipulated approved timelines as per the PPA, which largely mitigates the project execution risks it was hitherto subjected to. The rating continues to derive strength from the presence of a reputed equipment supplier for boiler- turbine-generator (BTG) in BHEL and presence of adequate provision for liquidated damages (LDs) and warranties in the contract. ICRA further takes comfort due to presence of long-term PPA, which assures no offtake risks; and the cost plus nature of the tariff which protects the project returns from variability in fuel costs, subject of course to acceptance of the capital cost estimates by the UPERC. ICRA further takes into account the successful commissioning of the 765 kv transmission line by Power Grid in October 2016 to be a key positive for the project. Additionally, ICRA also notes that the company has also benefitted from the surplus production of domestic coal and have been procuring domestic coal through short term e-auctions wherein the prices are largely in line with the applicable prices in case of a long term FSA. ICRA also takes comfort from the project being a part of Shishir Bajaj group of companies.

These strengths are however tempered by the significant time and cost overrun (majorly due to increase in IDC component). The project is also exposed to fuel supply and pricing risks given that a long-term FSA has still to be signed. Although, ICRA derives some comfort from the fact that the company has been able to source coal from the e-auction route as rates which are not significantly higher than the price of linkage coal. This situation largely is a consequence of improved domestic coal availability with CIL.

This apart, ICRA notes that generation levels from the commissioned units is still quite modest and given that interest servicing has commenced, the company will have to bolster its liquidity to meet contractual obligations.

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[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2] 100 lakh = 1 crore = 10 million

In this context, the ability of the promoters to bring in additional funds to meet any shortfall in case of a delay or shortfall in receipt of payments from the counterparty would be critical.

Key rating drivers

Credit Strengths

- Experienced and well-established promoter (Shishir Bajaj Group) with a well demonstrated track record in sugar, cogen and power business
- No execution risk, owing to successful commissioning of all 3 units of the project within the stipulated approved timelines as per the PPA
- Presence of long-term PPA with UPPCL which assures offtake of the entire power of the 1980 MW thermal power plant; Cost plus nature of the PPA provides further comfort
- Availability of transmission infrastructure owing to commissioning of 765 kv transmission line
- Presence of a reputed equipment supplier for boiler- turbine-generator (BTG) in BHEL and presence of adequate provision for liquidated damages (LDs) and warranties in the contract

Credit Concerns

- Substantial time and cost overrun which has increased the overall cost to Rs. 18575 Cr. as against cost of Rs. 12112 Cr. envisaged at the time of setting up the project
- The project is also exposed to fuel supply and pricing risks given the absence of a long-term FSA
- Counterparty credit risks on account of exposure to UP based discom (UPPCL) which has poor financial health; However, escrow arrangement & payment security mechanisms in the PPA provides for a monthly unconditional, revolving and irrevocable LC equivalent to 1.1 times the estimated average monthly billing with a tenure of 12 months
- Present repayment schedule starts from June 2017 and hence in case of any delay in approval of an increased provisional tariff, there may be liquidity concerns; However the company plans to defer and elongate its repayments
- Proposed disallowances of certain cost elements by UPERC pending the finalization of a firm long term FSA

Description of key rating drivers highlighted above:
Lalitpur Power Generation Company Limited is the SPV for setting up 1980 MW (3*660 MW) coal based thermal power plant in district Lalitpur, Uttar Pradesh. The project was awarded via Memorandum of Understanding (MoU) route to Bajaj Hindustan Limited (part of Shishir-Bajaj group) by Government of Uttar Pradesh (GoUP) in December 2010. The group has well demonstrated track record in sugar, cogeneration and power business which is one of the key strengths of the project. Long term PPA was signed with Uttar Pradesh Power Corporation Limited for sale of 90% of installed capacity of the project on cost-plus basis which was subsequently increased to 100% of installed capacity on cost-plus basis. Cost-plus nature of PPA ensures recovery of capital cost incurred in the project subject to approval of capital cost by Uttar Pradesh Electricity Regulatory Commission (UPERC). The project is not subject to variation in fuel price in cost-plus PPA. All the three units of the projects have been commissioned as per the timelines of the PPA. Moreover, the transmission line associated with the project has been commissioned by Power Grid Corporation of India Limited. Hence, the project does not face any execution risk as on date. The boiler-turbine-generator for the project was supplied by BHEL, which is a reputed equipment supplier in India. Hence, operational risk associated with the project is also low.

However, it may be noted that the project has witnessed substantial time and cost overrun with the overall project cost increasing to Rs. 18575 Cr. as against project cost of Rs. 12112 Cr. envisaged at the time of setting up the project. Hence, it would be critical for the company to secure pass through of entire project cost from UPERC during tariff determination process. ICRA also notes that the FSA for the project is yet to be signed which subjects the project to fuel supply and price risks. Although, ICRA derives some comfort from the fact that the company has been able to source coal from the e-auction route at rates which are not significantly higher than the price of linkage coal. This situation largely is a consequence of improved domestic coal availability with CIL. Moreover, cost-plus nature of the PPA allows pass-through of the variation in fuel price to consumers. ICRA also notes that the project has exposure to UPPCL which has relatively weak financial profile. However, the PPA provides for a monthly unconditional, revolving and irrevocable LC having a tenure of 12 months and equivalent to 1.1 times the estimated average monthly billing. Additionally, the presence of escrow arrangement for collection of receivables provides payment security to the company. ICRA also notes that, the present repayment schedule commences from June 2017 and hence in case of any delay in approval of an increased provisional tariff, there may be liquidity concerns. However, it may be noted that, LPGCL has already filed for provisional tariff for unit-2 which is expected to be higher than the prevailing provisional tariff. Moreover the company also plans to defer and/or elongate its repayments which will mitigate the liquidity concern.

Analytical approach
Not Applicable

Links to applicable Criteria
Corporate Credit Ratings: A Note on Methodology
ICRA Rating Methodology for IPPs and Power Generation Projects

About the Company:
LPGCL is a SPV promoted by the Shishir Bajaj Group of Companies for the development of a 1980 (3X660) thermal power project based on super critical technology at Lalitpur (Uttar Pradesh). The project was awarded to the Group by Government of Uttar Pradesh (GoUP) after Expression of Interest (EoI) call and the subsequent bidding process. The revised cost of project is Rs 18575 crore The Company has achieved Project COD in December, 2016 with the first unit of the plant attained COD in December 2015, 2nd unit in October 2016 and 3rd unit in December 2016.

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S. No.	Name of Instrument	Current Rating				Chronology of Rating History for the past 3 years		
		Type	**Rated amount (Rs. Crores)**	**Month - year & rating**	**Month - year & rating**	**Month - year & Rating in FY2016**	**Month - year & Rating in FY2015**	**Month - year & Rating in FY2014**
1	Term Loans/ Cash Credit	Long term		**February 2017**	**May 2016**	**Oct 2015**	**Aug 2014**	**Feb 2014**
			13932	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
2	Non Fund Based Limits	Long term	1654	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
3	Cash Credit	Long term	2167*	[ICRA]BBB- (Negative)				
4	Unallocated	Long Term			[ICRA]BBB- (Stable)			

**includes Rs. 167 Cr. non fund based limits*

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
Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loans	24- Aug - 2011	-	30-Jun-2030	13932	[ICRA]BBB- (Negative)
Cash Credit*	-	-	-	2167	[ICRA]BBB- (Negative)
Non Fund Based Limits	-	-	-	1654	[ICRA]BBB- (Negative)

**includes Rs. 167 Cr. non fund based limits*

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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.
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