

October 13, 2017

OPGS Power Gujarat Private Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Term Loans	1497.40	[ICRA]D; downgraded from [ICRA]BB+ (Negative)
Fund based limits – Cash Credit	135.00	[ICRA]D; downgraded from [ICRA]BB+ (Negative)
Non-fund based limits – LC / BG	430.00	[ICRA]D; downgraded from [ICRA]A4+
Total	2,062.40	

*Instrument details are provided in Annexure-1

Rating action

ICRA has downgraded the long-term rating from [ICRA]BB+ (pronounced ICRA double B plus) to [ICRA]D (pronounced ICRA D) and the short-term rating from [ICRA]A4+ (pronounced ICRA A four plus) to [ICRA]D (pronounced ICRA D) outstanding on the bank limits of OPGS Power Gujarat Private Limited (OPGPL) aggregating to Rs. 2,062.40 crore.

Rationale

The revision in the ratings takes into account the delays in debt servicing because of stretched liquidity position of the company. The financial position of the company has deteriorated in FY 2017 owing to the delays in securing recognition under the 'Group Captive Policy' in Gujarat for its thermal power project which in turn has impacted tariff attractiveness of the project & as a result, the company is required to bear part of open access charges (i.e. cross subsidy surcharge & additional surcharge). The company's gearing level & debt coverage metrics thus remain adversely impacted as on March 2017 due to the losses incurred post-commissioning, also given the high capital cost & debt funded nature of the project.

The ratings are, further constrained by the exposure to international coal prices and currency exchange rates as the company is currently using imported coal for its fuel requirements in the absence of any firm fuel tie-up with domestic sources. The ratings also factor the high capital cost incurred by the company (of about Rs. 6.75 crore/MW) due to delays in commissioning of the project which dampens the project economics. ICRA notes that the company has restructured the project debt under the 5/25 scheme wherein its debt repayments have a ballooning schedule over a longer tenure. The reduction in debt obligations in the initial years is expected to support the cash flow position of the company.

Key rating drivers

Credit strengths

- **Ramp up of operations of Unit-II post-commissioning in February 2016, albeit with delays and cost overruns** - The company achieved Commercial Operation Date (COD) of Unit-I in February 2015 and COD of Unit-II was achieved in February 2016 due to delays in setting up of required evacuation infrastructure. Nonetheless, post-commissioning of both units, the plant has been able to ramp up operations and reported 66% PLF in FY2017

- **PPAs signed for 180 MW capacity (net of auxiliary) across 50 customers which reduces dependence on a single customer** - The company has so far tied-up short-to-medium term PPAs with about 50 customers for 180 MW of power capacity (net of auxiliary) and is in discussions with industrial customers in nearby states of Maharashtra and Madhya Pradesh to tie-up PPAs for the remaining capacity. The tariffs are at a discount to the prevailing HT (high-tension) tariff rates in the respective states
- **Established track record of the group in execution and operation of coal based power plants** - OPGPL is a Special Purpose Vehicle (SPV) promoted by OPG Group which has substantial experience in the power and steel sectors

Credit weaknesses

- **High capital costs (Rs 6.75 crore/MW) owing to sizeable delays in project completion** - OPGPL's project had seen considerable delays in the initial years, owing to delayed receipt of environmental clearances and litigation over the same. There was also a delay in achieving financial closure for enhancement in project scope and cost.
- **Company yet to be recognised under the 'Group Captive Policy' in Gujarat** - The company had setup the project under the Group Captive Policy as per which OPGPL has to sell 51% of its power output to captive consumers who would hold, in aggregate, more than 26% of the voting rights in OPGPL. However, the Gujarat Government is yet to recognise the project under the Group Captive Policy owing to dispute on the different face value of shares being offered to captive consumers and the promoters. As a result, the company's customers have to bear the cross-subsidy surcharge (Rs. 1.45/unit) and additional surcharge (Rs. 0.44/unit) applicable in Gujarat, which is currently being partly reimbursed by the company.
- **Significant exposure towards volatile international coal prices** - The company is currently using Indonesian coal to meet its fuel requirements. With the increase in international coal prices in the past year, the company's cost of generation has increased.
- **Profitability to remain exposed to forex rate movements in the absence of a firm hedging policy** – Company's profitability remain exposed to the movement in the international coal prices and the currency exchange rates. The company had received LOA from South Eastern Coalfields Limited for 10.32 lakh tonnes per annum of F-grade coal, but the same is yet to be converted to FSA despite the plant being commissioned. Also, power surplus position in the state of Gujarat could lead to reduction in tariffs going forward and impact the company's margins

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Ratings: A Note on Methodology](#)
[Rating Methodology for Thermal Power Producers](#)

About the company

OPGS Power Gujarat Private Limited (OPGPL) was incorporated in April 2007 as a Special Purpose Vehicle (SPV) promoted by OPG Group which has substantial experience in the power and steel sectors. The company had initially planned to setup a 270 MW (2 x 135 MW) coal based power plant but subsequently revised its plant capacity to 300 MW (2 x 150 MW). The plant is based in Kutch, Gujarat and had a scheduled Commercial Operation Date (COD) of February 2013; however, the project witnessed delays due to litigation over the CRZ (Coastal Regulatory Zone) clearance granted to it and subsequently due to delay in setting up of evacuation infrastructure. The first unit achieved COD in February 2015 and the second unit achieved COD in February 2016. The total cost incurred for the project is Rs. 2,026 crore, funded through Rs. 1,497 crore of debt and Rs. 529 crore of equity.

Key Financial Indicators

	FY2016 (Audited)	FY2017 (Provisional)
Operating Income (Rs. crore)	92.31	704.40
PAT (Rs. crore)	-42.20	-187.60
OPBDIT/OI (%)	20.60%	22.01%
RoCE (%)	-1.36%	0.52%
Total Debt/TNW (times)	3.2	6.0
Total Debt/OPBDIT (times)	12.7	10.1
Interest coverage (times)	0.55	0.78
NWC/ OI (%)	-22%	9%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years				
		Type	Rated amount (Rs. Crore)	Month - year & rating	Month - year & Rating in FY2017	Month - year & Rating in FY2017		Month - year & Rating in FY2016	Month - year & Rating in FY2015
1	Term Loans	Long term		October 2017	June 2018	Feb 2017	May 2016	May 2015	April 2014
			1,497.40	[ICRA]D	[ICRA]B B+ (negative)	[ICRA]BB B- (negative)	[ICRA]B BB- (stable)	[ICRA]BB+ (positive)	[ICRA]BB+ (stable)
2	Fund based – CC	Long term	135.00	[ICRA]D	[ICRA]B B+ (negative)	[ICRA]BB B- (negative)	[ICRA]B BB- (stable)	[ICRA]BB+ (positive)	[ICRA]BB+ (stable)
3	Non-Fund based – LC / BG	Short term	430.00	[ICRA]D	[ICRA]A 4+	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4+

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 Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loans	FY2014	--	FY2036	1,497.40	[ICRA]D
Fund based – CC	--	--	--	135.00	[ICRA]D
Non-Fund based – LC / BG	--	--	--	430.00	[ICRA]D

Source: OPGPL

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About ICRA Limited:

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