

November 01, 2019

MPSEZ Utilities Private Limited: [ICRA]A+(Stable) rating assigned

Summary of rating action

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|------------------------|-------------------------------------|----------------------------|
| Fund Based – Term Loan | 0.50 | [ICRA]A+(Stable); Assigned |
| Total | 0.50 | |

*Instrument details are provided in Annexure-1

Rationale

The rating assigned takes into consideration the strong parentage of MPSEZ Utilities Private Limited (MUPL or the company) with its parent – Adani Ports and Special Economic Zone Limited (APSEZL; rated [ICRA]AA+(Stable)/A1+) having extensive experience of operating in the Mundra special economic zone (SEZ) area and the strategic importance of MUPL to APSEZL’s operations. The rating takes into account the regulated nature of MUPL’s business and the cost-plus tariff structure ensuring healthy return on investment. This is supported by the company’s past track record of maintaining the distribution loss levels well within the approved levels. The rating factors in the competitive advantage of MUPL over the state discom viz. Paschim Gujarat Vij Company Limited (PGVCL) in terms of lower tariff, established service network and prompt service support. ICRA also notes the regulatory clarity available for MUPL’s operations with timely issuance of tariff orders and timely tariff revisions. The rating takes into account the long-term power purchase agreements (PPAs) signed with three Adani Group companies with a total contracted capacity of 62 MW at competitive rates.

The rating takes into account MUPL’s moderate scale of operations with a total operating income of Rs. 162.2 crore and the limited customer diversification with about 69 customers operating in the Mundra SEZ region in FY2019. ICRA also notes that a loss of customers to open access or to state discom could have significant impact on the company’s financial profile. However, this risk is mitigated partly by the available tariff difference. The rating is constrained by the geographical concentration with MUPL licensed to operate only in the Mundra SEZ region, thereby limiting its growth prospects to some extent. ICRA notes that any delays in the approval of the tariff orders and pass-through of cost variations to customers will remain a key rating sensitivity. The rating also factors in the high receivables as on March 31, 2019. These receivables are expected to decline in the current year and their impact is partly mitigated by the levy of delayed payment charges to the tune of 15% per annum.

The Stable outlook on the rating reflects ICRA’s opinion that MUPL will continue to benefit from its strong parentage, regulated nature of business and healthy tariff difference compared to the state discom.

Key rating drivers and their description

Credit strengths

Strong parentage and significant operational linkages between MUPL and APSEZL’s operations – MUPL is a 100% subsidiary of APSEZL. APSEZL has been operating the Mundra port for about two decades. It develops and leases land parcels in the Mundra SEZ region. Electricity distribution services provided by MUPL are critical value addition to increase the attractiveness of Mundra SEZ region, thereby benefitting APSEZL. Moreover, higher the land sale undertaken at

Mundra SEZ by APSEZL, the higher revenue growth prospect for MUPL resulting in a significant operational linkage between the operations of MUPL and APSEZL.

Regulated nature of MUPL's business, cost-plus tariff structure and actual distribution loss within approved levels – MUPL obtained the status of distribution licensee vide the Government of India notification, which was endorsed by the Gujarat Electricity Regulatory Commission (GERC) allowing for distribution of electricity in Mundra SEZ area, Kutch. Given the regulated nature of business and the cost-plus tariff structure, MUPL is able to ensure a healthy 14% return on investment by ensuring that the actual distribution loss remains lower than the approved level.

Competitive advantage over PGVCL in terms of lower tariff, established service network and prompt service support – Though the companies operating at Mundra SEZ have an option of sourcing power through the state discom viz. PGVCL, most of the customers source electricity from MUPL mainly due to its lower per unit tariff (Rs. 5.0-6.0 per unit for MUPL vis-à-vis Rs. 6.5-7.5 per unit for PGVCL), as well as the prompt service support offered by MUPL.

Regulatory clarity with timely issuance of tariff orders and timely tariff revisions – MUPL had submitted the Multi Year Tariff (MYT) petition for control period FY2017-FY2021 to GERC in November 2016 and GERC issued the MYT order in March 2017 including the projected allowed levels for the control period FY2017-FY2021, giving regulatory clarity for the sector over the period. Likewise, annual finalisation of accounts, filing of tariff petitions, issuance of tariff orders and implementation of tariff revisions continue to be done in a timely manner.

Credit challenges

Modest scale of operations and limited customer diversification – MUPL reported an operating income (OI) of Rs. 162.2 crore in FY2019 against Rs. 155.4 crore in the previous year. The company has limited customer diversification with about 69 customers operating in the Mundra SEZ region served in FY2019. Any loss of large customers to open access or to state discom would have significant impact on the company's financial profile.

Geographical concentration – MUPL is licensed to operate only in the Mundra SEZ region, thereby limiting its growth prospects to some extent. Any further growth will be driven by new customer addition, which will be gradual.

Significant increase in working capital intensity – The company procures power from the Adani Group companies and the interest-free credit period available is 45 days from the monthly invoice date. MUPL usually makes payments within 15 days of invoicing and thus claiming a significant cash discount (~1.50%) every month. On the debtor side, the collection is monthly and an interest-free credit period of 10 days is provided to customers for paying the bills. Post this, penal charges are levied at a rate of 15% per annum. As on March 31, 2019, there has been a significant increase in the receivable days, which stood at 36 days compared to seven days as on March 31, 2018. Mundra Solar PV Ltd was the single largest debtor with a receivable amount of Rs. 16 crore as on March 31, 2019.

Liquidity position: Strong

MUPL's liquidity position remains strong with healthy annual fund flow from operations of Rs. 10.5 crore in FY2019 and surplus cash and bank balance of Rs. 8.7 crore as on March 31, 2019. Its liquidity is supported by the availability of a line of credit from its parent – APSEZL. The company did not have any sanctioned fund-based working capital facility as on September 30, 2019.

Rating sensitivities

Positive triggers – Significant and sustainable increase in the scale of operations through addition of new customers, coupled with timely issuance of tariff orders could lead to a rating upgrade.

Negative triggers – Negative pressure on the rating could arise if there is substantial loss of customers leading to increase in tariff and drop in OI. Delay in recovery of receivables or any delay in issuance of tariff orders or higher-than approved distribution loss level would also exert negative pressure on the ratings.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology Rating Methodology for Power Distribution Utilities |
| Parent/Group Support | Parent Company: APSEZL The rating assigned to MUPL factors in the high likelihood of its parent, APSEZL [rated [ICRA]AA+(Stable)/A1+], extending financial support to it because of close business linkages between them. We also expect APSEZL to be willing to extend financial support to MUPL out of its need to protect its reputation from the consequences of a group entity's distress. |
| Consolidation/Standalone | The rating is based on the standalone financial profile of the company |

About the company

MUPL is a 100% subsidiary company of APSEZL. MUPL has entered into a co-developer agreement with APSEZL to provide infrastructure facilities in the Mundra SEZ area. It obtained the status of a Distribution Licensee vide the Government of India notification dated March 3, 2010. This was endorsed by the GERC vide Order No. GERC/Legal 2010/0609 dated April 6, 2010 allowing for distribution of electricity in Mundra SEZ area, Kutch.

In FY2019, the company reported a net profit of Rs. 7.5 crore on an OI of Rs. 162.2 crore, compared to a net profit of Rs. 13.2 crore on an OI of Rs. 155.4 crore in the previous year.

Key financial indicators (audited)

| | FY2018 | FY2019 |
|--|--------|--------|
| Operating Income (Rs. crore) | 155.4 | 162.2 |
| PAT (Rs. crore) | 13.2 | 7.5 |
| OPBDIT/OI (%) | 10.8% | 7.7% |
| RoCE (%) | 37.9% | 14.4% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.6 | 0.6 |
| Total Debt/OPBDIT (times) | 0.0 | 0.0 |
| Interest Coverage (times) | 3.3 | 49.4 |
| DSCR (times) | 2.9 | 34.1 |

Source: MPSEZ Utilities Private Limited; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| S. No. | Instrument | | Current Rating (FY2020) | | | Chronology of Rating History for the past 3 years | | |
|--------|------------------------|-----------|--------------------------|--------------------------------|-------------------|---|-------------------------|-------------------------|
| | | | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating | Date & Rating in FY2019 | Date & Rating in FY2018 | Date & Rating in FY2017 |
| | | Type | | | 01 November 2019 | - | - | - |
| 1 | Fund Based – Term Loan | Long Term | 0.50 | 0.10 | [ICRA]A+ (Stable) | - | - | - |

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: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|------------------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| NA | Fund Based – Term Loan | Mar-2015 | NA | Mar-2020 | 0.50 | [ICRA]A+(Stable) |

Source: MPSEZ Utilities Private Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Analyst Contacts

K. Ravichandran

+91 44 4596 4301
ravichandran@icraindia.com

Ankit Patel

+91 79 4027 1509
ankit.patel@icraindia.com

Parth Shah

+91 79 4027 1527
parth.shah@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

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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