

Arunachal Pradesh Power Corporation Pvt Ltd

April 12, 2019

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	50.00	[ICRA]A3; Assigned
Total	50.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating favourably factors in the diverse set of operations of Arunachal Pradesh Power Corporation Pvt Ltd (APPCPL) namely power trading (major revenue share), sale of Renewable Energy Certificates (RECs), installation of rooftop solar power projects etc. The company operates in short-term power trading market at both bilateral and collective (exchange) levels. Besides, APPCPL is also involved in trading of RECs over the exchanges (IEX and PXIL), consulting and advisory services and installation of rooftop solar panels. ICRA further notes the increasing quantity of power traded by APPCPL as a credit positive. Also, the company enjoys competitive advantage by virtue of being an early mover in the power trading industry. The rating is also strengthened by minimal debt obligations of the company and all the credit facilities being backed by fixed deposits securities.

However, the ratings are constrained by the company's modest scale of operations along with risks involved in the low-margin power trading business. ICRA notes that APPCPL is exposed to significant counterparty credit risks as the power is sold to state distribution utilities which have weak to moderate financial profile. This risk is however, mitigated by signing back to back power selling agreements with buyers and sellers of electricity. Moreover, the company's profitability is constrained by low margin of power trading business which is capped by Central Electricity Regulatory Commission (CERC).

Going forward, the company's ability to increase its market share and scale up its operations will remain a key rating sensitivity.

Key rating drivers

Credit strengths

Diverse set of trading and consultancy services mitigate exposure to vagaries of a particular trading segment - APPCPL operates in both bilateral and collective trade of power. While the margins for APPCPL in bilateral trade are higher (to the tune of ~3.5 paise per unit) as compared to collective (exchange) trade, increasing activity of buyers and sellers directly on the exchange may result in contracted revenues for APPCPL from the bilateral trading of power. However, presence in a multitude of trading activities, including trading of Renewable power for clients willing to fulfil their RPO, exchange of RECs on the IEX and PXIL, consultancy and advisory services and installation of rooftop solar PVs vastly mitigates concentration on a particular line of business.

Sharp increase in size of bilateral and power exchange market in FY2017-18 augurs well for APPCPL - During FY2017-18, the size of bilateral and power exchange market increased by ~38% over that of previous year. This increase can largely be attributed to increase in electricity transacted through bilateral and power exchanges, which were 5% and 27% respectively. Growing size of the bilateral and power exchange market is expected to result in proportional increase in traded volumes of all the major players including APPCPL.

Active participation in solar power tenders indicate strengthening of rooftop solar installation business – APPCPL is also involved in rooftop solar installation business wherein it installs rooftop solar panels under the Capex as well as Opex model. Current installed capacity stands at 3.5 MW while another 2.5 MW is under construction. The aggregate capacity is expected to increase in the near term given the active participation of APPCPL in solar power tenders. This will help diversify APPCPL’s revenue drivers thereby ensuring adequate coverage metrics for the company.

Introduction of Discovery of Efficient Electricity Price (DEEP) through e-Bidding and e-Reverse Auction portal to add to transparency and competition in the short-term power trading market - Ministry of Power in April 2016 had mandated short term procurement of power (with the exception of power trading done through exchanges) to be mandatorily done through the DEEP portal. Trading through this platform will bring transparency and result in curtailment of bilateral transactions at lower than market prices. However, this will also lead to increased competitive intensity as now genscos (generating companies) as well as discoms can directly bid on the e-auction platform, which can have an impact on the market share as well as trading margins of APPCPL. It is to be noted that although the DEEP portal for short term trade was introduced in April 2016, during FY2017, APPCPL’s share in ST trade stood at 5.21% as against 2.16% in FY2016. Currently, in FY2018, APPCPL’s share in ST trade stands at 5.29%.

Credit challenges

Modest scale of operations characterised by low market share – Despite increasing size of bilateral and power exchange market and traction in volumes traded by APPCPL in the last four years, APPCPL remains a modest player amongst the active trading licensees in the ST trading market. The market share enjoyed by the company in FY2018 stood at 5.3% which is akin to that of an average player in the short-term power trading market. However, APPCPL has witnessed a steep rise in its market share and has been consistently ranked as the second largest player in the ST power trading market in the past three months.

Revenues are directly linked to demand and supply position in the electricity market – The revenues generated by the company are directly related to the demand and supply metrics of the ST trading market. While healthy demand and commensurate supply may result in higher revenues, the same may fluctuate in periods of low demand or supply. However, this risk is mitigated to some extent by the virtue of being present in diverse set of trading businesses.

Susceptibility of trading operations to open access and transmission corridor availability risks - Timely transmission corridor availability and availability of open access are imperative for trading business. In addition, APPCPL also remains subjected to increasing competition/ congestion for transmission corridor. Nonetheless, under short term arrangement non-availability of transmission corridor is considered as force majeure. Also, FY 2017-18 witnessed very few constraints on the volumes of electricity transacted through power exchanges due to lower transmission constraints. During FY2017-18, the actual transacted volume was only 0.5% less than the unconstrained volume.

Liquidity Position:

The company’s liquidity is characterised by strong coverage indicators as a result of minimal debt obligations of the company and satisfactory albeit low operating profitability of the company. The liquidity position is further strengthened by healthy cash accruals of the company. However, debt obligations will increase in the near term as the company proposes to avail fresh credit facilities.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Trading Companies
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on standalone financial statements of the company

About the company:

Arunachal Pradesh Power Corporation Private Limited (APPCPL) is one of the group companies of United Brothers which was established in 1997 in Arunachal Pradesh. The group has vast experience in diverse fields viz. minerals, organic farming, manufacturing and trading of Ferro Alloys.

APPCPL is a power trading company having its base in North Eastern part of the country. It currently caters to Industries, Commercial Buildings and Offices by providing them power through Open Access (Power Exchanges as well as Bilateral). The company also provides consultancy services to industries for fulfilling their Renewable Purchase Obligation (RPO) via purchase and sale of renewable energy and Renewable Energy Certificates (RECs).

APPCPL is the “Trader Member” of Indian Energy Exchange (IEX) & has been trading on IEX platform since August 2009. APPCPL has been granted Category III license by CERC for inter-state trading of electricity since September 2012.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	575.6	1035.7
PAT (Rs. crore)	2.6	5.8
OPBDIT/OI (%)	0.7 %	0.6 %
RoCE (%)	22.4 %	34.0 %
Total Debt/TNW (times)	0.03	0.43
Total Debt/OPBDIT (times)	0.2	1.7
Interest coverage (times)	10.2	18.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating April 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 WC Facility - OD	Short Term	50.00	50.00	[ICRA]A3	NA	NA	NA

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital Facility – Over Draft	NA	NA	-	50.00	[ICRA]A3

Source: APPCPL

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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