May 22, 2020

Jindal Power Limited: Rating withdrawn for NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based term loans	6,443.80	6,443.80	[ICRA]BBB (Negative); outstanding
Long-term fund-based cash credit	650.00	650.00	[ICRA]BBB (Negative); outstanding
Long-term non-fund-based	700.00	700.00	[ICRA]BBB (Negative); outstanding
Short-term fund-based	25.00	25.00	[ICRA]A3+; outstanding
Unallocated	1569.20	1569.20	[ICRA]BBB (Negative); outstanding
Total - Bank facilities	**9,388.00**	**9,388.00**	
Non-convertible debentures	56.80	0.00	[ICRA]BBB (Negative); withdrawn

**Instrument details are provided in Annexure-1*

Rationale

The rating assigned to the non-convertible debenture (NCD) programme of Jindal Power Limited (JPL) is withdrawn in accordance with ICRA's policy on withdrawal and suspension. The rating has been withdrawn as there is no amount outstanding against the rated instrument. ICRA does not have information to suggest that the credit risk has changed since the time the rating was last reviewed.

Please refer to the previous detailed rating rationale on the following link: Click here

Key rating drivers

Credit strengths

Competitive capital cost - Supported by efficient project management, lower interest during construction (facilitated by upfront equity funding) and large capacity setup providing benefits of allied infrastructure, the company has established a large-scale 3,400 megawatt (MW) thermal power capacity at a highly competitive capital cost of ~Rs. 4.4 crore/ MW. Although the relatively lower capital cost compared to peers provides a competitive edge to JPL while bidding for PPAs, ICRA notes that the same has been partially diluted by loading of sizeable debt-funded investments as well as loans and advances to Group companies on its balance sheet.

Established track record of cost-efficient operations- ICRA draws comfort from JPL's experience and its demonstrated track record of efficient operations in thermal power generation. Even though the plant is operating at sub-optimal capacity utilisation, the company's continued focus on cost optimisation has facilitated reduction in cost of power generation during the past few years. The low cost of power generation favourably impacts its merit order position while supplying to state utilities under PPAs as well as enables it to explore other avenues for sale of power, such as sales to bulk customers and merchant sales. In this context, ICRA notes the company's consistent and favourable positioning in the tenders floated for the long/ medium-term power tie-ups in the country during the previous year. JPL emerged as the L1 bidder for 315 MW, in a tender floated under the aggregation scheme of the Central Government which was later annulled. When the fresh bids were invited in Q4 FY2020, JPL emerged as one of the preferred bidders for ~420 MW.

Vantage location of plant in terms of proximity to various coal blocks- The location of JPL's power plants in proximity to multiple coalfields results in lower logistics cost (which can be 15-25% of the coal cost), thereby providing it with access to coal at competitive costs, despite coal linkages for only 1,200 MW capacity.

Credit challenges

Elongated receivables cycle results in stretched liquidity position- Of the ~810 MW capacity tied-up at present under medium/long-term PPAs for JPL, TANGEDCO alone accounts for nearly 50%. In FY2020E, revenues from TANGEDCO accounted for over ~45% of the overall revenues (including revenues from a medium-term PPA of 200 MW which expired in August-2019) for JPL. Given the high dependence of revenues and receivables from the state distribution utilities, JPL faces the risk of an elongated receivable cycle, which is an industry-wide characteristic. More specifically, delay in payments from TANGEDCO resulted in an increase in receivable turnover period[1] for the company from 121 days in FY2018 to 167 days in FY2019 and further to ~200 days in FY2020E. ICRA notes that realisation of energy bills had regularised after August 2019, on implementation of the Government of India's directives for LC-backed power purchases by Discoms. However, some lags in clearance of bills in the recent months together with significant amounts blocked towards past dues continue to constrain the overall receivables position. Sizeable amount of funds blocked in the receivables continue to have a bearing on the company's liquidity profile, which remains stretched, as reflected in consistently high working capital limit utilisation averaging at ~93% in 9M FY2020 (over ~95% in Q3 FY2020).

Modest debt-coverage metrics- JPL's project loans were refinanced in December 2015, following which the repayment tenure for project loans increased from about eight years to more than 17 years, with a ballooning repayment structure. While the repayments remained moderate at ~Rs. 367 crore and Rs. 497 crore in FY2018 and FY2019 respectively, these increased to ~Rs. 830 crore in FY2020 (Rs. 695 crore, excluding the March 2020 instalment which is under moratorium[2]) and are estimated at Rs. 818 crore in FY2021. Given the sub-optimal capacity utilisation, company's debt coverage metrics have remained modest, as reflected in an interest coverage ratio (operating Profit before depreciation, interest and tax/ Interest) of ~1.4 times in FY2020E. Although additional interest income from its parent company-Jindal Steel & Power Limited (JSPL)[3] supplements JPL's operational cash flows, its sustained inability to secure additional long/ medium-term PPAs for a major portion of its installed capacity, and persistent delay in correction of receivables from TANGEDCO continues to constrain an improvement in its debt metrics. ICRA notes that while Covid-19 induced lockdowns have adversely impacted the all India electricity demand, in turn affecting its sales in the short-term/ power exchange market, company's contribution margins are being supported by availability of thermal coal at lower rates at present owing to decline in demand.

Elevated debt level- While the capital cost of JPL's thermal power generation assets was highly competitive, its dependence on debt increased considerably during the four-year period ending FY2017 due to higher working capital requirements, advances extended to JSPL (~Rs. 4,386-crore[4] advances, including Rs 2,854 crore for purchasing a captive power plant from JSPL) and payment of additional levy to the Government post cancellation of captive coal blocks. With

[1] Including billed/unbilled amount on account of change in law, surcharge, escalation bills etc.

[2] JPL did not honour its scheduled payment obligations falling due on March 31, 2020, for bank facilities, as it has sought a moratorium on payments from its lenders as part of the Covid-19 - Regulatory Package announced by the Reserve Bank of India (RBI) on March 27, 2020.

[3] ICRA has [ICRA]BBB-@/[ICRA]A3@ (@ denotes that ratings have been placed on watch with negative implications) ratings outstanding for the bank facilities and [ICRA]BBB-@ rating outstanding for the NCD programmes of JSPL. For details, please refer to ICRA's website - www.icra.in

[4] Excludes investments/ loans and advances to subsidiaries and other Group companies

sizeable scheduled repayments made in the last three years (FY2018-FY2020), JPL's debt level has declined from a peak of ~Rs 8,400 crore in March 2017 to ~Rs 7,200 crore in March 2020. The decline in debt levels, some improvement in operating profits and receipt of additional interest income on advances extended to JSPL from FY2019 onwards, supported an improvement in its debt metrics, as reflected by a decline in Total Debt / Profit Before Depreciation Interest and Taxes (TD/PBDITA)[5] from ~6.9 times in FY2017 to ~4.4 times in FY2020E. However, despite improvement, the debt metrics remain modest, due to still high debt levels and sub-optimal capacity utilisation.

Exposure to power off-take and raw material availability/cost risks- Of the total of 3,400 MW of thermal power capacity, JPL has long-term PPAs for only 810 MW (approximately 25%). Thus, the balance 75% of its total capacity remains exposed to off-take and price risks. Since the all-India thermal PLF has been under pressure over the past seven years (with only a marginal uptick in FY2019), lack of adequate capacity tie-up under long-term PPAs is posing challenges for JPL in achieving optimal capacity utilisation at remunerative rates. Further, JPL has coal linkage for only ~35% of its capacity (1,200 MW), with the coal supply limited to the extent of PPAs. For the remaining 2,200 MW, it remains dependent upon market purchase and e-auctions. While the company has demonstrated its ability to intermittently enter into short-term PPAs and undertake merchant sales at remunerative tariffs in the past, its ability to do so in a consistent manner remains constrained by volume risks in the short-term market and fuel availability issues. This was also witnessed in FY2019 when the company's PLF levels moderated to 35% from 37% in FY2018 amid coal supply constraints. This heightens the risks emanating from limited long/ medium-term PPAs in its portfolio, considering that JPL has access to coal linkage for part capacity, only to the extent of long/medium-term PPAs available.

Liquidity position: Stretched

JPL's liquidity position is **stretched** owing to sizeable debt repayment obligations and sub-optimal capacity utilisation which together with stretched receivables from TANGEDCO continues to constrain the company's fund flow from operations. Although additional interest income from FY2019 onwards, on loans and advances extended to JSPL in the past, have supported its cash flows, JPL's repayment obligations have increased correspondingly. As a result, utilisation of company's fund-based working capital limits has consistently remained high, averaging at more than ~93% in 9M FY2020. ICRA notes that availability of moratorium on bank loan payments under RBI's relief package for Covid-19, capitalisation of term loan interest for the moratorium period, LC-backed purchases from Coal India Limited against 90 days credit, easing of working capital financing as well as availability of enhanced working capital limits are likely to help JPL withstand the near-term impact owing to Covid-19 outbreak. Having said that, the company's liquidity profile remains a key rating monitorable.

Rating sensitivities

Positive triggers – Given the Negative outlook on the rating, a rating upgrade is less likely in the near term. However, revision in outlook on JPL's rating to Stable, or a positive movement in the rating could be driven by the company's ability to streamline its working capital cycle by demonstrating a material and sustained correction in receivables, as well as tie-up of sizeable incremental capacity under long/ medium-term PPAs at remunerative tariffs providing improved revenue visibility, while securing long-term arrangement for coal sourcing at competitive rates.

Negative triggers – Negative pressure on JPL's rating could arise in case of further delays in correction of receivable turnover cycle for TANGEDCO putting pressure on JPL's cash flows/ liquidity profile. Besides, prolonged delay in tie-up of incremental capacity resulting in continued pressure on coverage metrics will also be a downgrade trigger.

[5] Excluding interest income accrued but not being received

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers Liquidity Analysis of Entities in the Non-financial Sector
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financial statements of JPL.

About the company

Incorporated in 1995, JPL is involved in the power-generation business with 3,400 mega watt (MW) of thermal power-generation capacity at Tamnar in Raigarh district of Chhattisgarh. JPL is promoted and 96.43% owned by Jindal Steel & Power Limited (JSPL).

JPL's first power plant (EUP -1), with a 1,000 MW (250 MW X 4) capacity, commenced operations from September 2008. Thereafter, the company established an incremental 2,400-MW capacity adjacent to EUP-1. The 2,400-MW plant is divided into two phases with each phase having two units of 600 MW each. The first phase of the 1,200-MW (EUP-2) capacity has a coal supply linkage with Coal India Limited (CIL), while coal for the second phase of the 1,200-MW (EUP-3) capacity as well as that for EUP-1 is not tied at present.

Key financial indicators (Audited)-Standalone

	FY2018	FY2019	9MFY2020*
Operating Income (Rs. crore)	4,081.5	3,858.5	2,845.5
PAT (Rs. crore)	(673.6)	(434.2)	(95.6)
OPBDIT/OI (%)	35.1%	29.9%	32.2%
RoCE (%)	1.0%	1.6%	3.3%
Total Debt/TNW (times)	0.7	0.7	0.7
Total Debt/OPBDIT (times)	5.7	6.8	5.9
Interest coverage (times)	1.5	1.3	1.4

Source: JPL's Annual Reports/ Financial Statements, ICRA research

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

** Financials for 9M FY2020 are Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: JPL did not honour its scheduled payment obligations falling due in March and April 2020, for its bank facilities, as it has sought a moratorium on payments from its lenders as a part of the Covid-19 - Regulatory Package announced by the Reserve Bank of India (RBI) on March 27, 2020. However, despite the missed payment and despite the absence of a formal approval from the lenders allowing for a payment relief, ICRA has not recognised this instance as a default as of now. This is based on ICRA's expectation that a formal approval for rescheduling the loan would be received soon, as permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020. It may however be noted that if the lenders do not approve of the moratorium in due course, ICRA would review the above stance on default recognition.

The NCD-instalment payments have happened on due dates, as determined on exercise of put option by the debenture holders. The company has also been regular in servicing interest on NCDs.

Rating history for last three years

	Instrument	Current Rating (FY2021)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Date & rating		FY2020	FY2019	FY2018	FY2018
					22-May-20	30-Apr-20	29-Jul-2019	22-Jun-2018	28-Aug-2017	31-Jul-2017
1	Term Loans	LT	6,443.80	6,443.80*	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)
2	Cash Credit	LT	650.00	--	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)
3	Non-fund-based	LT	700.00	-	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)
4	Fund-based	ST	25.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A2	[ICRA]A2+	-	-
5	Unallocated	LT	1569.20	-	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)
6	NCDs	LT	56.80	--	[ICRA]BBB (Negative); withdrawn	[ICRA]BBB (Negative)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)

Note: LT: Long-term, ST: Short-term

**as on March 31, 2020*

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
INE720G08082	NCD	22 Dec 2014	SBI Base Rate + 1%	-	0.00*	[ICRA]BBB(Negative); withdrawn
NA	Term Loans	FY2014	-	FY2033	6,443.80	[ICRA]BBB(Negative)
NA	Cash Credit	-	-	-	650.00	[ICRA]BBB(Negative)
NA	Non-fund-based	-	-	-	700.00	[ICRA]BBB(Negative)
NA	Fund-Based	-	-	-	25.00	[ICRA]A3+
NA	Unallocated	-	-	-	1,569.20	[ICRA]BBB(Negative)

Source: Jindal Power Limited

**Rating withdrawn for Rs 56.80 crore NCD programme rated earlier*

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

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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.

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