

India Ratings Downgrades GMR Warora Energy's NCDs to 'IND C'

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By Divya Charen C

India Ratings and Research (Ind-Ra) has downgraded GMR Warora Energy Limited's (GWEL) non-convertible debentures' (NCDs) rating to 'IND C' from 'IND B'/Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating	Rating Action
NCDs**	-	-	-	INR750	IND C	Assigned
NCDs*^	-	-	-	INR750	WD	Downgraded and withdrawn

^Downgraded to 'IND C' from 'IND B'/Stable before being withdrawn

*The rating has been withdrawn as the old international securities identification number (ISIN) stands changed post modifications in terms and conditions of GWEL's NCDs. The old ISINs stand relinquished.

**NCDs with modified terms and conditions with new ISINs. Details in Annexure below.

KEY RATING DRIVERS

The downgrade reflects delays in debt servicing during September 2020 and October 2020 for term loans and working capital facilities by GWEL. The union territory of Dadra and Nagar Haveli (DNH) did not pay the capacity charges for 23 March 2020 to 30 June 2020, quoting force majeure due to COVID-19, unlike historical regular payments. Hence, liquidity stress compounded in GWEL, leading to delays in debt servicing. GWEL has filed a petition in Central Electricity Regulatory Commission to recover the capacity charges. Also, the Ministry of Power, in its letter dated 6 April 2020, has confirmed that the obligation to pay capacity charges under power purchase agreement (PPA) continues. The rated bonds have semi-annual coupon payments falling on 25 March and 25 September until the maturity of the bonds and Ind-Ra has received the confirmation that last two coupon payments were timely. In the consortium meeting held on 13 October 2020, the term loan lenders suggested GWEL to prepare a resolution plan under the Reserve Bank of India's guidelines; accordingly, GWEL plans to apply for the same. On 24 November 2020, GWEL informed the lead lender that all interest and principal dues have been met and the loan accounts are regular.

GWEL and the bond holder signed a second amendment to the debenture trust deed on 21 August 2020 to extend the put option date to September 2021 from September 2020. The amendment also states that coupon on NCDs will be 12% during 26 March 2020 to 25 March 2021, irrespective of the credit rating as long as there is no delay in coupon servicing for NCDs. Due to these change in terms, new ISINs have been issued to the NCDs.

Liquidity Indicator— Poor: As of 31 October 2020, GWEL faced liquidity concerns as its working capital debt limits of INR6,200 million were inadequate to fund its working capital requirements and the company was yet to create a debt service reserve. GWEL's receivable period increased to around 164 days in 1HFY21 (FY20: 128 days, FY19: 152 days), due to delays in payments by Dadra and Nagar Haveli and Tamil Nadu Generation and Distribution Corporation Limited (IND BBB/Negative). Any bulk revenue realisation will only temporarily aid debt servicing. As of 16 November 2020, GWEL's cash balance and investments were around INR120.6 million, along with INR6,200 million working capital facility, of which INR4,050 million is a common sub-limit for cash credit and letter of credit. The project's working capital utilisation as of 31 October 2020 was 84%.

GWEL has availed moratorium for its term loan and working capital loan during March to August 2020 under the Reserve Bank of India's COVID-19 regulatory package. Payments from counterparties have slowed down during the lockdown, weighing on GWEL's liquidity profile. GWEL is using usance letter of credit of six-month tenor to purchase coal, unlike the previous requirement of making payments in advance.

GWEL's PPA with Dadra and Nagar Haveli for 200MW expired in June 2020 and GWEL is yet to tie-up any new PPA. GWEL has long-term take-or-pay PPA for 63% net capacity with Maharashtra State Electricity Distribution Limited (200MW; valid until March 2039) and TANGEDCO; 150MW; valid until September 2028). The agreements have a two-part tariff mechanism, comprising capacity and variable charges, linked to the Central Electricity Regulatory Commission's inflation index (updated every six months). The compensatory tariff orders are in place, thus providing revenue visibility under the PPAs. GWEL has no concerns over coal supply currently. In 7MFY21, the plant load factor (PLF) was 70% (FY20: 79%, FY19: 74%). If the low margins in merchant sale continue, despite the high PLF of above 80% since July 2020, the debt service coverage ratio (DSCR) will be lower than 1.0x.

The total outstanding term loan and NCDs stood at INR29,802 million, (including moratorium interest), as of 31 October 2020. The NCDs amortise in three tranches of INR250 million each on 25 September 2022, 25 September 2023 and 25 November 2023. GWEL has not delayed interest payments on NCDs till date, except for a one-day delay in September 2019 in meeting additional interest. The terms of NCDs recognise default if payment delay continues for 30 days from due date. Financial covenants under the debenture trust deed include a minimum fixed asset coverage ratio of 1.0x, a minimum asset coverage ratio of 1.0x and a minimum DSCR of 1.0x for training 12 months. Although the project's DSCR stood at 1.06x in FY20, adverse receivable position affected its debt servicing. The term loan amortises over 16 years in an even manner. Ind-Ra has considered the entire senior debt in its analysis.

RATING SENSITIVITIES

Positive: Regular debt servicing of all facilities for at least continuous six months and/or signing of PPA for 200MW at remunerative tariff, leading to a minimum DSCR of at least 1.10x through loan tenor will lead to a positive rating action.

Negative: Continuous delay in servicing term loan or working capital facilities till January 2021 will lead to a rating downgrade.

COMPANY PROFILE

GWEL is a special purpose vehicle incorporated to build, maintain and operate a 600MW (two units of 300MW each) coal-fired, subcritical technology-based thermal power plant in Warora, Maharashtra. GMR Energy Limited is the primary sponsor of the project, with 100% equity investment. GMR Energy is held by GMR Infrastructure Limited (52%), Tenaga Nasional Berhad (30%) and private equity investors (18%).

Coal supply is secured through a fuel supply agreement with state-owned South Eastern Coal Fields, a Coal India Limited subsidiary, for an annual contracted quantity of 2.60 million tonnes.

FINANCIAL SUMMARY

Particulars	FY20	FY19
Revenue (INR million)	18,498	19,231
EBITDA (INR million)	6,034	6,180
EBITDA interest coverage (x)	1.47	1.50

Source: GWEL

RATING HISTORY

Instrument Type	Current Rating			Historical Rating/Outlook			
	Rating Type	Rated Limits (million)	Rating	1 June 2020	30 September 2019	28 May 2019	30 November 2018
NCDs	Long-term	INR750	IND C	IND B/Stable	IND D	IND C	IND BB/Stable

ANNEXURE

ISIN	Date of Issue	Coupon Rate (%)	Maturity	Size of Issue (million)	Rating
INE124L07048	24 September 2014	12.15	25 September 2022	INR250	IND C
INE124L07055	24 September 2014	12.15	25 September 2023	INR250	IND C
INE124L07063	24 September 2014	12.15	25 November 2023	INR250	IND C
Total				INR750	

Note: Coupon fixed at 12% from 26 March 2020 to 25 March 2021 irrespective of credit rating, as long as there is no delay in servicing coupon for NCDs and coupon of 12.15% will apply otherwise.

ISIN	Date of Issue	Coupon Rate (%)	Maturity	Size of Issue (million)	Rating
INE124L07014	24 September 2014	12.15	25 September 2022	INR250	WD
INE124L07022	24 September 2014	12.15	25 September 2023	INR250	WD
INE124L07030	24 September 2014	12.15	25 November 2023	INR250	WD
Total				INR750	

COMPLEXITY LEVEL OF INSTRUMENTS

For details on complexity level of the instrument, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Applicable Criteria

Rating Criteria for Infrastructure and Project Finance

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