

Ratings

Rating Rationale

November 25, 2020 | Mumbai

Opg Power Generation Private Limited

Ratings placed on 'Watch Developing'

Rating Action

Total Bank Loan Facilities Rated	Rs.1357 Crore
Long Term Rating	CRISIL A+ (Placed on 'Rating Watch with Developing Implications')
Short Term Rating	CRISIL A1 (Placed on 'Rating Watch with Developing Implications')

Rs.500 Crore Non Convertible Debentures	CRISIL A+ (Placed on 'Rating Watch with Developing Implications')
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has placed the ratings on the bank facilities and non -convertible debentures of OPG Power Generation Private Limited (OPG) on '**Rating Watch with Developing Implications**'.

The rating watch reflects the probable impact on OPG's credit risk profile on account of delay in creation of securities for NCD's of Rs.200 crore that have been raised, the last date for which was 29th October 2020, which was earlier extended from July 31, 2020. While CRISIL notes the delay in the creation of security is on account of non-receipt of no-objection certificates from the existing lenders due to Covid-19 related issues; the same has been construed as an event of default as per the debenture trustee agreement dated August 18, 2020. An event of default provides the debenture holders to recognize default and/or seek acceleration. However CRISIL also notes that OPG has sought further extension in timelines for creation of security. Approval for extension in timelines shall be a key monitorable. CRISIL will remove the ratings from watch once clarity is received with respect to extension in timelines by debenture subscribers or when the security is created.

The ratings reflect OPGPL's established market position and healthy execution capabilities in the thermal power generation business and its strong financial risk profile. These strengths are partially offset by susceptibility of margins to availability, prices of coal and foreign exchange rates and high exposure to group companies.

Key Rating Drivers & Detailed Description

Strengths:

* **Established market position and healthy execution capabilities in the thermal power generation business:** The projects, commissioned from 2010 to 2015, had average plant load factor (PLF) of 75-80%, indicating efficient operations. The company benefits from having large customer base of over 200 customers in the group captive consumer scheme, to whom around 334 MW is supplied and 80 MW to Tamil Nadu Generation and Distribution Corporation (TANGEDCO). The company has maintained strong track record in maintaining PLF levels, with adequate tariff covering all fixed and variable costs.

The company also enjoys healthy relationship with its customers and suppliers. 3 year power purchase agreements (PPA) with the customers in the group captive scheme model have been renewed regularly, while the PPA with TANGEDCO is valid for a further period of 9 years. The PLF levels are expected to decline in fiscal 2021, on account of lower power generation from the 3 plants catering to group captive consumer scheme due to the complete nationwide lockdown announced by the Government of India in April 2020, to contain the spread of Novel Covid-19 disease. Improvement in PLF levels and ramp up of operations of its group captive consumers aiding improved power offtake shall be a key monitorable. Nevertheless, CRISIL believes that OPGPL shall continue to benefit from its established market position in the thermal power segment over the medium term.

* **Strong financial risk profile:** Financial risk profile is strong marked by a healthy capital structure and moderate debt protection metrics. The networth is estimated to be over Rs.1000 crore as on March 31, 2020. Comfortable capital structure is reflected in the gearing of less than 1 time as on the same date. With no major debt funded capital expenditure (capex) over the medium term, the capital structure shall remain comfortable. Debt protection metrics are moderate, marked by an interest coverage of around 4.2 3 times for fiscal 2020. Overall financial risk profile is expected to improve over the medium term with replacement of term debt with non-convertible debentures (NCD's) that carry a lower interest rate.

Weaknesses:

* **Susceptibility of operating profitability to availability and prices of coal and to volatility in foreign exchange**

(forex) rates

Coal costs contributes to around 85 percent of the total cost of sales of OPGPL. OPGPL's operating profitability is susceptible to the availability and volatility in the prices of coal. Sharp increase in coal costs resulted in a decline in the operating profitability to around 22.7 percent in fiscal 2018 from 38.6 percent in fiscal 2017. Further since around 80 percent of the coal is imported, the operating profitability is also susceptible to volatility in foreign exchange rates. Losses on account of foreign exchange were at around Rs. 27 crore in fiscal 2019. Nevertheless, this is partially mitigated by OPGPL hedging almost 85-90 percent of its forex exposure from fiscal 2020. CRISIL believes that OPGPL's operating profitability shall remain susceptible to availability and prices of coal and to volatility in foreign exchange (forex) rates.

*** High exposure to group companies:** OPGPL has high exposure to group companies. OPGPL's exposure to its group company Bhadreshwar Vidyut Private Limited (BVPL) was at around Rs.217 crore as on March 31, 2019 which includes Rs.79 crore of advances and Rs.133 crore of lien marked fixed deposits, against which BVPL has availed banking facilities. Around Rs.165 crore of the exposure to BVPL has been written off by OPGPL in fiscal 2020, since the fixed deposits have been liquidated by BVPL. Further OPGPL has also invested around Rs.170 crore in the form of equity and preference shares of its subsidiaries. CRISIL believes that there would not be any incremental exposure to the group companies over the medium term and the same would remain a key monitorable.

Liquidity Strong

The bank limits have been sparsely utilised for the last twelve months ended October 2020. Cash accrual is expected to be lower at around Rs.200-220 crore for fiscal 2021, due to decline in turnover and profitability, resulting from the lock down. However with the replacement of existing term debt with NCD's that have a bullet repayment after 3 years, OPGPL shall be benefitted from the absence of repayment obligations till fiscal 2023. This is expected to result in healthy liquidity build up till the date of the repayment. Further supported by absence of repayments, working capital requirements are expected to be met through healthy cash generation, that shall result in lower reliance on debt and subsequently lower interest costs, benefitting the liquidity. Liquidity is also supported by unencumbered cash and cash equivalents of around Rs.185 crore as on March 31, 2020. Low reliance on debt coupled with absence of repayment obligations for 3 years, the debt service coverage ratio (DSCR) is expected to be adequate at the time of the bullet repayment. CRISIL believes OPGPL's liquidity shall remain strong over the medium term.

Rating Sensitivity factors**Upward factor**

- * Improvement in cash accrual to more than Rs. 350 crore
- * Significant reduction in exposure to group companies

Downward factor

- * Decline in operating profitability to less than 20 percent
- * Increase in exposure to group companies
- * Acceleration by debenture holder on account of further delay in creation of securities

About the Company

OPG was incorporated in 2005 as a Special Purpose Vehicle (SPV) promoted by OPG Power Ventures Plc (OPGPV), a company established in the Isle of Man with the objective of setting up and operating captive power plants in India. The company commissioned its first power plant, i.e. 77 MW coal based power plant under Phase-I, in April 2010 and a similar power plant under Phase-II in Oct 2012, at Gummidipundi near Chennai. Subsequently, the company commissioned its third power plant of 80 MW capacity under Phase-II (Expansion) in June 2013 at the same location and its fourth power plant of 180 MW capacity under Phase-III in May 2015. The company has now four operative thermal power plants in Chennai aggregating to a capacity of 414 MW.

Key Financial Indicators

Particulars	Unit	2020	2019
Operating Income	Rs.Crore	1397	1459
Profit after tax(PAT)	Rs.Crore	34	24
PAT Margin (%)	%	2.45	1.7
Adjusted debt/adjusted Networkth	Times	0.44	0.73
Interest Coverage	Times	4.22	2.89

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of Allotment	Coupon Rate(%)	Maturity Date	Issue Size (Rs Cr)	Complexity Level	Rating Assigned with Outlook
INE0D8F07014	Non- Convertible debentures	NA	NA	NA	200	Simple	CRISIL A+/Watch Developing
NA	Non- Convertible debentures#	NA	NA	NA	300	Simple	CRISIL A+/Watch Developing
NA	Term Loan	NA	NA	Mar-2023	205.1	NA	CRISIL A+/Watch Developing
NA	Letter of Credit	NA	NA	NA	442.87	NA	CRISIL A1/Watch

							Developing
NA	Bank Guarantee	NA	NA	NA	174.85	NA	CRISIL A1/Watch Developing
NA	Cash Credit	NA	NA	NA	195	NA	CRISIL A+/Watch Developing
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	399.18	NA	CRISIL A+/Watch Developing

*Yet to be issued

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	200.00 25-11-20	CRISIL A+/(Watch) Developing	28-05-20	CRISIL A+/Stable		--		--		--	--
Fund-based Bank Facilities	LT/ST	739.28	CRISIL A+/(Watch) Developing	28-05-20	CRISIL A+/Stable	31-12-19	CRISIL A+/Stable		--		--	--
Non Fund-based Bank Facilities	LT/ST	617.72	CRISIL A1/(Watch) Developing	28-05-20	CRISIL A1	31-12-19	CRISIL A1		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	174.85	CRISIL A1/Watch Developing	Bank Guarantee	174.85	CRISIL A1
Cash Credit	195	CRISIL A+/Watch Developing	Cash Credit	195	CRISIL A+/Stable
Letter of Credit	442.87	CRISIL A1/Watch Developing	Letter of Credit	442.87	CRISIL A1
Proposed Long Term Bank Loan Facility	339.18	CRISIL A+/Watch Developing	Term Loan	544.28	CRISIL A+/Stable
Term Loan	205.1	CRISIL A+/Watch Developing	--	0	--
Total	1357	--	Total	1357	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

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