Udupi Power Corporation Limited

February 01, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank Facilities	3,849.59	CARE A- (RWD)	Continues to be on Rating Watch with Developing Implications
Short-term bank facilities	625.00	CARE A2+ (RWD)	Continues to be on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Udupi Power Corporation Limited (UPCL) continue to be under 'Rating Watch with Developing Implications' in the view of the proposed merger of various wholly owned operational subsidiaries (including UPCL) of its parent company viz., Adani Power Limited [APL; rated CARE BBB- (RWP) / CARE A3 (RWP)] with itself, subject to the receipt of the necessary approvals from regulators and stakeholders. The amalgamation is envisaged to translate into synergistic benefits in the form of enhanced operational, organisational and financial efficiencies. CARE Ratings Limited (CARE Ratings) is monitoring the progress of the transaction and the rating watch will be resolved thereon.

The ratings assigned to the bank facilities of UPCL continue to draw strength from its long-term power purchase agreements (PPAs) for selling almost its entire power generation capacity with full-cost pass-through tariff structure along with regulated return on equity (RoE) leading to adequate debt coverage indicators and good revenue visibility from its largely-approved project cost by the Central Electricity Regulatory Commission (CERC). The ratings are also underpinned by established coal sourcing and transportation arrangements, stable operating and financial performance in FY22 (refers to the period from April 01 to March 31) and the existence of the requisite debt service reserve account (DSRA) as a liquidity back-up in the form of bank guarantee (BG). The ratings also draw comfort from UPCL being part of the Adani group which has diversified presence across various sectors (including the entire value chain of power business along with vast experience in coal-based thermal power generation).

The ratings, however, continue to remain constrained by UPCL's significant exposure in the form of loans and advances extended to its parent entity viz., APL and moderate credit risk profile of Karnataka Discoms (its main power off-takers) and consequent utilization of its fund-based working capital limits. Furthermore, low plant load factor (PLF) of the plant on the back of high energy charges leading to low plant efficiency and inherent regulatory risk associated with its tariff determination process constrain the rating.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Repatriation of significant amount of loans and advances extended to its parent company resulting into significant improvement in leverage as a sustained basis.
- Significant improvement in the credit risk profile of its main power off-takers viz., Karnataka Discoms.

Negative factors

- Non-achievement of normative levels of plant availability factor (PAF) on a sustained basis leading to under-recovery of capacity charges
- Inordinate delays in receipt of cash flows pertaining to regular power bills from its counterparties on a sustained basis.
- Advancement of significant amount of loans and advances to the parent company outside the Trust and Retention Account (TRA) arrangement.

Analytical approach: Standalone

Key strengths

Long-term PPAs for selling entire power generation capacity with a full-cost pass-through tariff structure:
UPCL has entered into 25-year PPAs with Karnataka Discoms for 90% of its total power generation capacity i.e., 1,080 MW and with Punjab State Power Corporation Limited (PSPCL) for 101.50 MW in December 2005 and September 2006 respectively under the CERC regulations providing full pass-through of the fuel cost (energy charges) and capacity charges with normative post-tax RoE of 15.50% p.a. Power Company of Karnataka Limited (PCKL) decides the share of each Discom for supply of power to Karnataka Discoms from UPCL every year. Previously, the entire power generation capacity allocated to PSPCL from the plant was being procured by Karnataka Discoms due to non-execution of transmission agreements by PSPCL. Punjab State Electricity Regulatory Commission (PSERC) has, however, not approved the PPA citing that the power from UPCL project would not be an economically viable proposition particularly so when much cheaper power is available in the market. UPCL appeal against the said order in the Appellate Tribunal for Electricity (APTEL) is pending for hearing. Furthermore, UPCL also has a 25-year PPA with MPSEZ Utilities Private Limited (MUPL) for 11 MW power generation capacity under case-1 tariff-based competitive bidding process.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Good revenue visibility with largely approved project cost by the CERC:
CERC, vide its order dated January 22, 2020, has determined the tariff of UPCL for the tariff period from April 01, 2014 to March 31, 2019, and has also upward revised the project cost of UPCL to ₹5,529 crore. As per extant approved project cost, UPCL is eligible for around ₹1,024 crore of capacity charges from Karnataka Discoms for FY23 irrespective of the actual units of power supplied by UPCL to Karnataka Discoms if it achieves annualized PAF equal to or more than normative level i.e., 85%. Also, UPCL shall be entitled to recover actual energy charges for cost of fuel, including transportation charges, incurred for generation of power. This is expected to result into adequate debt coverage indicators for UPCL.

Coal sourcing and transportation arrangements in place:
UPCL's power plant is based on imported coal as a source of fuel. As per the terms of its PPAs, UPCL sources its coal requirement by way of medium-term contracts in consultation with its power off-takers. UPCL had a fuel supply agreement (FSA) with Glencore International till December 2022 for 0.50 million tonne per annum (MMTPA) and an FSA with PAN Asia for 3 MMTPA of coal which was valid till December 31, 2022. UPCL is in the process of extending these FSAs. The imported coal is received by UPCL through ships at New Mangalore Port, which is at a distance of around 35 km from the plant site. UPCL has set-up a dedicated captive jetty there. Coal is unloaded from the ships at this dedicated jetty on coal conveyors and transported to the storage yard located near the port. The coal is transported to the plant site by rail for which UPCL has entered into a 25-year Coal Transportation Agreement (CTA) with Konkan Railways.

Low PLFs, however availability-based fixed cost recovery lends comfort:
In FY22, the operational performance of UPCL remained stable marked by achievement of normative level of PAF of 85% and recovery of capacity charges. UPCL reported PAF of 85% in FY22 as compared with 88.81% in FY21 in case of long-term PPAs (PPA of 1,080 MW with Karnataka Discoms and PPA of 11 MW with MUPL) and PLF of 16.29% in FY22 as compared with 22.36% in FY21. Also, the financial performance of UPCL remained stable in FY22. The total debt / GCA and total debt / PBILDT stood at 6.04x (FY21: 5.97x) and 4.44x (FY21: 4.08x) whereas the interest coverage stood at 2.20x in FY22 (FY21: 2.14x).

Parentage of the Adani group:
The Adani group has evolved as a diversified conglomerate with primary interests in the energy sector. The Adani group has operations ranging from coal mining, coal import, port operations and logistics to coal-based thermal and renewable power generation, transmission & distribution, cement and city gas distribution through various listed group companies. Its long track record in the entire value chain of power provides significant synergetic benefits. As on December 31, 2022, the promoters held 75.97% equity stake in APL which is the holding company of the Adani group's thermal power generation business. APL, through its seven wholly owned subsidiaries, has total operational thermal power generation capacity of 13.61 GW. APL's promoters have extended financial support to the power vertical over the past few years and Adani Enterprises Limited (AEL; rated CARE A+; Stable / CARE A1+) has offered extended credit period on coal supplies to the assets of APL that use imported coal which has provided financial flexibility to them. Furthermore, APL's promoters have high financial flexibility as reflected in the total value of unpledged promoter holding in the listed Adani group entities at over ₹12.23 lakh crore as on December 31, 2022. Given the economic benefit derived from UPCL and demonstrated past track of support, the promoters are expected to provide need-basis support to UPCL going forward also.

Key weaknesses

Operations of plant at lower than technical minimum requirement leading to lower plant efficiency:
On account of lower drawal of power by Karnataka Discoms, the PLF of UPCL has been continuously declining over the past four years. The PLF of UPCL deteriorated from 49.60% in FY19 to 31.10% in FY20, 22.36% in FY21 and further to 16.29% in FY22. Running the plant at lower than technical minimum requirement has led to deterioration in the operational parameters of UPCL like auxiliary power consumption and station heat rate over normative levels. leading to some under-recovery of energy charges which is being compensated by the Karnataka Discoms as per the CERC regulations.

Significant amount of loans extended to its parent:
UPCL had outstanding loans and advances to its holding company APL of around ₹1,984 crore as on March 31, 2022 (PY: ₹1,828 crore) still continue to remain high at around 87% of the net-worth of UPCL.

Moderate credit risk profile of Karnataka Discoms (its main power off-takers):
The credit risk profile of most of the Karnataka Discoms is moderate leading to delay in realization of payments by UPCL for sale of power to them resulting in utilization of its fund-based working capital limits. Out of the five Karnataka Discoms, payments from four Discoms are generally received by UPCL in around 90 days' time whereas payment from Hubli Electricity Supply Company Limited (HESCOM) is received with delay. The share of HESCOM, which has a relatively weaker financial profile as compared to other Karnataka Discoms, out of total sale of power of UPCL has increased from around 21% in FY22 to around 26% in FY23, whereas the share of Bangalore Electricity Supply Company Limited (BESCOM) which has a relatively stronger financial profile has reduced to around 43% in FY23 from around 59% in FY22. The share of other three Karnataka Discoms for FY23 is - Chamundeshwari Electricity Supply Corporation Limited (CESCOM): 14%, Gulbarga Electricity Supply Company Limited (GESCOM): 12% and Mangalore Electricity Supply Company Limited (MESCOM): 5%. Moreover, as stated by

the management, UPCL has received letter of credit (LC) from all five Karnataka Discoms which can be utilized by UPCL for recovering its dues from Karnataka Discoms in case of payment delays by these Discoms. Also, the overall credit profile of Karnataka Discoms is supported by their ownership pattern (100% owned by Government of Karnataka) and their importance to the state's power sector.

Inherent regulatory risk associated with tariff determination process:
As per CERC regulations, UPCL is required to file true-up petition for the trailing tariff period along with petition for determination of tariff for the next tariff period at the end of every five years which exposes UPCL to inherent regulatory risk arising from approval of any lower tariff as well as delays in tariff approval by CERC. In both the cases, it could put pressure on UPCL's liquidity. However, being part of the Adani group, UPCL is expected to benefit from the group's financial flexibility to tide over temporary liquidity pressures in any such eventuality.

Liquidity: Adequate
UPCL's liquidity is adequate characterized by sufficient cushion in cash accruals vis-à-vis annual repayment obligations of around ₹218 crore over the next one year and cash balance of around ₹2 crore as on December 31, 2022. UPCL has capex requirements towards installation of fuel gas desulphurisation (FGD) system which is likely to be funded entirely through internal accruals for which it is likely to have sufficient headroom. UPCL's power plant is based on imported coal as a source of fuel for which it utilizes non-fund-based working capital limits in the form of LC facility. For balance working capital requirement, UPCL utilizes fund-based working capital limits. UPCL has got total sanctioned working capital limits of around ₹1,118 crore out of which around ₹751 crore is fund-based and balance ₹367 crore is non-fund-based. There is also one-way interchangeability of fund-based limits to non-fund-based limits. Utilization of fund-based limits was around 16% whereas average utilization of non-fund-based limits was around 19% during the trailing 12 months ended September 2022. UPCL has also created DSRA in the form of a BG of ₹195 crore which is equivalent to UPCL's debt servicing obligations for the next four months (i.e., as per the sanction terms). The availability of the requisite DSRA provides additional cushion to UPCL's debt servicing in case of any temporary cash flow mismatches.

Applicable criteria

Rating Outlook and Rating Watch
Policy on Default Recognition
Policy On Curing Period
Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Factoring Linkages Parent Sub JV Group
Power Generation Projects
Thermal Power
Financial Ratios – Non-Financial Sector
Policy on Withdrawal of Ratings

About the company

Incorporated in February 1996, UPCL has set-up and operates a 1,200 MW (600 MW x 2 units) imported coal-based thermal power project in Udupi district, Karnataka. UPCL was previously owned by Lanco Infratech Limited (a Lanco Group company). In April 2015, APL took over 100% equity stake in UPCL to enhance the Adani group's overall power generation capacity and establish its footprint in South India and accordingly UPCL became 100% subsidiary of APL. The power project of UPCL is fully operational and achieved commercial operations for Unit-I on November 11, 2010 and for Unit-II on August 19, 2012. UPCL has entered into 25-year PPAs with Karnataka Discoms for 90% of its total power generation capacity i.e., 1,080 MW and with PSPCL for 101.50 MW under the CERC regulations providing full pass-through of fuel and other costs with normative 15.50% p.a. post-tax RoE subject to maintaining PAF equal to or above normative level i.e., 85%. UPCL also has a 25-year PPA with MUPL for 11 MW capacity.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	1,781	1,706	988
PBILDT	838	687	385
PAT	103	206	1,225
Overall gearing (times)	1.65	1.34	NA
Interest coverage (times)	2.14	2.20	2.83

A: Audited; UA: Unaudited; The above financials have been adjusted as per CARE Ratings' criteria.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments/facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument/Bank Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	1,172.00	CARE A- (RWD)
Fund-based - LT-Term loan	-	-	-	March 2029	2,677.59	CARE A- (RWD)
Non-fund-based - ST-BG/LC	-	-	-	-	625.00	CARE A2+ (RWD)

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Term loan	LT*	-	-	-	-	-	-
2.	Fund-based - LT-Term loan	LT	2,677.59	CARE A- (RWD)	1)CARE A- (RWD) (27-Dec-22)	1)CARE A- (CWD) (30-Mar-22) 2)CARE A-; Stable (29-Oct-21)	1)CARE A-; Stable (30-Oct-20)	1)CARE A-; Stable (01-Oct-19)
3.	Fund-based - LT-Cash credit	LT	1,172.00	CARE A- (RWD)	1)CARE A- (RWD) (27-Dec-22)	1)CARE A- (CWD) (30-Mar-22) 2)CARE A-; Stable (29-Oct-21)	1)CARE A-; Stable (30-Oct-20)	1)CARE A-; Stable (01-Oct-19)
4.	Non-fund-based - ST-BG/LC	ST*	625.00	CARE A2+ (RWD)	1)CARE A2+ (RWD) (27-Dec-22)	1)CARE A2+ (CWD) (30-Mar-22) 2)CARE A2+ (29-Oct-21)	1)CARE A2+ (30-Oct-20)	1)CARE A2+ (01-Oct-19)
5.	Fund-based - LT-Working capital demand loan	LT	-	-	-	1)Withdrawn (29-Oct-21)	1)CARE A-; Stable (30-Oct-20)	-

*Long-term/Short-term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments/facilities rated

Sr. No.	Name of the Instrument/Bank Facilities	Complexity Level
1.	Fund-based - LT-Cash credit	Simple
2.	Fund-based - LT-Term loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Janki Aswani
Phone: +91-79-4026 5612
E-mail: janki.aswani@careedge.in

Relationship contact
Name: Deepak Prajapati
Phone: +91-79-4026 5656
E-mail: deepak.prajapati@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in