

Dhariwal Infrastructure Limited

October 03, 2022

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	2,594.04 (Reduced from 2,806.93)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	75.00	CARE A3+ (A Three Plus)	Reaffirmed
Total bank facilities	2,669.04 (₹ Two thousand six hundred sixty-nine crore and four lakh only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Dhariwal Infrastructure Limited (DIL) takes into account the additional tie-up of power in unit 1 under a medium-term Power Purchase Agreement (PPA) with Indian Railways at remunerative tariff. This PPA increases the total capacity tie-up on long/ medium-term basis from 50% observed during last review to 88% now, thereby improving the revenue visibility of DIL. The ratings continue to derive strength from the sustained healthy operational performance marked by higher-than-normative plant availability factor (PAF) leading to full recovery of fixed charges and sustained healthy plant load factor (PLF) in FY22 (refers to the period from April 01 to March 31) and Q1FY23 (refers to the period from April 01 to June 30) as well. The rating derives comfort from the improvement in its financial risk profile characterised by better leverage and coverage indicators, its healthy average realisation in short-term/merchant market which has helped DIL in generating healthy cash flows during FY22 and Q1FY23. The ratings favourably factor the reduction in overall debtors and the visibility of realisation of outstanding dues from Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) which has opted to clear dues of DIL through the implementation of Electricity (Late Payment Surcharge & Related Matters) Rules, 2022. The ratings continue to draw strength from DIL's financial flexibility by virtue of being part of the CESC group, which has vast business experience in the power sector having professional and highly qualified management team and has demonstrated financial support to DIL in the past through infusion of interest-free unsecured loans.

The ratings are however, constrained by offtake risk emanating from 70 MW capacity (i.e 12% of total installed capacity) which is currently untied while there is PPA renewal risk for 310 MW net capacity, price and volume risk arising due to untied capacity being sold in merchant market and weak financial risk profile of off-taker, primarily TANGEDCO which accounts for around 33% of its tied-up capacity under long-term PPA in Unit 2. The rating is further constrained by regulatory risk arising due to the ongoing case challenging PPA of DIL with Noida Power Company Limited (NPCL) in Honorable Supreme Court.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant improvement in credit risk profile of its off-takers, primarily TANGEDCO
- Higher-than-envisioned improvement in leverage and coverage metrics

Negative factors – Factors that could lead to negative rating action/downgrade:

- Sustained delay in realisation of outstanding dues from offtakers adversely impacting the liquidity profile of company
- Material reduction in CESC's shareholding in DIL or reduction in managerial and operational support to the company
- Any unfavorable order from Honorable Supreme Court relation to PPA with NPCL

Detailed description of the key rating drivers

Key rating strengths

Improved revenue visibility through medium-term PPA tie-up

Out of the installed capacity of 600 MW, DIL had long-term PPA tie-up for 100 MW with TANGEDCO for 15 years through Case-I bidding and for 187 MW with Noida Power Company Limited (NPCL) for 25 years on cost-plus basis for its unit 2. For unit 1, DIL was selling power under short-term basis. Recently, DIL has entered into medium-term PPA of three years with Indian Railways for 210 MW (net) capacity at tariff of ₹4.10 per unit which enhances the revenue visibility of DIL. Furthermore, the PPA provides for escalation in energy charge and fixed charge which provides comfort.

Sustained healthy operational performance

DIL's operational performance has witnessed sustained improvement during FY22 and during Q1FY23 as well characterised by higher-than-normative PAF leading to full recovery of capacity charges, reducing auxiliary consumption and healthy PLF. Auxiliary

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

consumption, which was 8.25% during FY21, improved to 7.82% in FY22. It was 7.64% during Q1FY23. PLF also stood healthy at 76% during FY22 (PY: 80%) and 86% during Q1FY23.

Fuel supply and price volatility risk for capacity untied in long-term PPA

Aggregate annual coal requirement for the plant operated by DIL is 2.73 million tonnes per annum (MMTPA) and during FY16 DIL entered into fuel supply agreement (FSA) with South Eastern Coal Fields (SECL) for supply of 2.73 MMTPA of coal for both the units. Earlier DIL was able to draw coal under the FSA only to the extent of power generated under long-term PPA with TANGEDCO and NPCL under its unit 2. Now linkage coal is also available for the recent tie-up of power with Indian Railways, which mitigates the fuel supply risk to large extent.

However, DIL remains exposed for fuel supply risk for capacity not tied up. DIL is also exposed to price volatility risk for the capacity not tied up under cost-plus basis, although it is partly mitigated through escalation clause as per the PPA.

Improvement in financial risk profile, however leveraged

The financial risk profile of DIL has witnessed improvement characterised by increase in cash accruals, reduction in total debt levels thus resulting in improvement in leverage & coverage indicators. Cash accruals of the company witnessed improvement in FY22 primarily due to healthy average realisations on short-term power sales. The average short-term realisation stood at ₹4.67 per unit in FY22 (PY: ₹4.44 per unit). Furthermore, during Q1FY23, the same improved to ₹7.97 per unit which is healthy. The overall gearing improved to 3.90x as on March 31, 2022 (PY: 4.90x). Furthermore, total debt to GCA also improved to 10.72 times as on March 31, 2022 (PY: 12.25 times). Although the leverage and coverage profile of DIL has improved in FY22, it continues to remain leveraged. CARE Ratings Limited (CARE Ratings) notes that DIL has refinanced its term loan for around ₹200 crore during Q1FY23 leading to elongated tenor and is in the process of prepaying portion of its term debt (which would be adjusted from the lumpy repayments in FY34-FY35).

DIL derives strong operational, managerial and financial support: The entire stake in DIL is held by CESC Limited (CESC, rated CARE AA; Stable/ CARE A1+). CESC is vertically-integrated power utility with several decades of experience. DIL enjoys operational, financial and managerial support from its promoter group. The promoter group has a highly qualified and experienced employee pool having large experience in their related field. DIL also has adequate board representation from the promoter and also shares a common treasury team. DIL has received significant fund support from CESC and Haldia Energy Limited (HEL, rated CARE AA-; Stable/CARE A1+) for funding its scheduled debt repayment obligations and prepayments of debt in view of significant cash losses over the past years. The support received is interest free and stood at ₹810 crore as on March 31, 2022.

Liquidity - Adequate

The company has adequate liquidity in the form of cash and cash equivalents of ₹190 crore as on June 30, 2022. The liquidity is further supported by presence of one quarter of debt service reserve account (DSRA) in the form of BG. Furthermore, the average utilisation of fund-based working capital limits stood at 53% for the trailing 12 months ended June 2022. DIL, being part of the CESC group, enjoys financial flexibility and has also received support from its group in the past.

Key rating weaknesses

Off-take risk due to absence of long-term PPA in Unit I: The tied-up capacity under unit 2 is under long-term PPA with NPCL and TANGEDCO while the capacity tied up under unit 1 is under medium-term PPA exposing DIL to offtake risk due to absence of long-term tie-up. Furthermore, DIL sells the power generated from the untied capacity under merchant basis which exposes it to risks related to price and volumes of the merchant market. Although the realisation under merchant market has been healthy for DIL in Q1FY23, sustained healthy realisations under the same will be key monitorable. Furthermore, the ability of the company to tie up power under long-term PPA(s) at remunerative tariff for the capacity under unit 1 shall remain a key credit monitorable.

Counterparty credit risk associated with sale of power to DISCOM: The sale of power under the long-term PPA with TANGEDCO, exposes DIL to counter party credit risk due to weak credit profile of the state utility. Due to the same, debtors of DIL from TANGEDCO stood at ₹222 crore as on June 30, 2022. However, as per the management, the offtaker has opted to clear the entire dues under the recently announced EMI scheme by Ministry of Power in 48 equal instalments and DIL has also received two instalments against the same. The same is expected to improve the debtor position of DIL going forward. CARE Ratings further notes that DIL is in the process of realising sizable portion of its dues from NPCL which were accumulated due to conflicting orders passed by UPERC in the past.

Regulatory risk: DIL is exposed to regulatory risk due to the ongoing case relating to approval of its PPA with NPCL. Although DIL has received a favorable order from Appellate Tribunal (APTEL), the same has now been referred to Honorable Supreme Court. Any adverse outcome on the same shall remain a key monitorable.

Environment, Social and Governance (ESG) profile: The governance profile of DIL largely derives comfort from the strong parentage of CESC.

Analytical approach: Standalone. CARE Ratings has also notched up the rating factoring operational, financial and managerial support extended by the promoter.

Applicable criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

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About the Company

DIL belongs to the RP-Sanjiv Goenka group. It was incorporated in 2006 as a JV between Prithvi group and Manikchand Group for setting up a 600 MW thermal power plant (2 x 300 MW) in Tadali Industrial Area, Chandrapur district, Maharashtra. DIL is a wholly owned subsidiary of CESC as on March 31, 2022. The Unit-I (300 MW) and Unit-II (300 MW) were commissioned on February 11, 2014 and August 02, 2014 respectively. The 'RP-Sanjiv Goenka' group is a leading industrial group of the country having interests across diverse business segments such as power, infrastructure, carbon black, retail, education, BPO, and media & entertainment. DIL is governed by six members Board of Directors. All the Directors are highly qualified professionals with long industry experience

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (Prov.)
Total operating income	1,496.54	1,564.79	483.59
PBILDT	479.52	395.84	147.21
PAT	105.66	136.70	71.38
Overall gearing (times)	4.90	3.90	NA
Interest coverage (times)	1.72	1.60	2.92

A: Audited; Prov: Provisional; NA – Not available

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	250.00	CARE BBB+; Stable
Fund-based - LT-Term loan	-	-	-	September, 2035	1619.66	CARE BBB+; Stable
Fund-based - LT-Term loan	-	-	-	September, 2035	669.38	CARE BBB+; Stable
Non-fund-based - LT-Bank guarantee	-	-	-	-	55.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	75.00	CARE A3+

Annexure-2: Rating history of 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	1619.66	CARE BBB+; Stable	-	1)CARE BBB+; Stable (07-Oct-21)	1)CARE BBB; Stable (08-Oct-20)	1)CARE BBB; Stable (24-Sep-19)
2	Fund-based - LT-Cash credit	LT	250.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (07-Oct-21)	1)CARE BBB; Stable (08-Oct-20)	1)CARE BBB; Stable (24-Sep-19)
3	Non-fund-based - ST-BG/LC	ST	75.00	CARE A3+	-	1)CARE A3+ (07-Oct-21)	1)CARE A3 (08-Oct-20)	1)CARE A3 (24-Sep-19)
4	Fund-based - LT-Term loan	LT	669.38	CARE BBB+; Stable	-	1)CARE BBB+; Stable (07-Oct-21)	1)CARE BBB; Stable (08-Oct-20)	1)CARE BBB; Stable (24-Sep-19)
5	Non-fund-based - LT-Bank guarantee	LT	55.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (07-Oct-21)	1)CARE BBB; Stable (08-Oct-20)	1)CARE BBB; Stable (24-Sep-19)

* Long term / Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: NA**Annexure-4: Complexity level of various instruments rated for this company**

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

Annexure-5: Bank lender details for this companyTo view the lender-wise details of bank facilities please [click here](#)

Note on 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.

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