Crescent Power Limited

October 03, 2022

Rating

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	40.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long-term bank facilities	-	-	Withdrawn
Total bank facilities	**40.00 (₹ Forty crore only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the long-term rating of Crescent Power Limited (CPL) continues to derive strength from extensive experience of the promoters in the power sector. The rating continues to derive comfort from the adequate fuel availability for its thermal plant due to its strategic location. The rating favourably factors in the continued high plant load factor (PLF) for its thermal plant as well as improved PLF for the solar plant during FY22 (refers to the period April 01 to March 31). The rating draws strength from the healthy financial risk profile of the company characterised by improved leverage and coverage metrics in FY22 along with prepayment of the entire term debt during the current year, thus projecting further improvement.

The rating is however constrained due to the absence of long-term power purchase agreement (PPA) for CPL's thermal capacity which is to some extent alleviated by the availability of PPA for 25 years at fixed tariff for the solar capacity. Though the short-term thermal PPA has been regularly renewed in the past, the rating takes cognisance of the large volatility in tariff. The rating is also constrained by susceptibility to counter-party credit risk due to delays in realisation of invoices from Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) in case of solar plant, exposure to group companies, susceptibility of profitability to volatile fuel prices and exposure of the solar power plant towards climatic conditions and technological risk.

CARE Ratings Limited (CARE Ratings) has withdrawn the outstanding rating assigned to term loan of CPL with immediate effect, as the company has repaid the aforementioned bank facility rated by us and there is no amount outstanding under the said facilities as on date.

Rating sensitivities

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

- Signing of long-term PPA for the thermal capacity at remunerative tariff
- Improvement in credit profile of the off-taker for solar capacity along with substantial reduction in average collection period.

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

- Reduction in the tariff of thermal power to below ₹2.75/unit or material deterioration in the operational performance or increase in borrowing cost, significantly impacting the gross cash accrual of the company.
- Significant deterioration in the credit profile of CESC Limited or dilution in the operational and financial linkage with CPL.
- Significant stretch in average collection period leading to deterioration in liquidity profile
- Any debt-funded capex or new significant exposure in group entities leading to deterioration in capital structure

Detailed description of the key rating drivers

Key rating strengths

Part of an established group with extensive experience in power distribution and generation: Majority of the shares in CPL is held by CESC Limited (CESC, rated CARE AA; Stable/ CARE A1+). CESC is vertically-integrated power utility with several decades of experience. Despite its small size, CPL is strategically important as it forms part of the CESC's supply chain by washing coal from its Sarisatolli block and providing power to CESC with the rejected coal at competitive rate. Similar to other group companies, CPL also enjoys operational, financial and managerial support from its promoter group. CPL has adequate board representation from the promoter. CPL also shares a common treasury team.

Adequate fuel availability due to its location: Proximity of the 40 MW thermal power plant to the coal washery of CESC improves availability of sufficient coal reject at competitive rate.

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

Revenue visibility backed by long-term PPA for the solar plant: The 15 MW solar plant at Tamil Nadu is supplying power to TANGEDCO by virtue of its 25-years PPA at a fixed tariff of ₹7.10 per unit, thereby providing revenue visibility.

Satisfactory operational performance of thermal and solar power plant: The PLF for CPL's 40 MW thermal plant continued to be strong at 99.15% in FY22 (PY: 98.84%). The PLF for the 15 MW solar power in Tamil Nadu improved to 20.15% in FY22 (PY: 18.97%).

Substantial improvement in capital structure and debt protection metrics: The overall gearing improved to 0.17x as on March 31, 2022 (PY: 0.28x). TD/GCA and Interest cover was 1.68x and 5.59x respectively (PY: 2.78x and 2.25x respectively). Upon the significant recovery of group investments, CPL prepaid its entire term loan during the current year. Accordingly, leverage and coverage metrics is projected to significantly improve.

Liquidity: Adequate

CPL has adequate liquidity with cash and liquid investments of ₹62.61 crore as on June 30, 2022 along with low utilisation of overdraft facility averaging 9% for trailing 12 months ended June 2022. During August 2022, CPL has prepaid its entire term loan which provides comfort.

Key rating weaknesses

Absence of long-term PPA; however the short-term PPA has been renewed at remunerative tariff recently: Since commencement of its operation of the plant in 2009, CPL has entered into short-term PPA with RPG Power Trading Company Limited (RPGPTCL), a RP-Sanjiv Goenka Group company for its entire power off-take from its 40 MW thermal power plant. Lack of adequate tie-up under long-term PPA poses a challenge for CPL to volatility in tariff.
During FY20 and FY21, the tariff for the renewed PPA was much lower. However, the PPA was recently renewed at a 5-year high tariff.

Counterparty credit risk for the solar plant: In case of power sale to RPGPTCL, CPL receives payments in a timely manner. However, there are significant delays in realisation of dues from TANGEDCO (the off-taker for solar power), which has a weak credit risk profile. Total receivables as on June 30, 2022 was ₹47.66 crore (vs ₹20.27 crore as on June 30, 2021). Liquidation of the overdue under the EMI scheme defined in Electricity (Late Payment Surcharge and Related Matters) Rules, 2022 is to be seen.

Exposure towards group companies; albeit reducing: CPL's aggregate exposure to group companies although declined from ₹112.40 crore as on March 31, 2021 to ₹82.54 crore as on March 31, 2022, remained high. The reduction in exposure during FY22 was on account redemption of preference shares of Integrated Coal Mining Limited (ICML).

Exposure of the solar power plant towards climatic conditions and technological risk: Achievement of the desired CUF going forward would be subject to changes in climatic conditions, amount of degradation of modules and other technological risks. Also, the project will be dependent upon discom's ability to off-take 100% of power generated (although some back-down was there in recent past) as the PPA does not provide any protection in the form of deemed generation clause. The track record of solar equipment performance is relatively short in Indian climatic conditions and establishment of energy generation at envisaged levels remain crucial.

Industry risk: The base and peak demand is expected to maintain the increasing growth in FY23, driven by higher industrial and commercial activities, digitalisation, and electric transportation. Thermal power has continued to be the mainstay in supply evidenced by receipt of higher schedule as well as brisk sale of power on a short-term basis. Lag in coal production/transportation to match up the high consumption level along with higher peak demand has firmed up merchant rates, which augurs well for plants with untied capacity. There are numerous and inter-connected challenges for the sector. The sector is expected to witness FGD capex of around ₹1 lakh crore in the medium term where the progress in terms of financial closure and project implementation have been slow. Moreover, the payables of the discoms have continuously increased over the past. Till the time structural changes are successfully implemented for the discoms, the gencos are expected to have high working capital requirement.

Environment, Social and Governance (ESG) profile: The governance profile of CPL 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](#)
[Withdrawal Policy](#)
[Infrastructure Sector Ratings](#)
[Power Generation Projects](#)
[Solar Power Projects](#)
[Thermal Power](#)

About the company

CPL, incorporated in September, 2004 belongs to the RP-Sanjiv Goenka group. CPL set up a coal washery reject based power plant (40MW) in Asansol, which commenced operation in July 2009. The company has three sources of income, namely, revenue from washing of coal, power generation from coal washery rejects and coal shale and solar power generation. The company is engaged in washing of coal from an adjacent washery of CESC on contract basis and purchases the washery rejects from CESC for consumption in its power plant. The power is sold to the power trading company of the group – RPGPTCL which in turn sells the power to CESC Limited. The company has entered into a short-term PPA for one year with RPGPTCL to supply power at a tariff of ₹5.76/kWh from August 27, 2022 onwards. Furthermore, CPL also operates a 15 MW solar power plant in Tamil Nadu which commenced its operation on January 14, 2016. CPL has a long-term PPA with TANGEDCO for supply of power at a tariff of ₹7.01/kWh.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (Prov.)
Total operating income	122.71	116.58	29.68
PBILDT	31.52	30.19	8.91
PAT	13.25	15.50	3.49
Overall gearing (times)	0.28	0.17	NA
Interest coverage (times)	2.25	5.59	7.07

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

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: Detailed explanation of covenants of the rated instruments 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-Term loan	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Bank overdraft	-	-	-	-	40.00	CARE A-; Stable

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	-	-	-	1)CARE A-; Stable (07-Sep-21)	1)CARE A-; Stable (10-Sep-20)	1)CARE A; Stable (14-Oct-19) 2)CARE A; Stable (05-Apr-19)
2	Fund-based - LT-Bank overdraft	LT	40.00	CARE A-; Stable	-	1)CARE A-; Stable (07-Sep-21)	1)CARE A-; Stable (10-Sep-20)	1)CARE A; Stable (14-Oct-19) 2)CARE A; Stable (05-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments: Not Applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Bank overdraft	Simple
2	Fund-based - LT-Term loan	Simple

Annexure-5: Bank lender details for this company

To 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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About us:
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