

Dhariwal Infrastructure Limited

October 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	2,806.93 (Reduced from 2,976.30)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short Term Bank Facilities	75.00	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Bank Facilities	2,881.93 (Rs. Two Thousand Eight Hundred Eighty-One Crore and Ninety-Three Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Dhariwal Infrastructure Limited (DIL) takes into account improvement in the operational and financial performance of the company in FY21 (refers to the period April 1 to March 31) and Q1FY22, which has reduced the financial dependence of DIL on its group entities. The PLF of the entity has improved from 65% in FY20 to 80% in FY21 led by continued off-take of power by Maharashtra State Power Generation Company Limited (MSPGCL; rated CARE BBB+; Stable / CARE A2+) of 185 MW from Unit I (300 MW) under the short term Power Purchase Agreement (PPA) and continued healthy performance of Unit II (300 MW) under the long term PPA with Noida Power Corporation Limited (NPCL) under cost-plus tariff and with Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) under competitively bid-based case-I tariff. This apart there has been sizable prepayment of debt over last two years which has led to savings in finance cost and improvement in its leverage.

CARE also takes note of favorable regulatory order passed by the Hon'ble Appellate Tribunal for Electricity (APTEL) in August 2021 with respect to the legal proceedings challenging the jurisdiction of Uttar Pradesh Electricity Regulatory Commission (UPERC) in approving the PPA and Tariff order between NPCL and DIL. However, there have been piling up of receivables from NPCL due to delay in receipt of true up order for FY16 to FY19.

The ratings continue to factor in the financial flexibility that DIL has by virtue of being part of 'RP-Sanjiv Goenka' group, satisfactory business experience of promoters in the power sector having professional and highly qualified management team, demonstrated financial support from the group alongwith adequate liquidity.

The ratings are, however, constrained by non-availability of long-term PPA mainly for Unit-I exposing DIL to power off-take risk, fuel supply and price volatility risk due to absence of fuel linkages for power sold in short term market and counterparty credit risk mainly from TANGEDCO which comprise of 20% of power sold during FY21. CARE also notes that despite recent improvement, the leverage and debt coverage metrics of the company continues to remain moderate. Further, given that PPA with MSPGCL from Unit-I is valid till October 31, 2021, the renewal of short term / medium term PPA and the ability of the company to sell power at reasonable tariff in the competitive short-term market shall remain key credit monitorable.

Rating Sensitivities

Positive factors:

- Sustained improvement in total operating income (TOI) and profitability led by tie-up of its capacity in Unit I in long-term PPA at reasonable tariff.

Negative factors:

- Reduction in PLF below 65% due to failure to enter into short-term PPAs for Unit-1
- Sustained delay in realization of outstanding dues from NPCL
- Any debt laden capex resulting in deterioration in capital structure with overall gearing ratio exceeding 6 times

Detailed description of the key rating drivers

Improvement in operational and financial performance during FY21 and Q1FY22

DIL's operational performance witnessed an improvement during FY21 and Q1FY22 with combined PLF improving from 65% in FY20 to 80% in FY21 and further to 85% in Q1FY22. The same is primarily attributable to improvement in PLF of Unit-I due to continued power off-take by MSPGCL vide its short term PPAs. The average tariff for the company decreased from Rs.4.18 per unit in FY20 to Rs.3.83 per unit in FY21 due to increased proportion of sale of power to MSPGCL in FY21 which was at a relatively lower tariff. Furthermore, the average tariff in FY20 was exceptionally high due to lower than

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

agreed off-take by NPCL which entitled DIL to recover demand charges, thereby leading to increase in realized average tariff.

DIL reported a growth of 15% in its TOI on y-o-y basis to Rs.1,502 crore (FY20: Rs.1,310 crore) driven by increase in the number of units sold. Further, the profitability of the company also witnessed a significant improvement on account of increased revenues, lower coal cost and saving on finance cost due to prepayments. DIL earned a PAT of Rs.106 crore in FY21 vis-à-vis net loss of Rs.10 crore in FY20. Furthermore, during Q1FY22 the TOI of the company witnessed an improvement of 12% on y-o-y basis to Rs.387 crore (Q1FY21: Rs.344 crore) due to improvement in combined PLF to 85% in Q1FY22 (Q1FY21: 76%) while the average tariff remained stable and reported PAT of Rs.25.33 crore (Q1FY21: Rs.24.33 crore).

Improvement in leverage and debt coverage metrics, however, continues to remain leveraged

The capital structure of the company witnessed an improvement in FY21 marked by improvement in overall gearing from 7.51x as on March 31, 2020 to 5.19x as on March 31, 2021. The improvement is led by debt reduction by DIL through fund support by Haldia Energy Limited (HEL; rated CARE AA-; Stable / CARE A1+) over the years. Over the past three years ended FY21, DIL has received fund support from HEL to the tune of Rs.1,010 crore which has been utilized for reduction in total debt of Rs.892 crore which was Rs.496 crore over its scheduled repayment. Furthermore, the debt coverage indicators of DIL also witnessed a significant improvement during FY21 led by improvement in profitability. The total debt to PBILDT (TD/PBILDT) improved from 6.97x as on March 31, 2020 to 5.29x as on March 31, 2021 and PBILDT interest coverage also improved from 1.24x as on March 31, 2020 to 1.74x as on March 31, 2021.

Favourable regulatory order by Hon'ble APTEL

Vide an order dated August 06, 2021, Hon'ble APTEL has dismissed an appeal which challenged UPERC's jurisdiction in approving the PPA and related tariff order signed between NPCL and DIL, and upheld the said PPA and tariff order approved by UPERC.

Key Rating Strengths

Established group with professional and highly qualified management team

The 'RP-Sanjiv Goenka' group is a leading industrial group of the country having significant presence across diverse business segments such as power, infrastructure, carbon black, retail, education, BPO and media & entertainment.

All the directors of DIL are qualified professionals with long association with CESC Limited (CESC; rated: CARE AA; Stable / CARE A1+), the flagship company of the group. They are assisted by a pool of qualified employees, having long experience in the power sector.

Satisfactory business experience of promoters in power sector

CESC is a vertically integrated power utility engaged in generation, transmission and distribution of electricity to the consumers in its licensed area covering Kolkata and Howrah. As on March 31, 2021, the company has three thermal (coal based) power stations with total generating capacity of 1,125 MW serving 3.4 mn consumers in its 567 sq km licensed area. The combined thermal installed capacity of the group was 2,365 MW as on March 31, 2021.

Demonstrated support from group entities

DIL has received significant fund support from CESC and HEL for funding its scheduled debt repayment obligations and prepayments of debt in view of significant cash losses over the years. In FY21, HEL advanced Rs.150 crore (FY20: Rs.525 crore) to DIL for providing financial assistance. Going forward, though DIL is not expected to require any fund support to meet its debt repayment obligations given its improved cash flows, need based support from the group is expected to continue.

Key Rating Weaknesses

Off-take risk due to absence of long term PPA in Unit I

Out of the total 600 MW installed capacity, the company has long-term PPAs for 287 MW capacity, providing limited long-term revenue visibility. For Unit II having capacity of 300 MW, DIL has long-term PPA for 100 MW with TANGEDCO for 15 years through Case-I bidding under two-part tariff (capacity charge and energy charge) and for 187 MW with distribution company NPCL for 25 years on cost-plus basis. For 185 MW capacity in Unit I (300 MW), DIL has a short term PPA with MSPGCL effective till October 31, 2021. The management expects renewal of the short term PPA with MSPGCL for a period of five months effective till March 2022. For the balance capacity of 115 MW in Unit I, the company continues to sell power under short-term bilateral PPAs or through power exchange which exposes it to risks related to price and volumes of the merchant market. Tie-up of PPAs for the balance capacity to sustain the earnings level shall remain a key credit monitorable.

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

Aggregate annual coal requirement for the plant is 2.73 million tonne 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.

However, DIL can draw coal under the FSA only to the extent of power generated under long term PPA with TANGEDCO and NPCL. The annual contracted quantity for Unit II is 1.43 MMTPA with materialization of around 80% in the past. The FSA for Unit I for 1.30 MMTPA shall become operational on securing long term PPA. However, with respect to the short term PPA with MSPGCL, the coal is supplied by the off-taker and therefore the coal availability risk is low. For the balance generation from Unit I, coal is currently being procured from e-auction or imports, which exposes DIL to coal availability and fuel price risk. DIL is largely insulated from fuel price risk under its cost plus PPA with NPCL and under its case-I PPA with TANGEDCO it is insulated against the fuel price risk up to the extent allowed under the escalable energy charges. Historically, the company has been able to recover the price escalation under the existing tariff structure with TANGEDCO.

Counterparty credit risk associated with sale of power to state DISCOMs

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. Post liquidity support to the discoms under the Atmanirbhar Bharat package, total receivables outstanding from TANGEDCO has declined from Rs.437 crore as on July 31, 2020 to Rs.60 crore as on August 31, 2021. As a result, the overall debtors level witnessed significant decline from Rs.685 crore as on July 31, 2020 to Rs.474 crore as on August 31, 2021. The payment period of NPCL is lean for its regular invoices, however, NPCL is unable to make payment towards part of the invoice due to conflicting orders passed by UPERC which has led to accumulation of dues over the years. UPERC, vide its tariff order dated February 05, 2019, allowed DIL to raise invoices after adjusting the coal quality and CERC escalation as per UPERC direction. However, by a separate order, UPERC also directed NPCL to pay on the basis of approved charges as per the original order till the true up of DIL is approved by UPERC. This has resulted into piling up of receivables from NPCL due to delay in receipt of true order for FY16 to FY19. The management has articulated that once the true up petition is disposed by the UPERC, DIL will recover the differential amount. Timely receipt of outstanding dues from NPCL and timely payment by TANGEDCO on an ongoing basis shall remain a key monitorable.

Liquidity - Adequate

The company has adequate liquidity in the form of cash and liquid investments of around Rs.149 crore and undrawn working capital limit of Rs.230 crore as on March 31, 2021. The average working capital utilization stood low at 27% for the trailing twelve months ended August 2021. Further, as per management articulation, the company shall maintain liquidity at current level of un-utilized working capital limit and free cash and cash equivalents to the tune of Rs.60 crore. The company earned a GCA of Rs.207 crore vis-à-vis debt repayment obligation of Rs.164 crore during FY21. Going forward, the fund support from HEL is expected to be limited only to the equity component for carrying out FGD capex in DIL. Hence, adequate comfort is derived from liquidity perspective based on management's enunciation to maintain abovementioned level of liquidity buffer and healthy projected GCA on expectation of increased generation from Unit I. Besides, DIL enjoys financial flexibility by virtue of being part of RP-Sanjiv Goenka group.

Analytical approach: Standalone with notching based on linkages with parent company

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

[Rating Methodology: Thermal Power Producers](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

DIL, belonging to RP-Sanjiv Goenka group, 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. 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 (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income (TOI)	1,309.58	1,501.81
PBILDT	414.50	484.79
PAT	-9.72	105.66
Overall gearing (times)	7.51	5.19
Interest coverage (times)	1.24	1.74

A: Audited

During Q1FY22, based on provisional financial results, the company reported TOI of Rs.386.68 crore with PAT of Rs.25.33 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	September, 2035	1,810.05	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	-	250.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	75.00	CARE A3+
Fund-based - LT-Term Loan	-	-	-	September, 2035	691.88	CARE BBB+; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	-	55.00	CARE BBB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	1,810.05	CARE BBB+; Stable	-	1)CARE BBB; Stable (08-Oct-20)	1)CARE BBB; Stable (24-Sep-19)	1)CARE BBB; Stable (08-Jan-19) 2)CARE BBB; Stable (07-Jun-18) 3)CARE BBB; Stable (06-Apr-18)
2	Fund-based - LT-Cash Credit	LT	250.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (08-Oct-20)	1)CARE BBB; Stable (24-Sep-19)	1)CARE BBB; Stable (08-Jan-19) 2)CARE BBB; Stable (07-Jun-18) 3)CARE BBB; Stable (06-Apr-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
3	Non-fund-based - ST-BG/LC	ST	75.00	CARE A3+	-	1)CARE A3 (08-Oct-20)	1)CARE A3 (24-Sep-19)	1)CARE A3 (08-Jan-19) 2)CARE A3 (07-Jun-18) 3)CARE A3 (06-Apr-18)
4	Fund-based - LT-Term Loan	LT	691.88	CARE BBB+; Stable	-	1)CARE BBB; Stable (08-Oct-20)	1)CARE BBB; Stable (24-Sep-19)	1)CARE BBB; Stable (08-Jan-19) 2)CARE BBB; Stable (07-Jun-18) 3)CARE BBB; Stable (06-Apr-18)
5	Non-fund-based - LT-Bank Guarantees	LT	55.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (08-Oct-20)	1)CARE BBB; Stable (24-Sep-19)	1)CARE BBB; Stable (08-Jan-19) 2)CARE BBB; Stable (07-Jun-18)

* Long Term / Short Term

Annexure-3: 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 Guarantees	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure 4: 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 instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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