Coromandel Electric Company Limited

March 17, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	10.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short-term Bank Facilities	15.00	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Bank Facilities	**25.00 (Rs. Twenty-five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Coromandel Electric Company Limited (CECL) factors-in the continuous reduction in debt levels and the resultant improvement in solvency ratios in the last two years ended December 2021. The ratings continue to derive strength from the demonstrated support from the promoters and satisfactory operational performance of CECL's power plant. The ratings also take note of the timely renewal of the gas supply agreement (GSA) with GAIL.

The ratings are, however, constrained by the risk associated with the take-or-pay agreement for gas purchase, the short-term nature of power purchase agreements (PPAs), resulting in lower revenue visibility and significant exposure to group companies.

Rating Sensitivities

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

- Significant increase in scale of operations, along with improvement in the operating margin on a sustained basis.
- Improvement in the credit profile of The India Cements Limited.
- Significant decrease in the exposure to group companies and improvement in capital structure.

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

- Deterioration in the credit profile of The India Cements Limited.
- Any significant decline in the operating performance on a sustained basis.
- Any significant debt-funded capex/investments, leading to further weakening of the capital structure.
- Any significant materialisation of contingent liabilities.

Detailed description of the key rating drivers

Key Rating Strengths

Demonstrated support from the promoter: CECL was promoted by The India Cements Ltd (ICL, rated CARE A; Stable) in the year 1997. ICL is one of the largest producers of cement in South India, with a total installed cement manufacturing capacity of about 15.55 million tonne per annum (MTPA), as on March 31, 2021. Although CECL was initially promoted to cater to the power requirements of ICL, the company has been able to diversify its customer base, over the years. ICL has also supported CECL by providing funds for setting-up power plants, in the form of preference share capital (which were subsequently redeemed), in addition to equity capital. The senior management of CECL is also part of ICL, and bring-in considerable years of experience. As on March 31, 2021, around 10% of the total capacity of CECL is tied with ICL's sale of power.

Timely renewal of gas supply agreement with GAIL: CECL uses natural gas as a fuel to generate power, and requires 142,000 SCM of natural gas per day to run the plants at 100% PLF. The GSA with GAIL for supply of natural gas, of 1,19,000 SCM per day (SCMD) at the market determined price (MDP), which was due for renewal in July 2021, has been renewed for a period of five years until July 2026. This apart, CECL is receiving supplies for more than the contracted quantity from GAIL due to the lower offtake of a few more entities operating in the same location. Notably, the company earlier had a contract with ONGC for additional quantum and in case of need may approach ONGC for additional quantum. Sourcing adequate gas supply is critical for maintaining the PLF levels of the company.

The supply of natural gas by GAIL is subject to the availability of gas and the agreements are on a take-or-pay basis, with guaranteed off-take at 90% of the annual contracted quantity. The gas supply has been allocated from the fields of the Oil and Natural Gas Corporation Limited (ONGC) in the Ramnad Zone of the Cauvery Basin and the pricing is fixed by the Petroleum Planning & Analysis Cell (PPAC), which is subjected to revision after every six months. Notably, gas price is fixed based on the weighted average prices of four global benchmarks, including Henry hub (the US), Albert gas (Canada), NBP (the UK) and Russian gas prices.

Recovery in operational performance during 9MFY22: The company commissioned its first unit (capacity of 17.46 MW) in November 2004, and subsequently, its second unit (capacity of 8.73 MW) in December 2005. Over the years, CECL has been able to improve the PLF levels, which remained above 80% levels till the year ended March 2015, before dropping in FY16 and FY17. With improved gas supply from suppliers, the PLF levels of CECL improved and stood in the range of 89% to 93% in FY18 and FY19. However, the PLF during FY21 stood at 73%, as against 93.7% in FY20. The decline in the PLF is on account of the impact

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

of COVID-19. The operations were completely halted from April 2020 to mid-May 2020 due to the nationwide lockdown. However, the generation started improving gradually from June 2020 and reached above 90% levels from November 2020. The operations has remained satisfactory during 9MFY22 with PLF of 92.97%.

Improvement in the capital structure: The overall gearing levels has improved from 0.33x as on March 31, 2020 (0.48xas on March 31, 2019), to 0.22x as on March 31, 2021, with reduction in overall debt as per the scheduled repayment and reduction in short-term borrowings. The total debt outstanding, as on March 31, 2021, declined to Rs.34.42 crore, as against Rs.48.95 crore as on March 31, 2020 (March 31, 2019: Rs.70.30 crore). As on December 31, 2021, the total debt outstanding stood at Rs.25 crore.

Stable profitability during FY21 despite lower generation; Improvement in generation during 9MFY22: CECL commissioned the power plant mainly to cater to the power requirements of ICL, wherein, the prices paid by ICL take into account the debt and interest obligation and fixed charges. However, the requirement from ICL was minimal, as compared with the total power generation of CECL, and the demand for power in Tamil Nadu was high, considering the power deficit scenario prevailing in the Tamil Nadu market. On account of the same, from FY14 onwards, CECL started selling power to third-party customers in the open market and realised better profits on account of better rates. In order to share the profits, CECL entered into an agreement with ICL and started sharing some portion of the revenue earned by selling power to third-parties with ICL. During FY20, the gross revenue reported by CECL was Rs.73 crore (PY: Rs.108 crore), of which Rs.11.3 crore (PY: Rs.23 crore) was shared with ICL. The revenue sharing with ICL is based on the agreed formula to cover fixed costs and it varies at different levels of operations (PLFs). As mentioned above, the PLF levels stood lower in FY21 due to COVID-19 and the same led to a lower revenue share with ICL. Furthermore, on account of the favourable gas prices and an increase in revenue from services, the company's PBILDT margin improved to 28.40% in FY21, as against 23.21% in FY20. Notably, in addition to power generation, the company is also providing O&M services to the captive power plants of ICL. With an increase in the number of plants under the O&M activity, service income increased from Rs.2.55 crore in FY20, to Rs.4.82 crore in FY21, which has also aided profits in FY21. During 9MFY22, the company witnessed improvement in generation, with the plant operating at 92.97% PLF, and the same led to an increase in gross revenue earned by CECL to Rs.77.54 crore (9MFY21: Rs.49 crore).

Key Rating Weaknesses

Short-term nature of PPA: CECL sells a portion of the power generated to ICL. Rest of the power generated is sold to third parties under a group captive scheme under short-term power purchase agreements. The clients include leading players in the automobile industry, namely, MRF Limited (rated 'CARE AAA; Stable/CARE A1+'), MM Forgings Limited (rated CARE A; Stable/ CARE A1), Sakthi Auto components Limited, among others. Notably, 57% of CECL's total generation is being sold to MRF Limited alone, which exposes the company to client concentration risk. The majority of its customers possess high creditworthiness, mitigating any counterparty credit risk. The company has renewed PPAs with its group captive consumers until March 2024. The short-term nature of PPAs exposes the company's revenue to vagaries of the demand-supply scenario.

Significant exposure to group companies: During FY17 and FY18, CCEL has availed fresh term loans amounting to Rs.40 crore. As on March 31, 2019, the total amount of term loan outstanding stood at Rs.51.2 crore. Also, CECL had raised Rs.38 crore in the form of compulsorily convertible debenture (CCD) during FY18 on a private placement basis. The CCD had matured in April 2019 and has been extended by another three years up to April 2022, and the same is expected to be extended further. Notably, all these debts availed have been 2tilized to provide loans to its group company, Coromandel Sugars Limited (rated 'CARE BBB-; Stable'), in the form of investments in equity shares and ICDs. As on March 31, 2021, the exposure to group companies continued at Rs.93 crore (PY: Rs.93 crore).

Risk associated with the GSA having take-or-pay arrangement: Notably, due to the take-or-pay nature of the GSA, CECL has guaranteed natural gas offtake from GAIL, equivalent to 90% of the nominated quantity. Irrespective of the demand or restrictions on the grid, CECL is obliged to buy gas. Also, there are four more buyers who are supplied gas from the same wells by GAIL. As the threshold of 90% is calculated first at the group level (based on the consumption of all the buyers linked to the well), the risk associated with the take-or-pay arrangement is mitigated to a large extent. Additionally, given that the company does not have any other long-term gas supply agreement, the distribution of gas from GAIL is critical for uninterrupted operations, and hence, the minimum offtake risk is minimal, unless there is a disruption in operations as witnessed in FY21. The company had a lower offtake during FY21 on account of COVID-19, which had led to disruption in operations. Penal charges for April 2021 and May 2021 were waived-off by GAIL as the force majeure clause was invoked. However, for the remaining period in FY21, a penal payment of Rs.1.33 crore was initiated against the company for lower offtake.

Contingent liability: Based on the CAG report, GAIL (India) Limited has raised a demand for Rs.42.92 crore towards charging administered pricing instead of market-driven pricing for the natural gas supplied during the period July 1, 2005 to November 15, 2011. The single arbitrator who was appointed for this contentious issue had upheld the demand for only three years, for a sum of Rs.23.85 crore, against which the company has filed a petition before the High Court of Madras, challenging the award. During FY21, the company received a favourable judgment from the High Court, reversing the order of the arbitrator. Moreover, the said judgement was not stayed in the appeal filed by GAIL. Hence, as on March 31, 2021, there is no liability as far as the dispute is concerned, and the management has removed the same from the contingent liability. However, the Central Bureau of Investigation (CBI) investigated the above matter and has filed a criminal case before the CBI Court, Delhi.

Prospects
The operational performance of the company remained satisfactory in the past. Although the operational performance was impacted in FY21 due to COVID, the same has improved in 9mFY22. In the past, the company has availed significant amount of debt, which was in turn, used to support its group company. With utilisation of accruals for the repayment, debt levels has witneseed significant reducation in the past two years ended December 2021. Going forward, in the absence of any debt-funded capex and any funding support to the group entites, the capital structure is expected to improve. In the near-term, the increase in gas (fuel) prices remains a key risk to profitability, although company the has cushion in terms of (1) passing on fuel price increase to its customers to an extent and (2) reduction of revenue share paid to ICL. The sustenance of gas prices at an elevated level in the future is likely to impact profitability. However, low leverage levels and being part of the India Cements group, adds comfort.

Liquidity: Adequate
With respect to the procurement of natural gas, the bills are raised on a fortnightly basis and cash payments are made within 15 days of the receipt of the bills. CECL maintains inventory in the form of stores and spares required for its daily operations as well as O&M purposes. With respect to the sale of power, bills are raised on a monthly basis for captive customers and a credit period up to 30 days is offered, except for sales to ICL. The company's average working capital utilisation was 32.95% for the 12-months period ended January 2022. Cash and bank balance, as on March 31, 2021, stood at Rs.30.8 crore. Scheduled term debt obligations for FY22 is Rs.8.0 crore, against gross cash accruals (GCA) of Rs.11.4 crore achieved in FY21.

Analytical approach: Standalone. Factoring in linkage with promoter group company, The India Cements Ltd.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology - Power Generation Projects
Rating Methodology: Notching by factoring linkages in Ratings
Liquidity analysis for Non-financial sector entities

About the Company
Coromandel Electric Company Limited (CECL), incorporated in 1997, is promoted by The India Cements Limited (ICL) to set-up gas-based power plant for captive use. As on March 31, 2020, ICL, along with its subsidiaries and associate companies, held 50.14% equity stake in CECL. At present, CECL operates 26.19 MW (3 x 8.73 MW) natural gas-based power plant at Valantharavai village, Ramanathapuram district, Tamil Nadu. Natural gas is the only fuel used in these plants. CECL currently sells power to ICL and a few other customers under the group captive scheme.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov)
Total operating income	95.64	74.15	77.54
PBILDT	22.20	21.06	NA
PAT	2.34	9.64	NA
Overall gearing (times)	0.33	0.22	NA
Interest coverage (times)	2.58	3.54	NA

A: Audited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

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

Covenants of rated instrument / facility: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	10.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	15.00	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 (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-Cash Credit	LT	10.00	CARE BBB+; Stable	1)CARE BBB; Stable (07-Apr-21)	1)CARE BBB; Stable (06-Apr-20)	-	1)CARE BBB+; Stable (28-Mar-19)
2	Non-fund-based - ST-BG/LC	ST	15.00	CARE A3+	1)CARE A3 (07-Apr-21)	1)CARE A3 (06-Apr-20)	-	1)CARE A3+ (28-Mar-19)

***Long Term / Short Term**

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable; No financial/ non-financial covenants stipulated.

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	Non-fund-based - ST-BG/LC	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 instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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