

ONGC Tripura Power Company Limited

September 17, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	2,074.00 (Reduced from 2,254.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	420.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	2,494.00 (Rs. Two thousand four hundred ninety four crore 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 ONGC Tripura Power Company Limited (OTPC) continues to derive strength from the strategic and operational support from its major shareholder, i.e., Oil and Natural Gas Corporation Limited (ONGC, rated 'CARE AAA; Stable/ CARE A1+'). The ratings favourably factor OTPC's firm fuel supply arrangement with ONGC at competitive rate and the improved average monthly contracted quantity materialization of gas supply to OTPC as result of higher gas exploration in the region. The ratings also factor the Power Purchase Agreements (PPAs) for 86.43% of capacity with tariff based on Central Electricity Regulatory Commission (CERC) guideline, which ensures long-term revenue visibility and fixed return on equity. The ratings derive support of the comfortable financial risk profile of the company characterised by improving leverage and strong liquidity.

The ratings take cognizance of the challenges faced by the plant in terms of gas and machine availability in the past, the improvement in plant availability factor and plant load factor in FY21 (refers to the period April 1 to March 31) with anticipated deterioration in FY22 due to the extension of scheduled maintenance on account of the second wave of covid-19 outbreak. The ratings also factor in the progress with respect to the insurance claim by the company upon machine failure during FY20. The rating strengths are, however, constrained by weak financial risk profile of its power off-takers and single asset operations of the company.

Key rating sensitivities

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

- Improvement in debt coverage indicators with Total Debt to GCA below 1.50x on sustained basis

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

- Material decline PAF below normative parameters on a sustained basis
- Decline in the shareholding of ONGC along with reduction in financial and managerial support to the company and deterioration in the credit profile of ONGC
- Material increase in the receivables of the company with collection period of above 200 days on sustained basis
- Any large debt-funded capex/ acquisition which may lead to sharp deterioration in leverage and coverage metrics

Detailed description of the key rating drivers

Key Rating Strengths

Strategic and operational support from ONGC and experienced management

ONGC is a Maharatna company and has dominant position in the domestic oil and gas sector. ONGC, being the largest shareholder in the joint venture (JV), provides strategic and operational support to OTPC. The board of OTPC is chaired by the Chairman and Managing Director of ONGC. OTPC also has other ONGC-nominated directors in the board. The project's ability to monetize the available gas of ONGC in the Tripura as well as clock profit and pay dividend on regular basis adequately demonstrate its strategic and economic importance for ONGC.

In terms of the management of OTPC, the other members of the board have decades of experience in power plant, oil & gas operations and finance across reputed PSUs, infrastructure conglomerates and financial institutions.

Firm fuel supply arrangement

The Gas Sale and Purchase Agreement (GSPA) with ONGC for supplying 2.65 MMSCMD of gas is sufficient to meet more than 90% of OTPC's requirement at normative operation. The GSPA is valid for a base term of 15 years from the commercial supply date. As per the agreement, OTPC may prior to the expiry of base term, request ONGC for renewal of GSPA for two five-year terms. OTPC sources gas at competitive tariff from ONGC leading to lower cost of generation and hence competitive tariff for its customers in North Eastern India.

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

Improved gas availability attributable to exploration activities carried out by ONGC

The company had witnessed lower supply of gas by ONGC in the past due to limited availability in the region. CERC had also relaxed the normative plant availability factor for the project due to lower availability of fuel from March 24, 2015 to September 30, 2018. However, ONGC has been undertaking exploration activities in the region which has resulted into improved supply of gas to the project. As per the data from Ministry of Petroleum and Natural Gas, the production of natural gas in the Tripura has improved from 1,473 million metric standard cubic meters (MMSCM) in FY20 to 1,634 MMSCM in FY21.

The average monthly contracted quantity materialization of gas supply to OTPC has improved to over 100% in FY21 (PY: 76%). Going forward, the sustainability of such gas supply for the achievement of normative parameters shall be important from the credit perspective.

Revenue visibility provided by long-term PPAs

OTPC has entered into 25 years PPA with the discoms in the north-eastern states for 86.43% of the installed capacity. The beneficiaries are billed based on two-part tariff structure (i.e., fixed charge and energy charge). Energy charge is a pass-through item, subject to the plant meeting normative operational parameters. The component of annual fixed charge includes the return on equity, depreciation, interest on loan capital, interest on working capital and operations and maintenance expenses. It is recoverable fully upon meeting the normative PAF (NAPAF) of 85%.

The 3-year PPA of 98 MW, through which OTPC was selling power to Assam Power Distribution Company Ltd (APDCL) at a fixed tariff of Rs.3.54/unit, had expired in March 2021. Post that, the company is selling power on merchant basis.

Comfortable financial risk profile; expected to moderate in FY22

Gross cash accrual improved from Rs.273 crore in FY20 to Rs.415 crore in FY21 as a result of higher recovery of capacity charge. Total debt/gross cash accrual (TD/GCA) thus improved to 4.32x (PY: 6.83x). Interest coverage also improved to 4.19x in FY21 (PY: 2.73x). Despite the payment of dividend of Rs.90 crore (PY: Rs.122 crore) in FY21 with increase in WC borrowing, overall gearing improved from 1.48x as on March 31, 2020 to 1.29x as on March 31, 2021. Due to stretched scheduled maintenance in Q1FY22, PAF is expected to remain subdued in FY22 leading to lower projected gross cash accrual in FY22.

Liquidity - Adequate

The company's projected gross cash accrual in FY22 is marginally more than the debt repayment. With respect to the ongoing capex (including compressor enhancement, rotor, transformer and software upgradation), requirement of internal accrual for funding is expected to be minimal as sizable portion was infused in FY21. Disbursement of term loan for funding rest of the project cost is expected to ease the liquidity.

OTPC also expects significant proceeds from an insurance company in FY22 which is expected to improve the liquidity. The company had filed insurance claim including loss of property and for loss of revenue as a result of machine failure in FY20.

The company has adequate liquidity profile backed by cash and equivalent of Rs.111 crore as on March 31, 2021. The company has working capital limits of Rs.200 crore, average maximum utilization of which stood at 23% for the trailing 12 months ended April 2021. Despite the moderation in debtor ageing profile during FY21, average collection period was acceptable at 48 days (PY: 43 days). Current ratio of the company improved to 1.48x as on March 31, 2021 (PY: 1.24x).

Key Rating Weaknesses

Issue of gas and machine availability in the past; although improved availability in FY21 it is expected to moderate in FY22

OTPC had lower PAF in FY18 and FY19 as a result of lower gas availability in the region. In FY20, gas availability improved, however, one of the units had to be shut for six months caused by delay in repair of a rotor blade fault. Operational performance in FY21 was satisfactory with PAF and PLF of 81.48% (though still lower than NAPAF) and 79.55%, respectively.

PAF and PLF is expected to moderate again in FY22 as a result of stretched scheduled maintenance. Non availability of manpower for scheduled maintenance during second wave of Covid-19 had resulted in low PAF and PLF of 37.21% and 36.03% respectively, in Q1FY22.

Auxiliary power consumption of the plant has been higher due to retrofits required to regularize the lower pressure of gas supply. Going forward, the ability of the plant to minimize the under-recovery of capacity charge and energy charge is to be seen.

Weak financial health of its off-takers

Although the company has long-term PPAs in place for majority of its generation capacity, it is exposed to counter party credit risks in view of relatively weak financial health of its power off-takers. The risk is, however, partially mitigated as it supplies relatively cheaper power to the beneficiaries. As per PPA, OTPC has payment terms of up to 45 days with its off-takers and has also obtained LC (except from Meghalaya discom) of amount equivalent to a month of power purchase.

The company has experienced delays in receipt of payment due to lockdown imposed by the Government in view of Covid-19 pandemic. Majority of the debtor pending for more than 120 days was due from Meghalaya (Rs.86 crore) and Manipur (Rs.11 crore) discoms, as on March 31, 2021.

Regulatory risk

OTPC had filed for true up of capital cost based on FY20 audited financials in October 2020. OTPC has cleared a sizable amount of capital creditor for the project cost post facto CERC's last tariff order, which is expected to be allowed for recovery through future tariff. The extent of allowance by the regulator is to be seen.

Industry risk

Although power demand in the north-eastern states is much lower compared to that in other regions in India, penetration with new connections is expected to improve. The demand showed its resilient even during FY21 when other regions grappled with lower demand due to challenges posed by Covid-19 outbreak. Base and peak power demand in the north-eastern states continued to increase – 2.2% and 10.2%, respectively, y/y in FY21 (as per CEA). These states have few but cost-competitive hydro, gas and coal-based power plants which enjoy higher scheduling. However, the discoms in north-eastern states have particularly weak financials posing working capital challenges for the gencos in the region.

Analytical approach: Standalone while factoring operational, strategic and financial support from its majority shareholder, ONGC.

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](#)

[Short Term Instruments](#)

[Infrastructure Sector Ratings](#)

[Power Generation Projects](#)

[Thermal Power](#)

About the Company

OTPC is a joint venture of ONGC, IL&FS Energy Development Company Limited (IEDCL) and its nominees, IL&FS Financial Services Limited (IFIN), the Government of Tripura (GoT) and India Infrastructure Fund – II (IIF-2). OTPC has implemented a 726.6 MW (2X363.3 MW) Combined Cycle Gas Turbine (CCGT) power project in Palatana, Tripura. The COD of the first unit was declared on January 4, 2014, whereas the second unit started commercial operations on March 24, 2015. The power evacuation from the power plant is being done through a 400 KV double circuit 663 km transmission line by North East Transmission Company Ltd. The Competition Commission of India (CCI) had approved Summit India (Tripura) Pte. Ltd's acquisition of IIF-2's stake and GAIL (India) Limited's acquisition of IL&FS entities' stake in OTPC in July 2021 and September 2021, respectively.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total Operating Income	1,290	1,688
PBILDT	435	596
PAT	71	221
Overall Gearing (times)	1.48	1.29
Interest coverage (times)	2.73	4.19

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	480.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	120.00	CARE A1+
Fund-based - ST-Term loan	-	-	-	300.00	CARE A1+
Fund-based - LT-Term Loan	-	-	March'2029	1594.00	CARE AA; 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-Cash Credit	LT	480.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Jan-21)	1)CARE AA; Stable (09-Oct-19)	1)CARE AA-; Stable (01-Mar-19) 2)CARE AA-; Stable (05-Apr-18)
2.	Non-fund-based - ST-BG/LC	ST	120.00	CARE A1+	-	1)CARE A1+ (05-Jan-21)	1)CARE A1+ (09-Oct-19)	1)CARE A1+ (01-Mar-19) 2)CARE A1+ (05-Apr-18)
3.	Fund-based - ST-Term loan	ST	300.00	CARE A1+	-	1)CARE A1+ (05-Jan-21)	1)CARE A1+ (09-Oct-19)	1)CARE A1+ (01-Mar-19) 2)CARE A1+ (05-Apr-18)
4.	Fund-based - LT-Term Loan	LT	1594.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Jan-21)	1)CARE AA; Stable (09-Oct-19)	1)CARE AA-; Stable (01-Mar-19) 2)CARE AA-; Stable (05-Apr-18)

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

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

Note on complexity levels of the rated instrument: CARE Ratings has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Name- Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID: mradul.mishra@careratings.com

Analyst Contact

Name- Sudhir Kumar

Contact no. - +91-11-4533 3232

Email ID: sudhir.kumar@careratings.com

Business Development Contact

Name- Swati Agrawal

Contact no. : +91-11-4533 3200

Email ID: swati.agrawal@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**