Manikaran Power Limited

April 18, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	101.00	CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable/ A Two)	Assigned
Total Bank Facilities	**101.00 (Rs. One Hundred One Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The assigned ratings derive comfort from the long track record of around two decades and established presence of Manikaran Power Limited (MPL) in the business of power trading. The same has resulted in the company having a strong market share (especially in the short term power trading segment). The rating is further supported by company's past track record of effectively managing contractual and payment-related risks. This apart, CARE positively factors in diversified client base comprising C&I as well as utilities and healthy order book position which provides revenue visibility over the near to medium term.

Nevertheless, the rating is constrained on account regulated nature of power trading industry and low profitability margins which are inherent in short-term power trading segment. Also, the company is exposed to contractual risk in event of dispute which could lead to financial impact despite having power purchase agreements (PPAs) and power sale agreements (PSAs) which are back-to-back in nature.

Rating Sensitivities

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

- Improvement in scale and profitability margins resulting in a substantial increase in net worth
- Improvement in overall liquidity profile

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

- Deterioration in financial risk profile as reflected by decline in scale, profitability margins and liquidity profile

Detailed description of the key rating drivers

<u>Key Rating Strengths</u>

Long track record of operations of around two decades in power trading industry

MPL is a closely held company and being managed by promoters having experience of over two decades in power and infrastructure sector. The company has been consistently featured among top power traders by CERC for the past few years and has a long track record of operations of around two decades in the power trading industry.

Large and Diversified Client Base

The counterparty credit risk for the company is low on account of diversified customer portfolio. MPL's customer base comprises C&I customers as well as utilities which are located in different states of India. Company is not dependent on a few customers for carrying out its operations and benefits on account of diversification.

Effective Management of Contractual Risk

While the medium-term trade is lucrative by virtue of its relatively higher and stable margins, it carries significant contractual risks on both the PPA and the PSA side. MPL with its long track record and strong connect with utilities has effectively managed these risks by having contractual safeguards in place, such as allowing third-party sale (in case of delay in payments from discoms), rebate for timely payments, late payment surcharge for delay in payments, presence of LCs as a payment security mechanism, termination liabilities, penalty for non-offtake by discom and bank guarantee from project developer guaranteeing supply of agreed power and same has been exhibited by no material debts since inception. These terms are back-to-back in nature in both PPAs and PSAs.

Revenue visibility on account of healthy order book of the company

Company's demonstrated ability to enter into fresh arrangements and renew its existing contracts provides revenue visibility over the near to medium term. Also, MPL has orders in hand for power and coal with diversified parties which provide revenue visibility in short as well as medium-term to the company.

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

Industry Outlook
Given the dearth of new long-term PPAs (especially for the non-renewable segment) for the power generators, industry expects the share of short to medium term electricity market to increase. As per CERC, the short-term electricity market comprises 6%-7% of the overall electricity market. In short-term market, consumers like captive users or discoms buy power either at energy exchanges or directly from generating firms (gencos) under open access. CARE also makes a note of the shift towards a more dynamic power scenario wherein the consumers have access to different short-term market products like real time market, day ahead market and term ahead market, among others. These initiatives are expected to further bolster the short-term trading market in India.

Key Rating Weaknesses

Regulated Nature of Power Trading Industry
The power trading market can be segregated into two types: Long term Bilateral contracts (>1 year) and short term contracts (≤1 year). The trading margins allowed by CERC, in short term segment, is currently capped at Rs. 0.07/kWh subject to fulfilment of condition of LC. This limits the trading margins of MPL and other power trading companies.

Significant counterparty risks in case of dispute/delay in receipt of payments
MPL is exposed to counterparty credit risks due to its exposure to the state power utilities. However, the risk is mitigated to some extent due to company's wide and large client base. Moreover, the presence of contractual safeguards mitigates the risk to an extent. Despite most of the terms being back to back in both PPAs and PSAs, the company's financials can get impacted adversely in case of a dispute.

Low Profitability Margins due to trading nature of operations
MPL's PBILDT and PAT margins stood low at 0.94% and 0.53% respectively in FY21 as against 0.83% and 0.49% respectively, in FY20. However, low profitability margins are inherent to the trading industry on account of capped trading margins by CERC.

Liquidity: Adequate
As on Feb 28, 2022, the company had cash and cash equivalents of ~Rs. 85 crores. Going forward, CARE expects the annual cash accruals to be in the range of around Rs. 25 to 30 crores, which is expected to be sufficient, given the low debt-service obligations of company.

Analytical approach: Standalone

Applicable Criteria
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Infrastructure Sector Ratings

About the Company
Manikaran Power Limited, incorporated in Oct 2005, is engaged in power trading business and holds Category-I trading license from CERC. MPL is a trading member on Indian Energy Exchange (IEX) and Power Exchange India Limited (PXIL). It enters into Power Trading contracts (Short/Medium-term) and bilateral contracts and also specializes in trading of Renewable Energy Certificates on Power Exchanges platform. With dedicated 400 professionals working in different states, the company has been consistently ranked under top three power traders by CERC for the past few years. An ISO 9001:2008 and ISO 27001:2005 certified company, company has a pan India presence through its office in Delhi, Kolkata, Mumbai, Bangalore, Hyderabad, Chennai and Ahmedabad and has a diversified client base.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9M FY2022
Total operating income	3,634.44	3,444.97	NA
PBILDT	27.06	29.00	NA
PAT	17.94	18.22	NA
Overall gearing (times)	0.15	0.00	NA
Interest coverage (times)	6.92	12.32	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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	95.00	CARE BBB+; Stable / CARE A2
Fund-based - LT/ ST-Cash Credit	-	-	-	6.00	CARE BBB+; Stable / CARE A2

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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	95.00	CARE BBB+; Stable / CARE A2				
2	Fund-based - LT/ ST-Cash Credit	LT/ST*	6.00	CARE BBB+; Stable / CARE A2				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	• Current Ratio shall not fall below 1.33x • Tangible Net Worth (TNW)/Total Outside Liabilities (including BG) shall not exceed 4x.
B. Non-financial covenants	• Investment in subsidiary or extending the CG shall be done only on prior permission of bank. • 100% cash flow to be ensured for project for which BG is issued.

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-Cash Credit	Simple
2	Non-fund-based - LT/ 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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