

GMR Kamalanga Energy Limited

August 29, 2023

Facilities/Instruments	Amount (₹ crore)	Ratings ¹	Rating Action
Long-term bank facilities	3,467.67 (Reduced from 3,829.08)	CARE BBB-; Stable	Revised from CARE BB; Stable
Short-term bank facilities	479.70 (Enhanced from 461.70)	CARE A3	Revised from CARE A4

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of GMR Kamalanga Energy Limited (GKEL) takes into account consistent operating performance with healthy plant load factor (PLF), which coupled with timely realisation of normal dues, has led to improvement in its cash flow position. The debt coverage indicators of the company have improved with reduction in the total debt / profit before interest, lease rentals, depreciation and taxation (PBILDT) of 4.66x at FY23-end as compared with 5.45x at FY22-end. CARE Ratings Limited (CARE Ratings) also takes note of the favourable order received with respect to GKEL's regulatory claims from Bihar Discoms.

The ratings continue to derive strength from the availability of power purchase agreements (PPAs) for around 95% of the power generation capacity, including long-term PPAs for 84% capacity thereby providing good revenue visibility to the company and fuel supply agreements (FSAs) in place for meeting around 80% of the domestic coal requirement of the plant which mitigates fuel supply and price risk to a certain extent. The ratings also continue to factor the experienced promoter group with an established track record in operating power projects.

The ratings are, however, constrained due to GKEL's weak financial risk profile with leveraged capital structure, continued regulatory uncertainties and elevated level of receivables due from its off-takers having relatively weak credit profile which hinders the sustenance of adequate liquidity buffer.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Realisation of receivables (including regulatory receivables) from the off-takers resulting in improvement in the collection period to below 90 days on a sustained basis.
- Better-than-envisioned improvement in the capital structure and debt coverage indicators.

Negative factors

- Significant delay in realisation of receivables resulting in stretched liquidity position for the company.
- Significant deterioration in the credit profile of the off-takers.
- Material under-recovery of capacity charges or energy charges or sharp increase in the borrowing cost, resulting in lower-than-envisioned cash accruals.
- Extension of loans and advances to group companies / increase in exposure to group companies.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects GKEL's steady operational and financial performance backed by its PPAs and FSAs with moderate debt coverage indicators in the medium-term.

Detailed description of the key rating drivers

Key strengths

Continued improvement in the operational performance during FY23 and 2MFY24

During FY23 and 2MFY24, the plant availability factor (PAF) of GKEL stood at 89.89% and 86.32%, respectively (FY22: 90.89%), i.e., higher-than-the-normative level of 85%, which ensures full recovery of capacity charges for the year for around 95% of the capacity. Furthermore, the PLF stood at 76.98% in FY23 and 79.85% in 2MFY24 (FY22: 81.87%) on account of higher demand of energy from its off-takers and competitive tariff of the company's plant. Competitive energy charges of the plant places it high in the merit order dispatch of the off-taking states, leading to higher scheduling.

PPAs in place for around 95% of the power generation capacity which provides good revenue visibility

Out of total generation capacity of 1,050 MW, GKEL has PPAs of around 95% capacity of which PPAs of around 84% capacity are long-term PPAs. GKEL has long-term off-take agreements of 25 years with Haryana Discoms for 31.94% of capacity (335.4 MW), Bihar Discoms for 27.4% of capacity (287.7 MW) and GRID Corporation of Odisha Limited (GRIDCO) for 25% of the capacity (262.5 MW). Earlier, GKEL had tied-up 109 MW gross capacity with Tamil Nadu Generation and Distribution

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

Corporation Limited (TANGEDCO) for a period of five years and it had received letter of award (LoA) for the same. Subsequently, GKEL has executed PPA with TANGEDCO, and power supplies to the same have commenced from December 15, 2022. Post tie-up of 109 MW with TANGEDCO, the tied-up capacity of the company has increased from around 84% to 95%. Availability of PPAs for around 95% of the power generation provides good revenue visibility to GKEL.

Presence of FSAs for meeting the fuel requirements under the PPAs

The aggregate coal required to operate the plant at a PLF of 85% is 5.30 million metric tonne per annum (MMTPA). Against the same, GKEL has domestic FSAs of 4.30 MMTPA with subsidiaries of Coal India Limited (CIL). Domestic FSAs meet round 80% of the coal requirement of GKEL. The balance requirement is being met through domestic e-auction / imported coal. Annual contracted quantity (ACQ) materialisation under the FSAs has been around 100% during the last three years ended FY23. The presence of FSAs largely safeguards GKEL against possible fuel supply and fuel price risks.

Experienced promoter group with experience in developing power projects

GKEL is a part of the GMR group which is a major player in the infrastructure sector through its flagship company, GMR Airports Infrastructure Limited (formerly GMR Infrastructure Limited), and has been developing projects in India and abroad in areas such as airports, energy, transportation, etc. Over the years, the GMR group has successfully implemented various power projects and has substantial experience in developing and operating power projects.

Key weaknesses

Weak financial risk profile with leveraged capital structure

The company has a weak financial risk profile, as characterised by high overall gearing and moderate debt coverage metrics on account of past accumulated losses. The overall gearing of the company improved from 9.56x as on March 31, 2022 to 5.57x as on March 31, 2023 due to augmentation in tangible net worth (TNW) on the back of profits reported in FY23. However, the capital structure of the company remains leveraged. PBILDT interest coverage and total debt / PBILDT stood at 1.96x and 4.66x during FY23 vis-à-vis 1.67x and 5.45x during FY22, respectively. Furthermore, given the relatively high debt servicing obligation during FY23 and FY24, CARE Ratings expects the company to have limited headroom for operational and financial underperformance.

Continued regulatory uncertainties

The company has several matters under adjudication with several regulatory authorities. These matters largely relate to change in law events (domestic coal shortfall, change in tax regime, etc.) and dispute related to capacity charges (with GRIDCO). The same has resulted in accumulation of regulatory receivables. The regulatory receivables have increased from around ₹780 crore as at FY22-end to ₹1,008 crore as at FY23-end. GKEL has received favourable order from the Hon'ble Supreme Court of India with respect to its regulatory claims from Bihar Discoms and similar order is expected in case of its dispute with Haryana Discoms. The company is expecting to realise part of its regulatory claims by the end of FY24. Going forward, CARE Ratings will continue to monitor the timely receipt of final orders from regulatory authorities and subsequent receipt of pending dues from off-takers.

Counterparty credit risk resulting in an elongated working capital cycle

The company's operating cycle remained elongated at 106 days during FY23 (PY: 98 days). The inventory and creditor days have reduced during FY23. However, the collection period continues to remain high at 143 days during FY23 (PY: 138 days). The total outstanding receivables (including regulatory receivables and unbilled revenue) increased from around ₹1,558 crore as on March 31, 2022 to around ₹1,887 crore as on March 31, 2023. Substantial receivables as on March 31, 2023, are also older than 180 days. The weak financial health of its power off-takers continues to remain a cause of concern for GKEL. The high level of aggregate technical and commercial (AT&C) losses, rising power purchase costs and the absence of cost-reflective tariff regimes have put a strain on the financial position of its off-takers. Counterparty risk emanating from deterioration in the credit profile of its off-takers would be a key rating monitorable.

Liquidity: Stretched

The liquidity position of the company has improved in FY23 on the back of higher merchant and commencement of power supply to TANGEDCO from December 2022. The company generated gross cash accruals of ₹610 crore during FY23 as against ₹463 crore in FY22. The liquidity position of the company is aided by unencumbered cash and bank balance of around ₹32 crore as on March 31, 2023 and unutilised fund-based limits working capital limits of around ₹30 crore as on even date. The company has fund-based working capital limits of around ₹196 crore average utilisation of which stood at around 86% during trailing 12 months ended March 2023. The company has tied-up additional fund-based working capital limits of ₹14 crore in order to meet its incremental working capital requirement. Average collection period of GKEL has been high in the past due to pending regulatory receivables.

Applicable criteria

[Rating Outlook and Credit Watch](#)

[Policy on Default Recognition](#)

[Policy On Curing Period](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)
[Short Term Instruments](#)
[Infrastructure Sector Ratings](#)
[Thermal Power](#)
[Financial Ratios – Non-Financial Sector](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Generation

Incorporated in December 2007, GKEL is a special purpose vehicle (SPV) promoted by GMR Energy Limited (GEL) which is an operating-cum-holding company for all power projects of the GMR Group. GKEL has developed a 1,050 mega-watt (MW) (350 MW x 3 units) coal-based thermal power generation project at Kamalanga village, Dhenkanal district, Odisha. The project cost was initially estimated at ₹4,540 crore. However, subsequently there was a cost overrun of ₹1,979 crore, thereby leading to final project cost of ₹6,519 crore. The project was funded through debt of ₹4,269 crore and equity of ₹2,250 crore (debt-to-equity ratio of 65.4: 34.6). The project achieved commercial operations date (COD) on April 2013 for Unit-I, November 2013 for Unit-II, and March 2014 for Unit-III.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	2,467	3,024	707
PBILDT	835	910	209
PAT	142	286	87
Overall gearing (times)	9.56	5.57	NA
Interest coverage (times)	1.67	1.96	1.78

A: Audited UA: Unaudited; NA: Not available; The above financials have been adjusted as per CARE Ratings' criteria.

Note: 'the above results are latest financial results 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/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments/facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument/Bank Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	July 2034	3,257.92	CARE BBB-; Stable
Fund-based - LT-Working capital limits	-	-	-	-	209.75	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	479.70	CARE A3

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 2023-2024	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
1.	Fund-based - LT-Term loan	LT*	3257.92	CARE BBB-; Stable	-	1)CARE BB; Stable (26-Aug-22)	1)CARE B+; Stable (19-Jan-22) 2)CARE D (26-Nov-21)	1)CARE D (07-Oct-20)
2.	Fund-based - LT-Working capital limits	LT	209.75	CARE BBB-; Stable	-	1)CARE BB; Stable (26-Aug-22)	1)CARE B+; Stable (19-Jan-22) 2)CARE D (26-Nov-21)	1)CARE D (07-Oct-20)
3.	Non-fund-based - ST-BG/LC	ST*	479.70	CARE A3	-	1)CARE A4 (26-Aug-22)	1)CARE A4 (19-Jan-22) 2)CARE D (26-Nov-21)	1)CARE D (07-Oct-20)

*LT: Long-term / ST: Short-term.

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

Not applicable

Annexure-4: Complexity level of the various instruments/facilities rated

Sr. No.	Name of the Instrument/Bank Facilities	Complexity Level
1.	Fund-based - LT-Term loan	Simple
2.	Fund-based - LT-Working capital limits	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

Note on the 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.

Contact us

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About us:

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