

Dhariwal Infrastructure Limited

September 26, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	2,241.54 (Reduced from 2,594.04)	CARE BBB+; Stable	Reaffirmed
Short-term bank facilities	75.00	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Dhariwal Infrastructure Limited (DIL) continue to favourably factor in the revenue visibility of the plant due to tie up of 88% capacity on long/ medium-term basis. The ratings continue to derive strength from the sustained healthy operational performance marked by higher-than-normative plant availability factor (PAF) leading to full recovery of fixed charges and sustained healthy plant load factor (PLF) in FY23 (refers to the period from April 01 to March 31) and Q1FY24 (refers to the period from April 01 to June 30) as well. The ratings derive comfort from the improvement in its financial risk profile characterised by better leverage and coverage indicators, its healthy average realisation in short term/merchant market, which has helped DIL in generating healthy cash flows during FY23 and Q1FY24. Furthermore, the reduction in overall debtors and the visibility of realisation of outstanding dues from Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO), which has opted to clear dues of DIL through the implementation of Electricity (Late Payment Surcharge & Related Matters) Rules, 2022 provide comfort. The ratings continue to draw strength from DIL's financial flexibility by virtue of being part of the CESC group, which has vast business experience in the power sector having professional and highly qualified management team and has demonstrated financial support to DIL in the past through infusion of interest-free unsecured loans.

The ratings are, however, constrained by off-take risk emanating from 70-MW capacity (i.e., 12% of total installed capacity) which is currently untied, while there is power purchase agreement (PPA) renewal risk for 310-MW net capacity. The ratings are also sensitive to weak financial risk profile of off-taker, primarily TANGEDCO, which accounts for around 33% of its tied-up capacity under long-term PPA. The ratings are further constrained by regulatory risk arising due to ongoing case challenging the PPA of DIL with Noida Power Company Limited (NPCL) in Honorable Supreme Court.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in credit risk profile of its off-takers, primarily TANGEDCO.
- Higher-than-envisaged improvement in leverage and coverage metrics.

Negative factors

- Sustained delay in realisation of outstanding dues from off-takers adversely impacting the liquidity profile of company.
- Material reduction in CESC's shareholding in DIL or reduction in managerial and operational support to the company.
- Any unfavourable order from Honorable Supreme Court relation to PPA with NPCL.

Analytical approach: Standalone. CARE Ratings has also notched up the rating factoring operational, financial and managerial support extended by the promoter, i.e., CESC Limited.

Outlook: Stable

The stable outlook on the ratings of DIL is on account of expectation of steady plant availability in the medium term coupled with acceptable average realisation on merchant basis and comfortable receivables position.

Detailed description of the key rating drivers

Key strengths

Reasonable revenue visibility due to its long-term/ medium-term PPA tie-up

Out of the installed capacity of 600 MW, DIL had long-term PPA tie up for 100 MW with TANGEDCO for 15 years through Case-I bidding and for 187 MW with Noida Power Company Limited (NPCL) for 25 years on cost-plus basis for its unit 2. For unit 1, DIL was selling power under short-term basis. DIL has entered into medium-term PPA of three years with Indian Railways for 210 MW (net) capacity at tariff of ₹4.10 per unit.

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

Sustained healthy operational performance

DIL's operational performance has witnessed sustained improvement during FY23 and during Q1FY24 as well characterised by higher-than-normative PAF leading to full recovery of capacity charges, reducing auxiliary consumption and healthy PLF. Auxiliary consumption, which was 7.82% during FY22, improved to 7.71% in FY23. It was 7.55% during Q1FY24. PLF also stood healthy at 80% during FY23 (PY: 76%) and 90% during Q1FY24.

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

Aggregate annual coal requirement for the plant operated by DIL is 2.73 million tonnes 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. Earlier, DIL was able to draw coal under the FSA only to the extent of power generated under long-term PPA with TANGEDCO and NPCL under its unit 2. At present, linkage coal is also available for the recent tie up of power with Indian Railways, which mitigates the fuel supply risk to large extent.

However, DIL remains exposed for fuel supply risk for capacity not tied up. CARE Ratings also notes that DIL is also exposed to price volatility risk for the capacity not tied up under cost plus basis, although it is partly mitigated through escalation clause as per the PPA.

Improvement in financial risk profile, however, leveraged

The financial risk profile of DIL has witnessed improvement characterised by increase in cash accruals, reduction in total debt levels thus resulting in improvement in leverage and coverage indicators. Cash accruals of the company witnessed improvement in FY23 primarily due to healthy average realisations on short-term power sales. The average short-term realisation in FY23 was much higher than the level envisaged during last review. Furthermore, during Q1FY24, the same stood at above ₹6/unit which is healthy. Overall gearing improved to 2.44x as on March 31, 2023 (PY: 3.90x). Furthermore, total debt to gross cash accruals (GCA) also improved to 6.36x as on March 31, 2023 (PY: 10.72x). CARE Ratings notes that although the leverage and coverage profile of DIL has improved in FY23, it continues to remain leveraged.

Part of an established group with extensive experience in power distribution and generation; DIL derives strong operational, managerial and financial support

Entire stake in DIL is held by CESC Limited (CESC, rated 'CARE AA; Negative / CARE A1+'). CESC is vertically integrated power utility with several decades of experience. DIL enjoys operational, financial and managerial support from its promoter group. The promoter group has a highly qualified and experienced employee pool having large experience in their related field. DIL also has adequate board representation from the promoter and also shares a common treasury team. DIL has received significant fund support from CESC and Haldia Energy Limited (HEL, rated 'CARE AA-; Negative /CARE A1+') for funding its scheduled debt repayment obligations and prepayments of debt in view of significant cash losses over the past years. The support received is interest free and stood at ₹810 crore as on March 31, 2023.

Liquidity: Adequate

The company has adequate liquidity position with free cash and cash equivalents amounting to ₹208 crore as on June 30, 2023. The company is required to maintain 1 quarter of DSRA which has been maintained in the form of BG of ₹73.73 crore as on same date. The average fund-based working capital utilisation during the last 12 months ended July 2023 stood at 97%. Furthermore, CARE Ratings expects the cash accruals of DIL along with cash and cash equivalents to be adequate to meet its repayments in FY24 and FY25 which provides comfort.

Key weaknesses

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

The tied-up capacity under unit 2 is under long-term PPA with NPCL and TANGEDCO, while the capacity tied up under unit 1 is under medium-term PPA exposing DIL to off-take risk due to absence of long-term tie up. Furthermore, DIL sells the power generated from the untied capacity under merchant basis, which exposes it to risks related to price and volumes of the merchant market. Although the realisation under merchant market have been healthy for DIL in Q1FY24, sustained healthy realisations under the same will be key monitorable. Furthermore, CARE Ratings will continue to monitor the ability of the company to tie up power under long-term PPA(s) at remunerative tariff for the capacity under unit 1.

Counterparty credit risk associated with sale of power to DISCOM

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. Due to the same, debtors of DIL from TANGEDCO stood at ₹221 crore as on June 30, 2023. However, as per the management, the off-taker has opted to clear the entire dues under the recently announced EMI scheme by the Ministry of Power in 48 equal instalments and DIL has also received 14 instalments against the same. CARE Ratings expects the same to improve the debtor position of DIL, going forward.

CARE Ratings further notes that DIL is in the process of realising sizable portion of its dues from NPCL, which were accumulated due to conflicting orders passed by UPERC in the past.

Regulatory risk

DIL is exposed to the regulatory risk due to ongoing case relating to approval of its PPA with NPCL. Although DIL has received a favourable order from Appellate Tribunal (APTEL), the same has now been referred to Honorable Supreme Court. Any adverse outcome on the same shall remain a key monitorable.

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 Rating Watch](#)

[Short Term Instruments](#)

[Infrastructure Sector Ratings](#)

[Thermal Power](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Generation

DIL belongs to the RP-Sanjiv Goenka group. It was incorporated in 2006 as a joint venture (JV) between the Prithvi group and the 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 as on March 31, 2022. 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-member Board of Directors.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (Prov.)
Total operating income	1,651.13	1,915.59	516
PBILDT	482.18	547.12	153
PAT	136.70	243.52	79
Overall gearing (times)	3.90	2.44	NA
Interest coverage (times)	1.95	2.67	3.12

A: Audited Prov: Provisional; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Covenants of rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	250.00	CARE BBB+; Stable
Fund-based - LT-Term loan		-	-	September, 2035	570.36	CARE BBB+; Stable
Fund-based - LT-Term loan		-	-	September, 2035	1366.18	CARE BBB+; Stable
Non-fund-based - LT-Bank guarantee		-	-	-	55.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	75.00	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 (₹ 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	1366.18	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Oct-22)	1)CARE BBB+; Stable (07-Oct-21)	1)CARE BBB; Stable (08-Oct-20)
2	Fund-based - LT-Cash credit	LT	250.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Oct-22)	1)CARE BBB+; Stable (07-Oct-21)	1)CARE BBB; Stable (08-Oct-20)
3	Non-fund-based - ST-BG/LC	ST	75.00	CARE A3+	-	1)CARE A3+ (03-Oct-22)	1)CARE A3+ (07-Oct-21)	1)CARE A3 (08-Oct-20)
4	Fund-based - LT-Term loan	LT	570.36	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Oct-22)	1)CARE BBB+; Stable (07-Oct-21)	1)CARE BBB; Stable (08-Oct-20)
5	Non-fund-based - LT-Bank guarantee	LT	55.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Oct-22)	1)CARE BBB+; Stable (07-Oct-21)	1)CARE BBB; Stable (08-Oct-20)

* Long term / Short term

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

Annexure-4: Complexity level of various instruments rated

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 guarantee	Simple
4	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 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.

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About us:

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