

Madhya Pradesh Power Generating Company Limited

December 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	1,300.00	CARE C	Revised from CARE BB+; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating assigned to the bank facilities of Madhya Pradesh Power Generating Company Limited (MPPGCL) takes into account the delay in servicing of debt obligations of bank facilities (not rated by CARE Ratings Limited [CARE Ratings]) in October 2023, as indicated by the no-default statement (NDS) for the month of November 2023 shared by the company.

The rating assigned to the bank facilities of MPPGCL is constrained due to the moderate operational performance in terms of lower-than-normative plant availability factor (PAF) in its power plants during FY23, leading to under-recovery of annual fixed charges (AFC) and consequent impact on the profitability of MPPGCL. The rating is also constrained due to counterparty risk due to weak credit profile of its sole counterparty, viz, M. P. Power Management Company Limited (MPPMCL; rated 'CARE BBB-; Stable/CARE A3'), stretched liquidity profile on account of delay in receipt of payments from MPPMCL, leveraged capital structure, and weak debt coverage indicators. The rating also factors in envisaged debt-funded capex plans for setting-up of additional thermal and renewable power capacities and installation of a flue gas desulfurisation (FGD) system in its thermal plants.

The rating, however, derives comfort from MPPGCL being a wholly owned subsidiary of the Government of Madhya Pradesh (GoMP), which has demonstrated support in the form of equity infusion, government-guaranteed debt and perpetual loans to MPPGCL, and the strategic importance of being the state power generating company. The rating also factors in the presence of long-term power purchase agreements (PPAs) with MPPMCL operating under the regulated cost-plus tariff mechanism and fuel supply agreements (FSAs) in place for all its thermal power plants.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained delay-free track record of debt servicing in case of all the facilities.
- Demonstration of timely support from GoMP towards debt obligations and operational support.
- Material improvement in the credit profile of the off-taker along with substantial reduction in the average collection period on a sustained basis.

Negative factors

- Delays in debt servicing of the rated facilities.
- Reduction in the shareholding of GoMP and/or support from GoMP to MPPGCL.
- Further weakening of the credit profile of the off-taker, resulting in an elongation of the collection period.
- Significant delays in the realisation of receivables, resulting in further deterioration in the liquidity position for the company.

Analytical approach

Standalone, while factoring in the operational and financial linkages with GoMP.

Outlook: Not applicable

Detailed description of the key rating drivers

Key weaknesses

Delays in debt servicing in case of facilities not rated by CARE Ratings

While MPPGCL has been regular in servicing debt that is rated by CARE Ratings (as confirmed by the banker of the company), there are ongoing delays in debt servicing of facilities availed from financial institution (debt not rated by CARE Ratings) as per the monthly NDS given by the company.

Moderate operational and financial performance

Although there has been a marginal improvement in the operational performance of MPPGCL during FY23, the PAF of the power plants of MPPGCL remained lower than the normative levels during FY23. This has adversely impacted the ability of the company to recover the AFC. The overall PAF of MPPGCL's power plants improved to 60.90% in FY23 as against 53.80% in FY22 whereas the overall plant load factor (PLF) of the plants improved to 57.80% in FY23 vis-à-vis 44.41% in FY22.

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

Moderate credit risk profile of the off-taker and high receivable levels

MPPGCL has executed long-term PPAs with MPPMCL for supply of power generated by its power plants. The credit profile of MPPMCL is constrained on account of its weak operating performance, marked by high aggregate technical and commercial (AT&C) losses, high average cost of supply-average revenue realised (ACS-ARR) gap, and weak capital structure, resulting in reduced financial flexibility. Furthermore, MPPMCL has a large amount of outstanding overdue payments, resulting in a high average overdue-to-monthly average billing. The liquidity profile of MPPMCL is weak, which is managed through high utilisation levels of fund-based working capital limits and deferring of payments to creditors, including MPPGCL.

However, MPPGCL has started receiving payments from MPPMCL under the Ministry of Power's (MoP's) Late Payment Surcharge (LPS) Rules. The cut-off date for the outstanding dues was June 03, 2022. The outstanding dues will be payable in 40 instalments. To date, MPPMCL has paid 15 installments to MPPGCL starting from August 2022 and the funds received have been used to repay the outstanding debt obligations. As on March 31, 2023, the outstanding receivables of MPPGCL stood at around ₹5,750 crore as against ₹6,110 crore as on March 31, 2022, although it continues to remain high.

Leveraged capital structure and weak debt coverage indicators

MPPGCL's capital structure continued to remain highly leveraged with an overall gearing of 3.40x as at the end of FY22 (FY21: 3.84x) on account of significant debt levels to fund the capex and support the operations of the company. The debt coverage indicators stood weak with a profit before interest, lease rentals, depreciation and taxation (PBILDT) interest coverage of 1.12x in FY22 (FY21: 1.82x). The total debt (TD)/gross cash accruals (GCA) and TD/PBILDT also stood high in FY22, at 10.34x (FY21: 10.72x) and 7.08x (FY21: 4.93x), respectively.

Significant debt-funded capex

MPPGCL has envisaged a capex for setting up additional thermal and renewable power capacities and installation of an FGD system in its thermal plants. The total envisaged capex over the next three to four years is around ₹13,500 crore, which is envisaged to be funded through a mix of both, debt and equity. The debt-to-equity ratio for the envisaged capex is expected to be 80:20.

Key strengths**Parentage of GoMP with support and strategic importance**

MPPGCL is a government company, with 100% equity share capital being held by GoMP upon unbundling of the erstwhile Madhya Pradesh State Electricity Board (MPSEB) as a part of the domestic power sector reforms. MPPGCL supplies electricity to MPPMCL under long-term PPAs. By virtue of the strategic importance of being a state power generating company, GoMP has extended financial support through infusion of equity, perpetual loans, and extending guarantee for the borrowings of MPPGCL.

Presence of long-term PPAs under cost-plus tariff mechanism

MPPGCL has tied-up its entire power generation capacity with MPPMCL under long-term PPAs, which mitigate the demand risk. These long-term PPAs have been signed under the regulated cost-plus tariff mechanism, which allows the company to pass on the entire costs to MPPMCL, subject to adherence to normative operating parameters. The per unit capacity and energy charges are determined by the Madhya Pradesh Electricity Regulatory Commission (MPERC), considering a post-tax return-on-equity (RoE) of 15.50%.

Fuel supply arrangements in place

Of the total installed power generation capacity of 6,321.58 MW of MPPGCL, around 85% is thermal. MPPGCL has entered into long-term FSAs with South Eastern Coalfields Limited (SECL) for 17.25 million metric tonne per annum (MMTPA), with Northern Coalfields Limited (NCL) for 1.54 MMTPA, and with Western Coalfields Limited (WCL) for 8.45 MMTPA, to cater to the fuel requirements of all its thermal plants.

Liquidity: Poor

The liquidity position of MPPGCL stood poor, marked by an elongated receivables period on account of significant delays in receipt of dues and large outstanding receivables from MPPMCL for the power supplied. The operating cycle stood high on account of high receivables days of around 257 days in FY22 as against 226 days in FY21. The company has sanctioned fund-based working capital limits of ₹1,300 crore and the average utilisation of the same continued to remain high at around 78% during the last 12 months ended October 31, 2023, with maximum utilisation of around 96%.

Applicable criteria

[Rating Outlook and Rating Watch](#)
[Policy on Default Recognition](#)
[Factoring Linkages Government Support](#)
[Financial Ratios – Non-Financial Sector](#)
[Liquidity Analysis of Non-Financial Sector Entities](#)
[Policy On Curing Period](#)
[Infrastructure Sector Ratings](#)
[State Governments](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power generation

MPPGCL was incorporated in 2001, with the objective of carrying out the power generation business in the state of Madhya Pradesh. GoMP, vide its orders dated November 01, 2002, and May 31, 2005, unbundled the erstwhile MPSEB. The functions of generation, transmission, distribution, and retail supply of electricity, earlier carried out by the MPSEB, were restructured and transferred to five companies to function independently. MPPGCL took over the power generation plants of the erstwhile MPSEB post unbundling in April 2002. The operations of MPPGCL mainly include generation of power and selling it to MPPMCL on the basis of long-term PPAs. The equity requirements in all the ongoing and proposed projects are being met by GoMP. As on March 31, 2023, MPPGCL had a total power generation capacity of 6,321.58 MW, which includes a mix of thermal (coal) and hydro plants.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	9,053	9,032
PBILDT	2,988	1,874
PAT	354	58
Overall gearing (times)	3.84	3.40
Interest coverage (times)	1.82	1.12

A: Audited. 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-Cash credit	-	-	-	-	1300.00	CARE C

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-Cash credit	LT*	-	-	-	1)Withdrawn (06-Jan-23) 2)CARE A- (CE) (RWN) (27-Dec-22)	1)CARE A- (CE) (CW with Negative Implications) (16-Feb-22) 2)CARE A- (CE); Negative (16-Apr-21)	1)Provisional CARE A- (CE); Negative (29-Dec-20)
2	Unsupported rating-Unsupported rating (long term)	LT	-	-	-	1)Withdrawn (06-Jan-23)	1)CARE D (16-Feb-22) 2)CARE D (16-Apr-21)	1)CARE D (29-Dec-20)
3	Fund-based - LT-Cash credit	LT	-	-	-	1)Withdrawn (06-Jan-23)	1)CARE A- (CE); Negative (16-Feb-22)	1)CARE A- (CE); Negative (29-Dec-20)
4	Fund-based - LT-Cash credit	LT	1300.00	CARE C	1)CARE BB+; Stable (06-Jul-23)	1)CARE BB+; Stable (06-Jan-23)	-	-

*Long term.

Annexure-3: Detailed explanation of 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-Cash credit	Simple

Annexure-5: Lender detailsTo 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

<p>Media Contact</p> <p>Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Name: Saikat Roy Senior Director CARE Ratings Limited Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in</p>	<p>Analytical Contacts</p> <p>Name: Rajashree Murkute Senior Director CARE Ratings Limited Phone: +91-22-6837 4474 E-mail: rajashree.murkute@careedge.in</p> <p>Name: Nikhil Hardikar Associate Director CARE Ratings Limited Phone: +91-22-6754 3410 E-mail: nikhil.hardikar@careedge.in</p> <p>Name: Shaurya Shah Analyst CARE Ratings Limited E-mail: Shaurya.Shah@careedge.in</p>
--	---

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE 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. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**