Dhariwal Infrastructure Limited

May 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,241.54	CARE A-; Stable	Revised from CARE BBB+; Stable
Short-term bank facilities	75.00	CARE A2	Revised from CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of Dhariwal Infrastructure Limited (DIL) considers healthy generation and sales, especially on merchant basis, while demonstrating improved financial risk profile characterised by improved leverage and coverage metrics. Ratings also consider sustained healthy operational performance marked by healthy plant availability factor (PAF) of above 85% leading to full recovery of fixed charges and sustained healthy plant load factor (PLF) in FY23 (refers to April 01 to March 31) and 9MFY24 (refers to April 01 to December 31). Ratings favourably factor the reduction in overall debtors and visibility of realisation of outstanding dues from Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO), which opted to clear dues of DIL by implementing Electricity (Late Payment Surcharge & Related Matters) Rules, 2022. Ratings continue to draw strength from DIL's financial flexibility as 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.

However, ratings are constrained by offtake risk emanating from 70 MW capacity (12% of total installed capacity), which is currently untied while there is PPA renewal risk for 210 MW net capacity. Price and volume risk arising due to untied capacity being sold in the merchant market and weak financial risk profile of the off-taker, primarily TANGEDCO, which accounts for around 33% of its tied-up capacity under long term PPA in Unit-II, also constraint the ratings. Ratings are further constrained by regulatory risk arising due to ongoing case challenging 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
- Improvement in total debt/PBILDT to below 3.6x on a sustained basis

Negative factors

- Sustained delay in realization of outstanding dues from offtakers adversely impacting the liquidity profile of company
- Moderation in Total Debt/PBILDT to beyond 5.3x on a sustained basis
- Material reduction in CESC's shareholding in DIL or reduction in managerial and operational support to the company
- Any unfavorable order from Honorable Supreme Court relation to PPA with NPCL

Analytical approach: Standalone.

CARE Ratings has notched up the rating, factoring operational, financial and managerial support extended by the promoter, CESC Limited.

Outlook: Stable

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

Detailed description of key rating drivers

Key strengths

Improving financial risk profile

The company's gross cash accrual (GCA) increased due to healthy sales on merchant basis, reduced TD levels, resulting in improved leverage and coverage indicators. The average short-term realisation stood at ₹8.01 per Unit in FY23 (PY: ₹4.67 per Unit), while in 9MFY24, the same stood at ₹7.46 per Unit. TD/PBILDT improved to 4.01x as on March 31, 2023 (PY: 5.30x) and is expected to remain below 5.0x for the projected period.

Improved revenue visibility through medium term PPA tie up

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-II. For Unit-I, DIL

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

was selling power under short-term basis. Recently, DIL entered a medium term PPA of three years with Indian Railways for 210 MW (net) capacity at tariff of ₹4.10 per unit, which enhances DIL's revenue visibility. Further, PPA provides for escalation in energy charge and fixed charge, which provides comfort.

Sustained healthy operational performance

DIL's operational performance has witnessed sustained improvement in FY23 and in 9MFY24 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% in FY22, improved to 7.71% in FY23. It was 7.5% in 9MFY24. PLF also stood healthy at 80% in FY23 (PY: 76%) and 81.60% in 9MFY24.

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 in FY16 DIL entered a fuel supply agreement (FSA) with South Eastern Coal Fields (SECL) for supply of 2.73 MMTPA of coal for both Units. Earlier, DIL was able to draw coal under the FSA only to the extent of power generated under the long-term PPA with TANGEDCO and NPCL under its Unit-II. Now 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. 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 per the PPA.

Part of an established group with extensive experience in power distribution and generation; deriving 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 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.

Key weaknesses

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

The tied-up capacity under Unit-II is under a long-term PPA with NPCL and TANGEDCO, while the capacity tied up under Unit-I is under medium term PPA exposing DIL to offtake risk due to absence of long term tie up. Further, 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 realisation under merchant market have been healthy for DIL in 9MFY24, sustained healthy realisations under the same will be a key monitorable. Further, the company's ability to tie up power under long term PPA(s) at remunerative tariff for the capacity under Unit-I shall remain a key credit monitorable.

Counterparty credit risk associated with sale of power to DISCOM

The sale of power under the long-term PPA with TANGEDCO, exposes DIL to counterparty credit risk due to weak credit profile of the state utility. Due to this, debtors of DIL from TANGEDCO stood at ₹176 crore as on December 31, 2023. However, per the management, the off-taker has opted to clear entire dues under the recently announced EMI scheme by Ministry of Power in 48 equal instalments and DIL has also received 16 instalments against the same. This is expected to improve DIL's debtor position, going forward.

CARE Ratings further notes that DIL is in 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 regulatory risk due to an ongoing case relating to approval of its PPA with NPCL. Although DIL has received a favorable order from Appellate Tribunal (APTEL), it has now been referred to Honorable Supreme Court. Adverse outcomes shall remain a key monitorable.

Liquidity - Adequate

The company has adequate liquidity with free cash and cash equivalents amounting to ₹156 crore as on December 31, 2023. The company is required to maintain one quarter of debt service reserve account (DSRA), which has been maintained in the form of bank guarantee (BG) of ₹73.73 crore as on same date. The average fund-based working capital utilisation in FY24 stood at 43%.

Further, DIL's cash accruals, and cash and cash equivalents are expected to be adequate to meet its repayments in FY25 and FY26, which provides comfort.

Environment, Social and Governance (ESG) profile: DIL's governance profile largely derives comfort from the strong parentage of CESC.

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 JV between Prithvi group and 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 since 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 in the country, having interests across diverse business segments such as power, infrastructure, carbon black, retail, education, BPO, and media & entertainment. DIL is governed by a six member Board of Directors. All directors are highly qualified professionals with long industry experience.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)
Total operating income	1,651.13	1,915.59
PBILDT	482.18	547.12
PAT	136.70	243.52
Overall gearing (times)	3.90	2.44
Interest coverage (times)	1.95	2.67

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instruments/facilities: Annexure-3

Complexity level of 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 A-; Stable
Fund-based - LT-Term Loan	-	-	-	September, 2035	570.36	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	-	September, 2035	1366.18	CARE A-; Stable
Non-fund-based - LT-Bank Guarantee	-	-	-	-	55.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	75.00	CARE A2

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	1366.18	CARE A-; Stable	-	1)CARE BBB+; Stable (26-Sep-23)	1)CARE BBB+; Stable (03-Oct-22)	1)CARE BBB+; Stable (07-Oct-21)
2	Fund-based - LT-Cash Credit	LT	250.00	CARE A-; Stable	-	1)CARE BBB+; Stable (26-Sep-23)	1)CARE BBB+; Stable (03-Oct-22)	1)CARE BBB+; Stable (07-Oct-21)
3	Non-fund-based - ST-BG/LC	ST	75.00	CARE A2	-	1)CARE A3+ (26-Sep-23)	1)CARE A3+ (03-Oct-22)	1)CARE A3+ (07-Oct-21)
4	Fund-based - LT-Term Loan	LT	570.36	CARE A-; Stable	-	1)CARE BBB+; Stable (26-Sep-23)	1)CARE BBB+; Stable (03-Oct-22)	1)CARE BBB+; Stable (07-Oct-21)
5	Non-fund-based - LT-Bank Guarantee	LT	55.00	CARE A-; Stable	-	1)CARE BBB+; Stable (26-Sep-23)	1)CARE BBB+; Stable (03-Oct-22)	1)CARE BBB+; Stable (07-Oct-21)

LT: Long term; ST: Short term;

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the 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 lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
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