CareEdge RATINGS

Haldia Energy Limited

September 24, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,980.87	CARE AA-; Negative	Reaffirmed
Short-term bank facilities	200.00	CARE A1+	Reaffirmed
Commercial paper (Carved out)*	450.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

*The company maintains that the aggregate amount of commercial paper and working capital borrowings shall be within the sanctioned working capital limits of the company.

Rationale and key rating drivers

Ratings of Haldia Energy Limited (HEL) continue to derive strength from extensive experience of the promoter, CESC Limited (CESC; rated CARE AA; Negative /CARE A1+) in the power sector and HEL's strategic importance to CESC considering operational linkages as HEL supplies its entire power generation to CESC. Ratings continue to draw comfort from low sales risk of availability of long-term power purchase agreement (PPA) of 25 years from COD with CESC for entire capacity on a cost-plus basis per West Bengal Electricity Regulatory Commission (WBERC) regulations, yielding stable cash flows. Ratings also derive comfort from the long-term fuel supply agreement (FSA) with Mahanadi Coalfields Limited (MCL; a subsidiary of Coal India Limited [CIL]) with healthy annual contracted quantity (ACQ) materialisation in the past including FY24. Ratings favourably factor in healthy operational performance, characterised by higher-than-normative plant availability factor (PAF), high plant load factor (PLF) and station heat rate (SHR) within normative levels per WBERC in FY24.

However, rating strengths are tempered by significant accumulation of regulatory assets in HEL's books, which is attributable to sluggish regulatory environment and delay in receipt of true up orders. WBERC has issued true up orders (APR) from COD till FY19 in the last one year where, majority fuel cost has been allowed as a pass-through since HEL maintained better-than-normative operating parameters. However, timely receipt of true up orders for further years will be a key monitorable. HEL's elevated leverage and moderate coverage metrics also constrain ratings. Ratings are further suppressed due to regulatory risk emanating from partial allowance of cost in the recent tariff order rolled out by WBERC for FY24 and FY25. Elevated exposure to group companies and concentration risk arising from its single site, single-off-taker also constrain ratings.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Material improvement in the credit profile of the parent company and off-taker, i.e., CESC.

Negative factors

- Significant deterioration in the credit profile of CESC.
- Significant delay or disallowance in the cost during true-up, impacting the cash accruals of the company.
- Large under-recovery in capacity charge or significant tightening of normative parameters.
- Higher-than-envisaged level of support flowing to the group companies, impacting HEL's liquidity profile.

Analytical approach: Standalone, factoring in parent support

CARE Ratings Limited (CARE Ratings) has also notched up ratings, factoring in operational, financial, and managerial support extended by the promoter CESC Limited.

Outlook: Negative

The negative outlook on the ratings of HEL is on account of the persisting unfavourable regulatory environment. The same is likely to add pressure on the operating cash flows of the company leading to elevated leverage and modest coverage metrics in the medium term. The outlook may be revised to stable if the company receives favourable regulatory orders which may lead to improvement in its gross cash accrual (GCA) and hence better coverage metrics.

Detailed description of the key rating drivers

Key strengths

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

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

HEL is entirely held by CESC, which is a vertically integrated power utility with several decades of experience in generation, transmission, and distribution of electricity across geographies. HEL is strategically important for the group, since it accounts for ~28% of CESC's installed generating capacity and meets ~39% of CESC's power procurement for distribution to retail consumers. Similar to other group companies, HEL also enjoys operational, financial, and managerial support from its promoter group. The promoter group has a highly qualified and experienced employee pool with a large experience in their related fields. HEL has adequate board representation from the promoter. HEL also shares a common treasury team.

Low-sales risk due to its long-term PPA with a strong counterparty, CESC

HEL's entire capacity is tied up through a 25-year PPA from COD with CESC. Tariff is based on WBERC regulations assuring a 15.5% return on equity subject to the plant meeting operating norms per WBERC, and hence, stable cash accruals. Capacity charges are recoverable in full, if the plant availability achieves normative PAF of 85%. Energy charges are determined based on landed cost of fuel applied to quantity of fuel consumption at normative operating conditions such as SHR, auxiliary consumption, and oil consumption among others. Hence, HEL is not exposed to fuel price risk. HEL is also allowed to pass-through hike in fuel cost in the year through monthly fuel cost adjustment (MFCA) mechanism, which adjusted monthly.

Adequate fuel linkage

The aggregate coal required to operate the plant at a PLF of 80% is 2.68 million tonne per annum (MTPA). HEL has signed a 20-year FSA with MCL for an ACQ of 2.57 MTPA at a price notified from MCL/CIL periodically. ACQ materialisation from linkage continued to be healthy in the past including FY24, leading to lower dependency on alternate sources such as e-auction.

Healthy operational performance

HEL continued full recovery of capacity charge by clocking a PAF of 96% in FY24 (PY: 97%). PLF remained strong, at 87% in FY24 (PY: 80%). Strong PLF trend sustained in Q1FY25 (refers to April 01 to June 30) as well. SHR remained below normative levels in FY23 and FY24.

Key weaknesses

Accumulation of regulatory assets and unpredictable regulatory environment impacting cash flows

The company has witnessed delay in receipt of tariff order and true up order from WBERC (the regulator) in the past. Hel's true-up orders from COD till FY19 were issued in the last one year and remaining true-up orders are pending as on date, which has led to under recover in power and fuel charges and build-up of regulatory assets. Since the HEL's profile is closely linked to that of its off-taker, its ability to recover under recoveries in fuel and power purchase is restricted due to inability of the parent to pass-on such rise.

Approved capital cost for generation plant and transmission line of HEL was lower at ₹4,373 crore compared to actual capital cost of ₹4,662 crore, leading to under recovery in capital cost, which has been challenged by the company in Appellate Tribunal for Electricity (APTEL).

Exposure in group companies

Standalone exposure to group companies remained high at ₹1,137 crore as on March 31, 2024, although lower than previous year. CARE Ratings notes that the exposure to group companies has been declining, since FY21. HEL has also provided a letter of comfort aggregating to ₹165 crore as on March 31, 2024, towards borrowing or financing obligations of fellow subsidiaries from banks. Considering improved business and financial risk profile of Dhariwal Infrastructure Limited (DIL), increase in further support by HEL to the group companies is not envisaged.

Moderate capital structure and debt coverage indicators

HEL's debt, compared to its net worth adjusted for group company advances, is high. Despite no major capex or working capital requirements in the last three years, the debt level has remained elevated. Going forward, HEL may have to incur a flue gas desulphurisation capex, leading to additional debt. Until its dependence on regulatory income reduces, capital structure and debt coverage are projected to remain moderate.

Liquidity: Adequate

The company has adequate liquidity in the form of cash and liquid investments of ₹319 crore as on June 30, 2024. Considering healthy cash and liquid investments and projected GCA for FY25, debt servicing is expected to be comfortable. HEL enjoys financial flexibility as part of the RP-SG group. Its working capital limit utilisation has been high in recent months.

Environment, social, and governance (ESG) profile: HEL'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

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power generation

Incorporated in 1994, HEL is wholly owned by CESC. In Q4FY15, HEL commissioned a 600-MW thermal power plant (2 x 300 MW) across 345 acre in Haldia, West Bengal, on sub-critical technology. The total project outlay of ₹4,650 crore (₹7.75 crore per MW) was funded at a debt to equity ratio of 3:1. HEL is governed by a five-member board of directors, with Sanjiv Goenka; Brajesh Singh, Managing Director-CESC and HEL; and Debanjan Mandal as common directors with CESC.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	1,986.97	1,999.57
PBILDT	537.83	556.54
PAT	243.43	253.40
Overall gearing (times)	0.92	0.73
Interest coverage (times)	2.06	2.31

A: Audited, 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

Detailed explanation of 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 and Rating Outlook
Commercial Paper-Commercial Paper (Carved out)*		NA	NA	7-364 days	450.00	CARE A1+
Fund-based - LT-Cash Credit		-	-	-	450.00	CARE AA-; Negative
Fund-based - LT-Term Loan		-	-	January 2031	2530.87	CARE AA-; Negative
Non-fund-based - ST-BG/LC		-	-	-	200.00	CARE A1+

*Commercial papers are unplaced as on date.

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	2530.87	CARE AA-; Negative	-	1)CARE AA-; Negative (26-Sep-23)	1)CARE AA-; Stable (03-Oct-22)	1)CARE AA-; Stable (04-Oct-21)
2	Fund-based - LT-Cash Credit	LT	450.00	CARE AA-; Negative	-	1)CARE AA-; Negative (26-Sep-23)	1)CARE AA-; Stable (03-Oct-22)	1)CARE AA-; Stable (04-Oct-21)
3	Commercial Paper-Commercial Paper (Carved out)	ST	450.00	CARE A1+	-	1)CARE A1+ (26-Sep-23)	1)CARE A1+ (03-Oct-22)	1)CARE A1+ (04-Oct-21)
4	Non-fund-based - ST-BG/LC	ST	200.00	CARE A1+	-	1)CARE A1+ (26-Sep-23)	1)CARE A1+ (03-Oct-22)	1)CARE A1+ (04-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	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	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.

Contact Us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@careedge.in	Sabyasachi Majumdar Senior Director **CARE Ratings Limited** Phone: 91-120-4452006 E-mail: Sabyasachi.Majumdar@careedge.in Jatin Arya Director **CARE Ratings Limited** Phone: 91-120-4452021 E-mail: Jatin.Arya@careedge.in Shailendra Baghel Associate Director **CARE Ratings Limited** Phone: 91-226-8374340 E-mail: Shailendra.Baghel@careedge.in

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.

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