

GMR Kamalanga Energy Limited

November 28, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|----------------------------|-------------------------------------|---------------------|---------------------------------|
| Long-term bank facilities | 3,146.71 (Reduced from 3,467.67) | CARE BBB; Stable | Upgraded from CARE BBB-; Stable |
| Short-term bank facilities | 479.70 | CARE A3 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of GMR Kamalanga Energy Limited (GKEL) factors in the realisation of regulatory receivables from Bihar distribution companies (discoms) because of a favourable order received, considering GKEL's claims. This led to improvement in its liquidity position which is also evident from part creation of debt service reserve account (DSRA) per terms stipulated in the loan agreement. The rating action also factors in consistent operating performance with healthy plant load factor (PLF), and timely realisation of normal dues, leading to improved cash flow position. The company's debt coverage indicators have improved with a reduction in total debt to profit before interest, lease rentals, depreciation and taxation (TD/PBILDT) of 4.28x at FY24-end compared to 4.66x at FY23-end.

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

However, ratings are constrained due to GKEL's weak, albeit improving, financial risk profile with leveraged capital structure and continued uncertainties about recovery of claims from off-takers (other than Bihar). CARE Ratings also notes despite improvement in payment track record of its customers, its level of receivables still remains elevated. Moreover, given the weak-to-moderate credit profile of its counterparties, it remains subject to counterparty credit risks, hindering the sustained buildup of its liquidity buffer.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Realisation of receivables (including regulatory receivables) from the off-takers resulting improvement in the collection period to below 90 days on a sustained basis.
- Better-than-envisaged 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-envisaged cash accruals.

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.

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

Detailed description of key rating drivers:

Key strengths

Continued improvement in the operational performance in FY24 and 6MFY25

In FY24 and 6MFY25, GKEL's plant availability factor (PAF) stood at ~87% and ~88%, respectively (FY23: ~90%), higher-than-the-normative level of 85%, which ensures full recovery of annual capacity charges for ~95% of the capacity. Furthermore, the PLF stood at ~82% in FY24 and ~85% in 6MFY25 (FY23: ~77%) considering 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 ~95% of the power generation capacity which provides good revenue visibility

Of total generation capacity of 1,050 MW, GKEL has PPAs for ~95% capacity, of which PPAs of ~84% capacity are long-term PPAs. GKEL has long-term off-take agreements of 25 years with Haryana discoms for 31.9% of capacity (335.4 MW), Bihar discoms for 27.4% of capacity (287.7 MW) and GRID Corporation of Odisha Limited (GRIDCO) for 25.0% of the capacity (262.5 MW). GKEL has tied up 10.4% of its capacity (109 MW) with Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) for five years starting December 2022, post which the company's tied-up capacity has increased from ~84% to ~95%. Availability of PPAs for ~95% of the power generation provides good revenue visibility to GKEL.

Presence of FSAs for meeting fuel requirements under PPAs

Aggregate coal required to operate the plant at PLF of 85% is 5.74 million metric tonne per annum (MMTPA). Against this, GKEL has domestic FSAs of 4.50 MMTPA, through linkage and SHAKTI scheme with subsidiaries of Coal India Limited (CIL), which meet ~80% of GKEL's coal requirement. The balance requirement is being met through domestic e-auction/imported coal. Annual contracted quantity (ACQ) materialisation under the FSAs has been ~100% in the last three years ended FY24. The presence of FSAs largely safeguards GKEL against possible fuel supply and fuel price risks.

Improvement in liquidity position through realisation of regulatory receivables from Bihar discoms

Pertaining to the company's dispute with Bihar discoms regarding compensation for additional fuel costs considering shortage of linkage coal in accordance with the terms of the PPA, the Honourable Supreme Court of India ruled in favour of GKEL by dismissing Bihar discoms' appeals vide judgment dated April 20, 2023. Consequently, regulatory receivables of ₹~330 crore were realised from Bihar discoms in FY24 and H1FY25, with balance ₹~14 crore expected to be recovered in H2FY25. As a result, GKEL's liquidity position improved significantly, as reflected from increase in cash balance from ₹~32 crore at FY23-end to ₹~98 crore at H1FY25-end, after accounting for overhauling capex of ₹~50 crore and electricity duty payment of ₹~30 crore incurred in H1FY25. The company has also provided ₹~50 crore for DSRA as on H1FY25-end, of the ₹350 crore to be created by September 2025 per terms stipulated in the loan agreement and will progressively build the balance DSRA from project cashflows, aided by regulatory receivables from Haryana discoms as and when realised.

Key weaknesses

Weak financial risk profile with leveraged capital structure, albeit significantly improved over last two years

The company's financial risk profile has been weak in the past as characterised by high overall gearing and moderate debt coverage metrics considering past accumulated losses, although there has been a significant improvement in these metrics. The company's overall gearing improved from 5.57x as on March 31, 2023, to 3.66x as on March 31, 2024, due to augmentation in tangible net worth (TNW), considering profits reported in FY24. However, the company's capital structure remains leveraged. PBILDT interest coverage and TD/PBILDT stood at 1.88x and 4.28x in FY24 against 1.96x and 4.66x, respectively, in FY23. Given the relatively high debt servicing obligation in FY25 and FY26, CARE Ratings expects the company to have limited headroom for operational and financial underperformance.

Continued regulatory uncertainties with Haryana discoms and GRIDCO

The company has several matters under adjudication with several regulatory authorities. These matters largely relate to change in law events (domestic coal shortfall and change in tax regime among others) and dispute related to capacity charges (with GRIDCO). The same has resulted in accumulation of regulatory receivables. The company has realised ₹~330 crore in FY24 and H1FY25 after receiving a favourable order from the Honourable Supreme Court of India considering its regulatory claims from Bihar discoms, and a similar order is expected in case of its dispute with Haryana discoms. Consequently, the regulatory receivables have decreased from ₹~1,008 crore as on FY23-end to ₹~886 crore as on H1FY25-end, largely comprising of regulatory receivables of ₹~640 crore from Haryana and ₹~233 crore from GRIDCO. 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 130 days in FY24 (PY: 106 days). While the inventory and creditor days have increased marginally in FY24, the collection period continues to remain high at 169 days in FY23 (PY: 143 days). Total outstanding receivables (including regulatory receivables and unbilled revenue) increased from ₹~1,887 crore as on March 31, 2023, to ₹~1,996 crore as on March 31, 2024. Substantial receivables as on March 31, 2024, are older than 180 days, mainly owing to pending regulatory disputes with off-taker discoms. Weak financial health of its power off-takers continues to remain a cause of concern for GKEL, although current dues are largely being received timely. High level of aggregate technical and commercial (AT&C) losses, rising power purchase costs, and 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 company's liquidity position has improved in FY24 owing to realisation of regulatory receivables, and higher merchant sales at healthy realisations. The company generated gross cash accruals (GCA) of ₹~620 crore in FY24 and ₹~301 crore in H1FY25 against ₹~610 crore in FY23. The company's liquidity position is aided by unencumbered cash and bank balance of ₹~98 crore as on September 30, 2024. GKEL has partially created DSRA of ₹~50 crore as on H1FY25-end, of the ₹350 crore to be created by September 2025 per terms stipulated in the loan agreement and will progressively build the balance DSRA from project cashflows, aided by regulatory receivables from Haryana discoms as and when realised. The company has fund-based working capital limits of ₹210 crore with unutilised fund-based limits working capital limits of ₹120 crore as on September 2024-end, while the average utilisation for this stood at ~68% in the trailing 12 months period. GKEL's average collection period has been high in the past mainly due to pending regulatory receivables.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Thermal Power](#)

[Financial Ratios – Non financial Sector](#)

[Infrastructure Sector Ratings](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

| Macroeconomic 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, Dhenkanal, Odisha. The project cost was initially estimated at ₹4,540 crore. However, subsequently there was a cost overrun of ₹1,979 crore, 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, 2023 (A) | March 31, 2024 (A) | H1FY25 (UA) |
|----------------------------|--------------------|--------------------|-------------|
| Total operating income | 3,023.98 | 2,754.04 | 1,419 |
| PBILDT | 910.24 | 902.87 | 446 |
| PAT | 285.92 | 296.14 | 138 |
| Overall gearing (times) | 5.57 | 3.66 | - |
| Interest coverage (times) | 1.96 | 1.88 | 1.68 |

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

Detailed explanation of covenants of rated instrument / facility: 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 (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned and Rating Outlook |
|--|------|-------------------------------|-----------------|----------------------------|-----------------------------|------------------------------------|
| Fund-based - LT-Term Loan | | - | - | September 2034 | 2936.96 | CARE BBB; Stable |
| Fund-based - LT-Working Capital Limits | | - | - | - | 209.75 | CARE BBB; Stable |
| Non-fund-based - ST-BG/LC | | - | - | June 2034 | 479.70 | CARE A3 |

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 | 2936.96 | CARE BBB; Stable | - | 1)CARE BBB-; Stable (29-Aug-23) | 1)CARE BB; Stable (26-Aug-22) | 1)CARE B+; Stable (19-Jan-22) 2)CARE D (26-Nov-21) |
| 2 | Fund-based - LT-Working Capital Limits | LT | 209.75 | CARE BBB; Stable | - | 1)CARE BBB-; Stable (29-Aug-23) | 1)CARE BB; Stable (26-Aug-22) | 1)CARE B+; Stable (19-Jan-22) 2)CARE D (26-Nov-21) |
| 3 | Non-fund-based - ST-BG/LC | ST | 479.70 | CARE A3 | - | 1)CARE A3 (29-Aug-23) | 1)CARE A4 (26-Aug-22) | 1)CARE A4 (19-Jan-22) 2)CARE D (26-Nov-21) |

LT: Long term; ST: Short term; LT/ST: Long term/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-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 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

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About us:

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