

Lalitpur Power Generation Company Limited

January 22, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	196.50	CARE D (Single D)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Total Bank Facilities	196.50 (Rs. One Hundred Ninety-Six Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of LPGCL takes into account the unforeseen deterioration in the liquidity profile on account of the company's abrupt reduction in collections from the off-takers resulting in delays in debt servicing. The rating continues to take into cognizance the significant counterparty credit risk emanating from customer concentration on four distribution companies (discoms) of UP Power Corporation Ltd (UPPCL), along with weak financial profile of the off-takers. LPGCL has witnessed significant accumulation of regulatory receivables in the past, which was temporarily alleviated through sizable realization of dues in Aug'20. The rating continues to negatively factor in the significant difference in the final project cost vis-à-vis the project cost provisionally acknowledged by UP Electricity Regulatory Commission (UPERC) leading to lower billing of capacity charge currently along with the associated risk of disallowance of the increased project cost. The rating also factors in the leveraged capital structure of the company.

The rating derives strength from the long term power purchase agreements (PPAs) with the discoms of Uttar Pradesh (UP) for the entire capacity and its cost-plus tariff structure providing revenue visibility along with the opportunity to earn fixed return on equity. The rating also factors in the firm long term fuel supply agreement (FSA) that LPGCL has entered with the various subsidiaries of Coal India Ltd (CIL), its progress in inter-plant transfer mechanism of surplus linkage coal from its group company and its moderate operational performance.

Key Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Ability of the company to improve timeliness of collections from UPPCL and reduce the overall debt exposure from the funds received
- Recovery of regulatory receivables along with carrying cost as envisaged
- Effective management of its working capital and improvement in its liquidity position.

Detailed description of the key rating drivers

Key Rating Weaknesses

On-going delays and poor liquidity

The liquidity position of the company is poor with on-going delays in debt repayment. While the first tranche of PFC/REC disbursement under the Atmanirbhar Bharat scheme was received to LPGCL in Aug'20 realization of subsequent receivables from UPPCL has witnessed sharp reduction. The payment pattern of UPPCL has been sporadic and the average collection period of LPGCL has increased continuously in the past. This was compounded by strong power demand in Uttar Pradesh in Q3FY21 leading to higher cash outflow by LPGCL to maintain adequate coal inventory level. The cash flow mismatch for the company resulted in delay in debt servicing.

The company's liquidity profile is further tempered by higher working capital fund based utilization and absence of debt service reserve account (DSRA).

Counterparty credit risk associated with weak off-taker

LPGCL's counterparty credit risk is two-pronged – on account of customer concentration (entire capacity tied up to a single state) and weak credit profile of U.P Power Corporation Ltd (UPPCL) and the discoms of UP. The high level of Aggregate Transmission and Commercial (AT&C) loss, the rising power purchase costs and the absence of cost reflective tariff regimes have put a strain on the financial position of the discoms of UP. LPGCL has provision of late payment surcharge, which mitigates the counterparty risk to some extent.

The average collection period of LPGCL has continuously increased from 51 days in FY18 to 106 days in FY19 and 212 days in FY20. Debtors more than 180 days were 46.3% of total as on March 31, 2020. Further, average collection including regulatory receivables has been high and increasing. LPGCL's collection significantly reduced during Covid'19 induced lockdown. Subsequent to the disbursement of liquidity support fund by PFC/REC under the Atmanirbhar Bharat package for discoms, the debtor level of LPGCL recovered near to pre- Covid'19 level which is still high.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Full project cost approval risk; final tariff petition under consideration with UPERC; provisionally approved project cost leading to lower capacity charge recovery currently

UPERC had last approved provisional tariff for the company in March'18 and had recognized Rs. 14,269 cr of capital cost. Since the entire project cost actually incurred has not been acknowledged by UPERC yet, LPGCL is currently billing lower capacity charge to UPPCL. However, the final tariff upon approval is expected to be carried out on retrospective basis.

The final project cost has witnessed significant increase from the initial estimate. Part of it is attributable to increased scope of project (including railway system and water canal). There was also a delay in construction of transmission evacuation infrastructure by UPPCL which delayed commercialization of LPGCL's units. This led to increased interest during construction period. Since there has been a sizable increase in the project cost from the initially appraised figure, the extent of cost overrun acknowledged by UPERC shall remain a key monitorable.

Other regulatory issues leading to accumulated dues

The company's regulatory receivables stood high above Rs. 3,000 cr in last three years. It primarily includes (1) the claim on capacity charge under ABT mechanism based on Plant Availability Factor (PAF) instead of Plant Load Factor (PLF) till the commissioning of transmission system, (2) under-recovery of Return on Equity component till the time linkage coal was arranged and (3) the capacity charge claimed during FY18 as compensation for PAF loss due to liquidity issues created on account of delayed payment by UPPCL. LPGCL has recently received a favourable order from the Hon'ble Supreme Court on matters (1) and (2) and from Appellate Tribunal for Electricity (APTEL) in regard to the matter (3).

The management expects sizable realization of the regulatory dues pertaining to matter (1) along with associated carrying cost during H2FY21, which is expected to improve the liquidity profile of the company.

Leveraged capital structure

LPGCL's leveraged capital structure is contributed by a higher component of project debt in comparison to equity, accumulation of regulatory receivables and stretched payment from UPPCL leading to higher working capital requirement. Its overall gearing, although improved from 3.38x as on March 31, 2018 to 2.96x as on March 31, 2020, is still high. Interest cover has been marginal at 1.51x in FY18, 1.70x in FY19 and 1.60x in FY20. Similarly TD/GCA has been high with marginal improvement from 16.12x in FY18 to 13.16x in FY20.

Industry Risk

Thermal power generation has witnessed decline in last two years and has particularly declined during Covid'19 induced lockdown. As per CEA, all India thermal PLF declined from 60.30% in FY19 to 55.99% in FY20. Despite the gradual recovery of demand post the reduction of lockdown restriction during Q2FY21, it was still low at 48.48% in YTD-Aug'20 (vs 59.17% during YTD-Aug'19). Lower commercial and industrial activities led to the decline in demand for power. The impact was relatively less felt in Uttar Pradesh, where the decline in base energy demand was lower than the national average decline during H1FY21 in comparison to that during H1FY20. Moreover, peak demand was higher during H1FY21 than that during H1FY20.

Fuel availability for thermal plants has improved during H1FY21 due to lower consumption (as demand was low). The plants thus registered higher PAF ensuring higher recovery of capacity charge.

However, weak billing and collection efficiency of the DISCOMs during Covid'19 lockdown has led to stretched payments to genscos. Plants having their capacity tied up with weaker DISCOMs have been more severely impacted. The Rs. 1.2 lakh cr liquidity infusion by PFC/REC to the DISCOMs under the Atmanirbhar Bharat programme has provided temporary relief to the power value chain. Further the extent and timeliness of government/ regulatory support to DISCOMs would have a bearing to the working capital intensity of genscos like LPGCL.

Key Rating Strengths**Full capacity tied up in long-term PPA providing revenue visibility**

The company has its entire capacity of 1,980 MW tied up with the four DISCOMs of Uttar Pradesh through UPPCL for 25 years on take-or-pay basis. The tariff under PPA is two part basis (fixed and variable) which is determined on the basis of UPERC guidelines. The fixed charge is recoverable in full if the plant availability is at least the normative PAF. In case the plant availability is lower than the normative PAF, the capacity charges are recoverable on a pro rata basis. The variable charge is determined on the basis of landed cost of fuel applied on the quantity of fuel consumption. The cost of fuel on the basis of pre-approved normative operating parameter (eg. station heat rate (SHR), secondary oil consumption, auxiliary etc) is a pass-through item.

Fuel supply risk mitigated through firm long term FSA

The company has executed long term Fuel Supply Agreements (FSA) with different subsidiaries of CIL for an annual contracted quantity (ACQ) of 5.64 million tonne per annum (MTPA) of coal in January 2018 and ACQ of 1.4807 MTPA in September 2020. LPGCL was a successful bidder under the Scheme for Harnessing and allocating Koyla (Coal) Transparently in India (SHAKTI) auction by passing certain discount on its power tariff. The maximum PLF that can be achieved through this linkage arrangement is estimated at 76.8%.

In addition to the above-mentioned FSAs, NCL has also approved inter-plant transfer of coal from group company – Bajaj Energy Limited (BEL, CARE BB+, Stable/ CARE A4). Upon the execution of amendatory FSA with NCL, BEL will be able to transfer its unutilized quota of contracted quantity from its 5 plants to LPGCL. This added flexibility is expected to further

improve linkage coal availability of LPGCL, going forward. LPGCL has the provision to procure coal from e-auction channel as well, in case it receives higher scheduling.

Moderate operational performance

LPGCL's operational performance has been moderate characterized by a satisfactory station heat rate (SHR) and auxiliary consumption over last three years. The plant has also maintained requisite plant availability in the past ensuring full recovery of capacity charge. However, due to its higher cost of fuel, its scheduling has been low leading to lower PLF. It stood at 45.87% in 9MFY21 (9MFY20: 50.79%).

Experienced promoters

The Shishir Bajaj group has diversified businesses including sugar and ethanol production, manufacturing and marketing of FMCG products, bagasse-based co-generation of power, real estate/ infrastructure development and coal-based power generation. The group through its subsidiaries holds the entire shareholding of LPGCL.

Mr Kushagra Nayan Bajaj is the son of Mr Shishir Bajaj and is the Executive - Chairman of LPGCL. He has completed his BSc from Carnegie Mellon University and MBA from Northwestern University. The promoters are ably supported by the team of senior management which has several years of experience in finance, marketing and production across diverse sectors.

Analytical approach: Standalone

Applicable Criteria

[Definition of Default](#)

[Policy On Curing Period](#)

[Rating Outlook and Credit Watch](#)

[Thermal Power Producers](#)

[Financial Ratios – Non financial Sector](#)

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

About the Company

LPGCL is a special purpose vehicle of the Shishir Bajaj group incorporated on September 4, 2009 to set up a super critical thermal power plant in Lalitpur district, Uttar Pradesh. The plant has three units of 660 MW with a total capacity of 1,980 MW. The group won the bid to own, implement and operate the thermal power plant against expression of interest (EoI) by U.P Power Corporation Ltd (UPPCL). The group had executed a Memorandum of Understanding (MoU) on April 22, 2010 with the Government of Uttar Pradesh for development of the project. Pursuant to the said MoU the SPV (i.e LPGCL) was transferred on December 10, 2010 by UPPCL to the group. All the units were commercialized by December 2016, within the timelines defined in the PPA. The project cost has been finalized at Rs. 18,575 cr.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	5,395	5,536
PBILDT	3,328	3,146
PAT	332	225
Overall gearing (times)	3.24	2.96
Interest coverage (times)	1.70	1.60

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	May'21	196.50	CARE D

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	196.50	CARE D	1)CARE BB+; Stable (03-Nov-20)	-	-	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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