

Welspun Captive Power Generation Limited

March 26, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Short -term Bank Facilities	65.00	CARE A1+ (A One Plus)	Reaffirmed
Long -term-Fund based facilities	20.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short term non-fund based facilities	90.00	CARE A1+ (A One Plus)	Reaffirmed
Total	175.00 (Rupees One Hundred Seventy-Five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to Welspun Captive Power Generation Limited's (WCPGL) bank facilities continues to factor in comfortable liquidity position of the company as reflected by substantial cash balance and liquid investments, stable operating performance of the plant as evinced by PLF levels. This has resulted in consistent albeit marginally low operational cash-flows. The rating continues to derive comfort from the parentage of the Welspun group and experience of the management in operating captive power plants, low off-take risk due to the requirement for additional cost-effective and reliable source of power by the group. The rating is, however, constrained by absence of long-term power purchase agreement and fuel supply agreement for assured supply of fuel (coal) and dependence on the group companies for revenue generation. WCPGL's ability to achieve and maintain the envisaged Plant Load Factor (PLF) ensuring continuous supply of cost-effective power and any significant change in off-takers' credit profile are the key rating sensitivities.

Rating Sensitivities

Positive Factors

- Signing of long-term agreement (over 10 years) with the off-takers.
- Improvement in the collection period to 30 days.

Negative Factors

- Deterioration of credit profile of off-taker.
- Any new significant debt funded project expansion impacting the capital structure and repayment ability resulting in overall gearing of more than 1.0x.
- Deterioration in operational performance and collection efficiency of the company

Detailed description of the key rating drivers

Key Rating Strengths

Parentage of the Welspun group

WCPGL is a part of the Welspun group, a USD 2.3 billion diversified conglomerate which is into varied businesses which include line pipes, steel and textiles. By virtue of being a part of the Welspun group, WCPGL draws strength from the experience of the management in implementation of projects and operation of industrial units and captive power plants

Low off-take risk

The off-take risk of WCPGL is lower as the entire capacity is consumed by the group companies. WIL holds 77% stake in WCPGL as on date, while Welspun Corp Ltd (WCL), Welspun Steel Ltd (WSL) and Welspun Wasco Coating Private Limited (WWCPL) hold 19.75%, 3.15% and 1.10% respectively. Power off-take generally would happen in the proportion as per the minimum power purchase commitment agreement, however, power off-take quantity is fungible among shareholders.

Comfortable liquidity position and healthy capital structure

WCPGL has a comfortable liquidity position as reflected by substantial cash balance and liquid investments, improved operating performance of the plant as evinced by PLF levels. Further, the capital structure of the company is also robust due to reduction in debt levels. As at the end of FY20, the overall gearing of WCPGL stood at 0.06x as against 0.41x at the end of FY19. PBILDT interest coverage stood at 31.25 at the end of FY20 as against 10.43x at the end of FY19

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

Minimum commitment guarantee agreement with shareholders

WCPGL has entered into a minimum commitment guarantee agreement of 5,87,030 MWh of power purchase and 3,76,000 MT of steam purchase with its group for a period of 3 years (FY20-21 to FY22-23). The power rate will be variable cost of grid subject to minimum of Rs. 6.25 per Kwh. Steam rate would be linked to power rate subject to minimum of Rs. 1,900 per MT. Given consistency in power generation and limited counterparty risk, cash flows are expected to be stable.

Addition of a 43MW plant to WCPGL from Welspun Corp Limited reduces business risk

In March 2019, WCL had announced divestment of 43 MW power plant for a consideration of Rs. 67 crores, the rationale being focus on core business. WCPGL had made a commitment to purchase a 43MW power plant from Welspun Corp Limited at the consideration of Rs. 66.9 crores in FY19. The acquisition was completed in H1FY20. However, presently this plant is being utilized at a lower capacity utilization level and will be helpful in the scenario that the existing captive Power Plant of WCPGL is not able to supply sufficient energy to the group companies or there is an excess demand from the group entities. WCPGL which earlier derived the entire cash flows from single asset, now has another asset under its umbrella, thus reducing concentration risk.

Key Rating Weaknesses

Absence of arrangement for assured supply of coal

WCPGL operates its power plant mainly on imported coal. However, the company does not have long-term arrangements in place thereby exposing the company to the off-take risk.

Significant dependence on the group companies for revenue generation

Since the company derives 100% of its revenues from group companies, the financial performance of company would be contingent upon power off-take and timely payments by the group companies. However, the group benefits from the assured power provided by WCPGL as such the plant remains important to the group.

Liquidity: Adequate

WCPGL has cash and cash equivalents of Rs. 10.95 crore as on March 31, 2020. Considering that the company had already paid entire outstanding NCD and now does not have any long-term debt obligations, the liquidity position of the company is comfortable.

Analytical approach: Standalone factoring strong operational and strategic linkages with group companies

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Private Power Producers](#)

[Rating Methodology – Thermal Power Producers](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

WCPGL was promoted by the Welspun Group through four group companies, viz., Welspun Corp Ltd. (WCL), Welspun India Ltd. (WIL), Welspun Steel Ltd. (WSL) and AYM Syntex Limited (erstwhile Welspun Syntex Ltd). The current shareholding structure (as on date) is as follows:

Company	Nature of business	Shareholding	Outstanding ratings
Welspun India Ltd (WIL) (holding company of WCPGL)	Manufacturing of bed & bath textile products	77.00%	CARE AA (Stable) /CARE A1+
Welspun Corp Ltd (WCL)	Manufacturing of steel pipes, plates & coil	19.75%	CARE AA (Stable) /CARE A1+
Welspun Steel Ltd (WSL)	Manufacturing of sponge iron, ingots, TMT bars	3.15%	CARE A- (Negative) /CARE A2
Welspun Wasco Coatings Private Limited	Coating of pipes	1.10 %	-
Others	-	0.00%	-

WCPGL operates a 1x80 Mega-Watt (MW) coal-based Captive Power Plant (CPP) to cater to the additional power requirement of the group companies, i.e. WIL, WSL and WCL, located at Welspun group's manufacturing complex at Welspun City, Anjar,

Bhuj Dist., Gujarat. Power generated by WCPGL would generally be purchased by the shareholders as per the minimum power purchase commitment agreement.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	467.69	395.41
PBILDT	136.73	153.53
PAT	98.45	42.48
Overall gearing (times)	0.41	0.06
Interest coverage (times)	10.43	31.25

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

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
Non-fund-based - ST-BG/LC	-	-	-	65.00	CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	90.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	20.00	CARE A+; Stable

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.	Non-fund-based - ST-BG/LC	ST	65.00	CARE A1+	-	1)CARE A1+ (27-Mar-20)	1)CARE A1+ (15-Feb-19)	1)CARE A2+ (31-Jan-18)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (12-Sep-19)	1)CARE AA (SO); Stable (15-Feb-19)	1)CARE AA (SO); Stable (31-Jan-18)
3.	Non-fund-based - ST-Letter of credit	ST	90.00	CARE A1+	-	1)CARE A1+ (27-Mar-20)	-	-
4.	Fund-based - LT-Cash Credit	LT	20.00	CARE A+; Stable	-	1)CARE A+; Stable (27-Mar-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Other	
i. LC	Foreign letters of credit will be opened as per the provisions of exchange control and import trade regulations.
ii. Other	The borrower agrees that without prior written approval of the bank, the borrower shall not avail of any additional credit facilities.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple
3.	Non-fund-based - ST-Letter of credit	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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