# Maithon Power Limited

November 26, 2021

**Ratings**

| Facilities/Instrument | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 725.00 | CARE AA; Stable (Double A; Outlook: Stable) | Reaffirmed |
| **Total Bank Facilities** | **725.00 (Rs. Seven hundred twenty five crore only)** | | |
| Non-convertible Debentures | 500.00 | CARE AA; Stable (Double A; Outlook: Stable) | Reaffirmed |
| **Total Long-term Instruments** | **500.00 (Rs. Five hundred crore only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The reaffirmation of the rating of Maithon Power Limited (MPL) continues to factor in the majority ownership of The Tata Power Company Limited (TPCL; rated 'CARE AA; Stable') and thus enjoying technical and managerial support from its parent. The rating factors in the revenue visibility and assured return by virtue of its long-term Power Purchase Agreements (PPA) for entire capacity on cost-plus basis. The rating also factors in the fuel supply risk which is largely mitigated through adequate fuel supply agreements (FSA) and completion of the railway siding infrastructure leading to better logistics and lower fuel costs. The rating also derives comfort from the healthy operational performance depicted by higher-than-normative Plant Availability Factor (PAF) leading to full recovery of fixed charges and comfortable financial risk profile.

The rating strengths are, however, partially tempered by moderate counterparty risk arising due to weaker credit profile of few of the off-takers and risk related to implementation of flue gas de-sulphurization (FGD) project.

**Rating Sensitivities**

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

- Material improvement in the credit profile of the parent company, i.e., TPCL

*Negative Factors- Factors that could lead to negative rating action/downgrade:*

- Inability of the plant to maintain normative PAF leading to significant under recovery of fixed charges
- Reduction in TPCL's shareholding in MPL below 51% or reduction in support from parent
- Relinquishment or renegotiation in the key terms of PPA leading to adverse impact on gross cash accrual and debt coverage metrics

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Strong promoters and experienced management providing operational, managerial and financial support***

MPL is a 74:26 joint venture between TPCL and Damodar Valley Corporation (DVC). MPL benefits from technical and managerial support from TPCL given TPCL's vast and diversified presence in power business including generation, transmission, distribution, renewable and EPC space. MPL's ability to clock profit and pay dividend on regular basis adequately demonstrate its strategic and economic importance for TPCL. The board of MPL consists of three directors from TPCL and two from DVC.

***Long term PPAs providing revenue visibility along with adequate fuel supply arrangements***

MPL has signed 30-year PPAs for its entire capacity of 1,050 MW with DVC (150 MW), Tata Power Delhi Distribution Limited (300 MW), West Bengal State Electricity Distribution Co. Ltd (300 MW) and Kerala State Electricity Board Limited (300 MW) on cost plus basis tariff model, thereby providing revenue visibility. The tariffs in the long-term PPAs is based on CERC tariff guidelines assuring 15.5% return on equity and thus ensure stable cash accrual. The capacity charges are recoverable in full if the plant availability achieves normative PAF of 85%. The energy charges are determined on the basis of landed cost of fuel applied on the quantity of fuel consumption at normative operating conditions. During FY21, DVC had sent a notice to the company to opt out of PPA agreement for capacity of 150 MW out of total tied up capacity of 300 MW as a part of a clause in the agreement which provides liberty to either party to review the agreement every 5 years and has to give one year notice prior to withdrawal. Recently, DVC had withdrawn the notice for surrender of its share of power to MPL since unilateral termination of agreement is not allowed as per PPA.

[1]*Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications*

The company has also tied up for its entire coal requirement (4.63 MTPA) through long term fuel supply agreements with Coal India Limited's (CILs) subsidiaries.

***Healthy operational performance of power plant***

MPL's PAF continues to be strong (i.e., above 85%) for FY21 (refers to the period April 1 to March 31), thereby leading to full recovery of capacity charge. Plant Load Factor (PLF) during FY21 stood reasonable at 69% and was similar to that observed during FY20. During 5MFY22, PAF and PLF continued to be healthy at 98% and 89% vis-à-vis 97% and 67% in 5MFY21. Other operating parameters (e.g., auxiliary consumption, SHR, oil consumption) have remained well under control for FY21 and 5MFY22. Given the regulated nature of business of MPL, the company has stable cash flows and profitability.
The company has completed its railway siding infrastructure which is expected to improve the fuel logistics leading to lower fuel cost thereby improving the position of MPL in merit order list and higher load going forward.

***Strong financial risk profile and coverage indicators***

MPL has maintained comfortable financial risk profile characterized by stable gross cash, its low interest burden leading to healthy coverage and comfortable leverage metrics. Overall gearing improved from 1.00x as on March 31, 2020 to 0.81x as on March 31, 2021. Furthermore, PBILDT interest coverage ratio also improved from 4.61x in FY20 to 5.11x in FY21.
The company is undertaking FGD capex for both the units of the power plant. The project is envisaged to be financed at debt to equity ratio of 70:30, for which the entire debt is tied up. Timely completion of the project along with recovery of the capital cost through future tariff shall be key monitorable.

***Liquidity: Strong***

The liquidity profile of the company is strong marked by cash and cash equivalents of Rs.126.07 crore as on August 31, 2021. The average fund and non-fund-based working capital utilization for 12 months ended July 2021 stood at lower levels. MPL's expected strong cash accruals in FY22 coupled with largely unutilized working capital limits are more than sufficient to meet its debt repayment obligations. MPL, being part of the Tata group, enjoys financial flexibility and strong access to capital market.

**Key Rating Weaknesses**

***Moderate counter party risk***

The counterparty risk remains moderate with West Bengal State Electricity Distribution Company Limited and Kerala State Electricity Broad Limited availing a rebate upon prompt payment and payments from DVC and Tata Power Delhi Distribution Limited received within 30 days in FY21. The credit profile of few of the off-takers is weak; hence, MPL continues to remain exposed to counter-party risk. However, the collection period of MPL has improved in FY21, leading to improvement in average collection period to 18 days in FY21 which provides comfort.

***Industry Risk***

Thermal PLF has been continuously declining in the past few years. With resumption of industrial and commercial activities post the 2nd wave of covid'19, base energy demand has witnessed sharp increase during H1FY22 as compared with that in H1FY21. As a result, thermal plants are receiving higher schedule and are expected to clock improved PLF for FY22. Lag in coal production/ transportation to match up the high consumption level along with higher peak demand has firmed up merchant rates which augurs well for plants with untied capacity. There are numerous and inter-connected challenges for the sector. The sector is expected to witness FGD capex of around Rs.1 lakh crore in the medium term where the progress in terms of financial closure and project implementation has been slow. Lastly, the payables of the discoms have continuously increased over the past. Till the time structural changes are successfully implemented for the discoms, the gencos are expected to have high working capital requirement.

**Analytical approach:** CARE Ratings has undertaken standalone approach for the assessment of MPL. The assessment also takes into account strong parentage of Tata Power along with financial, operational and managerial linkages.

**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 Credit Watch**
**Infrastructure Sector Ratings**
**Power Generation Projects**
**Thermal Power**

**About the company**

MPL is a 74:26 joint venture between The Tata Power Company Ltd and Damodar Valley Corporation. MPL has set up a thermal power generation plant having a total capacity of 1,050 MW at Jharkhand. The first unit of 525 MW (Unit-I) was commissioned on September 01, 2011, while the second unit (Unit II) was commissioned in July 2012. MPL has entered into long-term Power Purchase Agreements (PPAs) for the full capacity with DVC (150 MW), Tata Power Delhi Distribution Limited (300 MW), West Bengal State Electricity Distribution Co. Ltd (300 MW) and Kerala State Electricity Board Limited (300 MW).

| Brief Financials (Rs. crore) | FY20 (A) | FY21 (A) | H1FY22 (Prov.) |
|---|---|---|---|
| Total operating income | 2,766 | 2,517 | 1,476 |
| PBILDT | 891 | 695 | 391 |
| PAT | 328 | 311 | 177 |
| Overall gearing (times) | 1.00 | 0.81 | NA |
| Interest coverage (times) | 4.61 | 5.11 | 5.67 |

*A: Audited; Prov.: Provisional; NA: Not available*

**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 | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Term Loan-Long Term | - | - | - | September 30, 2032 | 725.00 | CARE AA; Stable |
| Debentures-Non Convertible Debentures | INE082G07022 | February 09, 2017 | 8% | February 09, 2027 | 500.00 | CARE AA; 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 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1 | Debentures-Non Convertible Debentures | LT | 500.00 | CARE AA; Stable | - | 1)CARE AA; Stable (29-Dec-20) | 1)CARE AA; Stable (31-Dec-19) | 1)CARE AA; Stable (07-Jan-19) |
| 2 | Term Loan-Long Term | LT | 725.00 | CARE AA; Stable | - | 1)CARE AA; Stable (03-Feb-21) 2)CARE AA; Stable (29-Dec-20) | 1)CARE AA; Stable (02-Mar-20) 2)CARE AA; Stable (31-Dec-19) | 1)CARE AA; Stable (07-Jan-19) |
| 3 | Commercial Paper-Commercial Paper (Standalone) | ST | - | - | - | 1)CARE A1+ (29-Dec-20) | 1)CARE A1+ (31-Dec-19) | - |

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

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

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Commercial Paper-Commercial Paper (Standalone) | Simple |
| 2 | Debentures- Non-Convertible Debentures | Simple |
| 3 | Term Loan-Long Term | Simple |

**Annexure 5: Bank Lender Details for this Company**
To view the lender-wise details of bank facilities please **click here**

***Note on complexity levels of the rated instrument:*** *CARE Ratings 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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**About CARE Ratings:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



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