

## ONGC Tripura Power Company Limited

September 29, 2022

### Ratings

Facilities/ Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	1,907.00 (Reduced from 2,074.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-term bank facilities	300.00	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE A1+ (A One Plus); Stable outlook assigned
Short-term bank facilities	120.00	CARE A1+ (A One Plus)	Reaffirmed
<b>Total bank facilities</b>	<b>2,327.00</b> <b>(₹ Two thousand three hundred twenty-seven crore only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed rationale and key rating drivers

The reaffirmation of the ratings of ONGC Tripura Power Company Limited (OTPC) continues to derive strength from the strategic and operational linkages with its major shareholder, i.e., Oil and Natural Gas Corporation Limited (ONGC, rated 'CARE AAA; Stable/CARE A1+'), a 'Maharatna' company. The ratings favourably factor OTPC's firm fuel supply arrangement with ONGC at a competitive rate leading to competitive tariff for its off-takers. The ratings also factor the long-term power purchase agreements (PPAs) for 94.06% (increased from 86.43% post additional capacity tie-up with three of the existing off-takers) of its capacity with tariff based on the Central Electricity Regulatory Commission (CERC) guidelines, which ensures long-term revenue visibility and fixed return on equity. The ratings derive support of the comfortable financial risk profile of the company characterised by improving leverage and strong liquidity. The ratings also favourably factor in the realisation of the insurance claim by the company upon machine failure during FY20 (refers to the period from April 1 to March 31).

The ratings take cognisance of the challenges faced by the plant in terms of gas and machine availability in the past although gas exploration initiatives have been higher in the recent years. The ratings also factor in the below-normative plant availability factor (PAF) during FY22 and Q1FY23 (refers to the period from April 1 to June 30) on account of scheduled maintenance, which has led to lower earnings for the company.

The rating strengths are constrained by weak financial risk profile of its power off-takers and single asset operations of the company.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in debt coverage indicators with total debt to gross cash accruals (TDGCA) below 1.50x on a sustained basis.
- Improvement in the credit profile of off-takers with sustained lower level of average collection period for the company.

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Material decline with PAF below normative parameters on a sustained basis.
- Decline in the shareholding of ONGC along with reduction in the financial and managerial support to the company and deterioration in the credit profile of ONGC.
- Material increase in the receivables of the company with collection period of more than 200 days on a sustained basis.
- Any large debt-funded capex/ acquisition which may lead to sharp deterioration in leverage and coverage metrics.

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Detailed description of the key rating drivers

### Key rating Strengths

**Strategic and operational support from ONGC and experienced management:** ONGC is a Maharatna company and has dominant position in the domestic oil and gas sector. ONGC, being the largest shareholder in the joint venture (JV), provides strategic as well as operational support to OTPC. The board of OTPC is chaired by the Chairman and Managing Director of ONGC. OTPC also has other ONGC-nominated directors on the board. The project's ability to monetise the available gas of ONGC in the Tripura as well as clock profit and pay dividend on a regular basis adequately demonstrate its strategic and economic importance for ONGC.

In terms of the management of OTPC, the other members of the board have decades of experience in power plant, oil and gas operations and finance across reputed public sector undertakings (PSUs), infrastructure conglomerates and financial institutions.

**Firm fuel supply arrangement:** The Gas Sale and Purchase Agreement (GSPA) with ONGC for supplying 2.65 MMSCMD of gas is sufficient to meet more than 90% of OTPC's requirement at normative operation. The GSPA is valid for a base term of 15 years from the commercial supply date. As per the agreement, prior to the expiry of the base term, OTPC might request ONGC for renewal of GSPA for two five-year terms. OTPC sources gas at competitive tariff from ONGC leading to lower cost of generation and hence competitive tariff for its customers in north-eastern India.

**Higher exploration activities carried out by ONGC to improve gas availability:** The company had witnessed lower supply of gas by ONGC in the past due to limited availability in the region. CERC had also relaxed the normative PAF for the project due to lower availability of fuel from March 24, 2015 to September 30, 2018. However, ONGC has been undertaking exploration activities in the region, which has resulted into improved supply of gas to the project. Going forward, the sustainability of such gas supply for the achievement of normative parameters shall be important from the credit perspective.

**Revenue visibility provided by long-term PPAs:** OTPC has entered into 25-year PPA with the discoms in the north-eastern states for 96.04% (increased from 86.43% post signing of supplementary PPA with three of the existing off-takers, viz., discoms of Manipur, Nagaland and Mizoram, with all other terms and conditions in line with the existing PPA) of the installed capacity. The beneficiaries are billed based on two-part tariff structure (i.e., fixed charge and energy charge). Energy charge is a pass-through item, subject to the plant meeting normative operational parameters. The component of annual fixed charge includes the return on equity, depreciation, interest on loan capital, interest on working capital and operations and maintenance expenses. It is recoverable fully upon meeting the normative PAF (NAPAF) of 85%. The company is selling remaining power generated on merchant basis.

**Comfortable financial risk profile of the company:** Due to stretched scheduled maintenance in FY22, PAF remained subdued leading to under-recovery of fixed cost and a resultant moderation in total income and PBILDT. However, the same was mitigated to an extent by recognition of one-time insurance income of ₹76 crore booked during the year. Furthermore, the overall gearing improved from 1.29x as on March 31, 2021 to 1.03x as on March 31, 2022. The TD/GCA in FY22 remained steady at 4.39x (PY: 4.32x).

### **Liquidity:** Adequate

The company has adequate liquidity profile backed by cash and equivalent of ₹51.45 crore as on September 16, 2022. The company has working capital limits of ₹300 crore, average utilisation of which stood low at 3% for the trailing 12 months ended June 2022. The liquidity profile is further supported by expected gross cash accruals in FY23 having adequate headroom over its repayment obligation. The company's healthy cash accruals, liquid investments, and minimal utilisation of bank limits provides it a cushion against funds mismatches, if any, as well as any adverse market scenarios.

### Key rating weaknesses

**Issue of gas and machine availability in the past:** OTPC had lower PAF in FY18 and FY19 as a result of lower gas availability in the region. In FY20, although the gas availability improved, one of the units was shut for six months on

account of the delay in repair of a rotor blade fault. The operational performance in FY21 was satisfactory with PAF and plant load factor (PLF) of 81.48% (though still lower than NAPAF) and 79.55%, respectively.

However, non-availability of manpower for scheduled maintenance during the second wave of COVID-19 had resulted in low PAF and PLF of 64.90% and 64.19%, respectively, in FY22. Furthermore, during Q1FY23 (refers to the period from April 01 to June 30), PAF and PLF for stood low at 63.04% and 62.83%, respectively.

The auxiliary power consumption of the plant has been higher due to retrofits required to regularise the lower pressure of gas supply. Going forward, the ability of the plant to minimise the under-recovery of capacity charge and energy charge is to be seen.

**Weak financial health of its off-takers:** Although the company has long-term PPAs in place for majority of its generation capacity, it is exposed to the counter party credit risks in view of relatively weak financial health of its power off-takers. However, the risk is partially mitigated as it supplies relatively cheaper power to the beneficiaries and ranks high in the merit order dispatch of the off-takers. As per PPA, OTPC has payment terms of up to 45 days with its off-takers and has also obtained LC (except from Meghalaya discom) of amount equivalent to a month of power purchase. The company had experienced delays in the receipt of payment due to lockdown imposed by the Government in view of COVID-19 pandemic. However, an improvement was witnessed in the outstanding receivables position of the company as on March 31, 2022. Going forward, timely receipt of the payments will remain a key monitorable.

### Industry risk

Although power demand in the NE states is much lower compared to that in other regions in India, penetration with new connections is expected to improve. The three-year compounded annual growth rate (CAGR) of base and peak power demand in the NE states have been higher than that of the country. These states have few but cost-competitive hydro, gas, and coal-based power plants, which enjoy higher scheduling. However, the discoms in the NE states have particularly weak financials, posing working capital challenges for the generation companies (gencos) in the region.

**Environment, social and governance (ESG) profile:** The ESG profile of the company is supported by its membership of Global Compact Network India (GCNI). Social risk is mitigated by OTPC's commitment towards providing support to nearby villagers in the field of health, education and livelihood. The emission level of the plant has been in control, alleviating the environmental risk to some extent. The OTPC plant is also registered under the Clean Development Mechanism scheme established as a part of the Kyoto Protocol under United Nation Framework Convention to Climate Change.

**Analytical approach:** Standalone while factoring operational, strategic and financial support from its majority shareholder, ONGC.

### Applicable criteria

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

[Factoring Linkages Parent Sub JV Group](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

[Rating Methodology - Power Generation Projects](#)

[Rating Methodology – Thermal Power Producers](#)

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

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

### About the company

OTPC is a JV of ONGC, GAIL (India) Limited (post acquisition of stake from IL&FS Energy Development Company Limited and its nominees and IL&FS Financial Services Limited), the Government of Tripura (GoT) and India Infrastructure Fund – II (IIF-2). OTPC has implemented a 726.6 MW (2X363.3 MW) Combined Cycle Gas Turbine (CCGT) power project in Palatana, Tripura. The commercial operations date (COD) of the first unit was declared on January 4, 2014, whereas the second unit started commercial operations on March 24, 2015. The power evacuation

from the power plant is being done through a 400 KV double circuit 663 km transmission line by North East Transmission Company Ltd. The Competition Commission of India (CCI) had approved Summit India (Tripura) Pte. Ltd's acquisition of IIF-2's stake.

Brief Financials – Standalone (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
Total operating income	1,646	1,263	347
PBILDT	554	366	115
PAT	221	107	32
Overall gearing (times)	1.29	1.03	NM
Interest coverage (times)	3.89	3.30	4.79

A: Audited | UA: Unaudited | NM: Not meaningful

**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 instruments/facilities:** 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	480.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	120.00	CARE A1+
Fund-based - LT-Term loan	-	-	NA*	300.00	CARE AA; Stable
Fund-based - LT-Term loan	-	-	December 2028	1427.00	CARE AA; Stable

\*Proposed debt

#### Annexure-2: Rating history of 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	480.00	CARE AA; Stable	-	1)CARE AA; Stable (17-Sep-21)	1)CARE AA; Stable (05-Jan-21)	1)CARE AA; Stable (09-Oct-19)
2	Non-fund-based - ST-BG/LC	ST	120.00	CARE A1+	-	1)CARE A1+ (17-Sep-21)	1)CARE A1+ (05-Jan-21)	1)CARE A1+ (09-Oct-19)
3	Fund-based - LT-Term loan	LT	300.00	CARE AA; Stable	-	1)CARE A1+ (17-Sep-21)	1)CARE A1+ (05-Jan-21)	1)CARE A1+ (09-Oct-19)
4	Fund-based - LT-Term loan	LT	1427.00	CARE AA; Stable	-	1)CARE AA; Stable (17-Sep-21)	1)CARE AA; Stable (05-Jan-21)	1)CARE AA; Stable (09-Oct-19)

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable.

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

Sr. No	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple

Sr. No	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	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 instruments:** 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@careedge.in](mailto:care@careedge.in) for any clarifications.

**Contact us**
**Media Contact**

Name: Mradul Mishra

Phone: +91-22-6754 3596

E-mail: [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

**Analyst Contact:**

Name: Agnimitra Kar

Phone: +91-11-4533 3285

Email ID: [agnimitra.kar@careedge.in](mailto:agnimitra.kar@careedge.in)

**Relationship Contact**

Name: Swati Agrawal

Phone: +91-11-4533 3237

Email ID: [swati.agrawal@careedge.in](mailto:swati.agrawal@careedge.in)

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