Udupi Power Corporation Limited

October 29, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	3,849.59	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Short Term Bank Facilities	625.00 (Enhanced from 605.00)	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Long Term Bank Facilities**	-	**-**	**Withdrawn**
Total Bank Facilities	**4,474.59 (Rs. Four Thousand Four Hundred Seventy-Four Crore and Fifty-Nine Lakhs Only)**		

Details of facilities in Annexure-1

***The rating has been withdrawn based on no-dues certificate from the lender.*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Udupi Power Corporation Limited (UPCL) continue to draw strength from being part of the Adani Group which has diversified presence across various sectors (including the entire value chain of power business along with vast experience in coal-based thermal power generation) and its long-term power purchase agreements (PPAs) for selling almost its entire power generation capacity with full cost pass-through tariff structure along with regulated return on equity (RoE) leading to adequate debt coverage indicators. The ratings are also underpinned by good revenue visibility from its largely approved project cost by the Central Electricity Regulatory Commission (CERC), established coal sourcing and transportation arrangements, stable operating and financial performance in FY21 (refers to the period from April 01 to March 31) and existence of requisite debt service reserve account (DSRA) as a liquidity back-up in the form of bank guarantee (BG).

The ratings, however, continue to remain constrained by UPCL's significant exposure in the form of loans and advances extended to its parent Adani Power Limited (APL; rated CARE BBB-; Stable / CARE A3) which has a relatively weaker credit risk profile and moderate credit risk profile of Karnataka Discoms (its main power off-takers) and consequent moderate utilization of its fund-based working capital limits. Further, low plant load factor (PLF) of the plant on the back of high energy charges leading to lower plant efficiency, its high leverage and inherent regulatory risk associated with its tariff determination process constrain the rating.

Rating Sensitivities

Positive Factors

- Repatriation of significant amount of loans and advances extended to its parent company resulting into significant improvement in leverage as a sustained basis
- Significant improvement in the credit risk profile of its main power off-takers viz., Karnataka Discoms

Negative Factors

- Non-achievement of declared plant availability factor (PAF) equal to or above normative level on a sustained basis leading to under-recovery of capacity charges
- Inordinate delays in receipt of cash flows pertaining to regular power bills from its counterparties on a sustained basis
- Inordinate delays in approval of tariff by the regulatory authority viz., CERC leading to under-recovery of cash flows
- Advancement of significant amount of loans and advances to the parent company outside the Trust and Retention Account (TRA) arrangement

Detailed description of the key rating drivers

Key Rating Strengths

Parentage of Adani Group with vast experience in the entire value of chain of power viz., coal mining, coal import, port operations, power generation, power transmission and power distribution and track record of extending financial support

Adani Group has evolved as a diversified conglomerate with primary interests in the energy sector. The Group has operations ranging from coal mining, coal import, port operations and logistics to coal-based thermal and renewable

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

power generation, transmission & distribution and city gas distribution through various listed group companies. Its long track record in the entire value chain of power provides significant synergetic benefits.
As on September 30, 2021, the promoters held 75.97% equity stake in APL which is the holding company of Adani Group's coal-based thermal power generation business. APL, through its six wholly-owned subsidiaries, has total operational coal-based thermal power generation capacity of 12.41 GW. Also, APL is in the process of setting-up 2.92 GW of green-field coal-based thermal power generation projects.
APL's promoters have extended financial support to the power vertical over the past few years and Adani Enterprises Limited (AEL; rated CARE A; Stable / CARE A1) has offered extended credit period on coal supplies to the assets of APL that use imported coal which has provided financial flexibility to them. Further, APL's promoters have high financial flexibility as reflected in the total value of unpledged promoter holding in listed Adani Group entities at over Rs.5 lakh crore as on September 30, 2021 and they have articulated their strong commitment and support to service the consolidated debt obligations of APL and its subsidiaries on a timely basis.

Long-term PPAs for selling entire power generation capacity with a full cost pass-through tariff structure
UPCL has entered into 25-year PPAs with Karnataka Discoms for 90% of its total power generation capacity i.e., 1,080 MW and with Punjab State Power Corporation Limited (PSPCL) for 101.50 MW in December 2005 and September 2006 respectively under CERC regulations providing full pass-through of the fuel cost (energy charges) and capacity charges with normative post-tax RoE of 15.50% p.a. Power Company of Karnataka Limited (PCKL) decides the share of each Discom for supply of power to Karnataka Discoms from UPCL every year. Previously, entire power generation capacity allocated to PSPCL from the plant was being procured by Karnataka Discoms due to non-execution of transmission agreements by PSPCL. Punjab State Electricity Regulatory Commission (PSERC) has, however, not approved the PPA citing that the power from UPCL project would not be an economically viable proposition particularly so when much cheaper power is available in the market. UPCL appeal against the said order in Appellate Tribunal for Electricity (APTEL) is pending for hearing. Further, UPCL also has a 25-year PPA with MPSEZ Utilities Private Limited (MUPL) for 11 MW power generation capacity under Case-1 tariff based competitive bidding process.

Good revenue visibility with largely approved project cost by the CERC
CERC, vide its order dated January 22, 2020 wherein it has determined the tariff of UPCL for the tariff period from April 01, 2014 to March 31, 2019, has upward revised the project cost of UPCL to Rs.5,529 crore. As per extant approved project cost, UPCL is eligible for around Rs.944 crore of capacity charges from Karnataka Discoms for FY22 irrespective of the actual units of power supplied by UPCL to Karnataka Discoms if it achieves annualized declared PAF equal to or more than normative level i.e., 85%. Also, UPCL shall be entitled to recover actual energy charges for cost of fuel, including transportation charges incurred for generation of power. This is expected to result in adequate debt coverage indicators for UPCL.

Established coal sourcing and transportation arrangements
UPCL's power plant is based on imported coal as a source of fuel. As per the terms of its PPAs, UPCL sources its coal requirement by way of medium-term contracts in consultation with its power off-takers. UPCL has an existing fuel supply agreement (FSA) with Glencore International till December 2022 for 0.50 million tonne per annum (MMTPA) and has also signed a FSA with PAN Asia for three MMTPA of coal which is valid till December 31, 2022. The imported coal is received by UPCL through ships at New Mangalore Port, which is at a distance of around 35 km from the plant site. UPCL has set-up a dedicated captive jetty there. Coal is unloaded from the ships at this dedicated jetty on coal conveyors and transported to the storage yard located near the port. The coal is transported to the plant site by rail for which UPCL has entered into a 25-year Coal Transportation Agreement (CTA) with Konkan Railways.

Stable operating and financial performance in FY21
Post completion of the capacity overhauling of both the units of the power plant of UPCL in FY18, the operational performance of UPCL has been stable marked by achievement of normative level of declared PAF of 85% and recovery of capacity charges. UPCL reported declared PAF of 88.81% in FY21 as compared with 92.79% in FY20 in case of long-term PPAs (PPA of 1,080 MW with Karnataka Discoms and PPA of 11 MW with MUPL) and PLF of 22.36% in FY21 as compared with 31.10% in FY20. However, the financial performance of UPCL improved in FY21 vis-à-vis FY20. The return on capital employed improved from 10.97% in FY20 to 11.21% in FY21 whereas the interest coverage improved from 2.22 times in FY20 to 2.52 times in FY21.

Key Rating Weaknesses
Operations of plant at lower than technical minimum requirement leading to lower plant efficiency
On account of lower drawal of power by Karnataka Discoms, the PLF of UPCL has been continuously declining over past four years. The PLF of UPCL deteriorated from 49.60% in FY19 to 31.10% in FY20 and further to 22.36% in FY21. Running the plant at lower than technical minimum requirement has led to deterioration in the operational parameters of UPCL

like auxiliary power consumption and station heat rate over normative levels. However, the company expects to receive compensation as per CERC regulations on account of deterioration in station heat rate due to partial loading.

Significant amount of loans extended to its parent which has a weaker credit quality
UPCL had outstanding loans and advances to its holding company APL of around Rs.1,828 crore as on March 31, 2021 (PY: Rs.1,167 crore) still continue to remain high at around 88% of the net-worth of UPCL. Furthermore, APL has a relatively weaker credit risk profile on a consolidated level.

Moderate credit risk profile of Karnataka Discoms (its main power off-takers)
The credit risk profile of most of the Karnataka Discoms is moderate leading to delay in realization of payments by UPCL for sale of power to them resulting in moderate utilization of its fund-based working capital limits. Out of the five Karnataka Discoms, payments from four Discoms are generally received by UPCL in around 90 days' time whereas payment from Hubli Electricity Supply Company Limited (HESCOM) is received with delay. The share of HESCOM, which has a relatively weaker financial profile as compared to other Karnataka Discoms, out of total sale of power of UPCL has increased from 12% in FY21 to around 21% in FY22, whereas the share of Bangalore Electricity Supply Company Limited (BESCOM) which has a relatively stronger financial profile has increased from 50% in FY21 to 59.30% in FY22. The share of other three Karnataka Discoms for FY22 is - Chamundeshwari Electricity Supply Corporation Limited (CESCOM): 7.55%, Gulbarga Electricity Supply Company Limited (GESCOM): 6.35% and Mangalore Electricity Supply Company Limited (MESCOM): 5.35%. Moreover, as stated by the management, UPCL has received letter of credit (LC) from four out of five Karnataka Discoms as per the terms of the PPA which can be utilized by UPCL for recovering its dues from Karnataka Discoms in case of payment delays by these Discoms. Also, The overall credit profile of Karnataka Discoms is supported by their ownership pattern (100% owned by Government of Karnataka) and their strategic importance to the state's power sector.

Inherent regulatory risk associated with tariff determination process
UPCL is exposed to regulatory risk as its tariff determination took substantial time. Moreover, as per CERC regulations, UPCL is required to file true-up petition for the trailing tariff period along with petition for determination of tariff for the next tariff period at the end of every five years which exposes UPCL to inherent regulatory risk arising from approval of any lower tariff as well as delays in tariff approval by CERC. In both the cases, it could put pressure on UPCL's liquidity. However, being part of the Adani Group, UPCL is expected to benefit from the Group's financial flexibility to tide over temporary liquidity pressures in any such eventuality.

Liquidity: Adequate
UPCL's liquidity is adequate characterized by sufficient cushion in cash accruals vis-à-vis annual repayment obligations of around Rs.200-250 crore over next five years and moderate cash balance of around Rs.12 crore as on September 30, 2021. UPCL has capex requirements towards installation of FGD system which is likely to be funded through a mix of debt and internal accruals in the ratio of 70:30 for which it is likely to have sufficient headroom.
UPCL's power plant is based on imported coal as a source of fuel for which it utilizes non-fund-based working capital limits in the form of LC facility. For balance working capital requirement, UPCL utilizes fund-based working capital limits. UPCL has got total sanctioned working capital limit of around Rs.1,118 crore (reduced from Rs.1,432 crore) out of which around Rs.751 crore is fund-based and balance around Rs.367 crore is non-fund-based. There is also interchangeability of fund-based limits to non-fund-based limits. Utilization of fund-based limits was around 50% whereas average utilization of non-fund-based limits was around 22% from September 2020 to September 2021. UPCL has also created DSRA in the form of a BG of Rs.210 crore which is equivalent to UPCL's debt servicing obligations for next four months (i.e., as per sanction terms). The availability of requisite DSRA provides additional cushion to UPCL's debt servicing in case of any temporary cash flow mismatches.

Analytical Approach: Standalone

Applicable Criteria
Criteria on Assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Notching by Factoring Linkages in Ratings
Rating Methodology - Power Generation Projects
Rating Methodology - Thermal Power Producers
Financial ratios - Non-Financial Sector
Policy on Withdrawal of Ratings

About the Company
Incorporated in February 1996, UPCL has set-up and operates a 1,200 MW (600 MW x 2 units) imported coal-based thermal power project in Udupi district, Karnataka. UPCL was previously owned by Lanco Infratech Limited (a Lanco Group company). In April 2015, APL took over 100% equity stake in UPCL to enhance Adani Group's overall power generation capacity and establish its footprint in South India and accordingly UPCL became 100% subsidiary of APL. The power project of UPCL is fully operational and achieved commercial operations for Unit-I on November 11, 2010 and for Unit-II on August 19, 2012. UPCL has entered into 25-year PPAs with Karnataka Discoms for 90% of its total power generation capacity i.e., 1,080 MW and with PSPCL for 101.50 MW under the CERC regulations providing full pass-through of fuel and other costs with normative 15.50% p.a. post-tax RoE subject to maintaining declared PAF equal to or above normative level i.e., 85%. UPCL also has a 25-year PPA with MUPL for 11 MW capacity.

Brief Financials - UPCL (Standalone) (Rs. Crore)	FY20 (A)	FY21 (A)	Q1FY22 (UA)
Total Operating Income	2,338	1,931	514
PBILDT	939	987	254
PAT	98	103	63
Overall Gearing (times)	1.95	1.61	NA
Interest Coverage (times)	2.22	2.52	2.96

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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 / facilities rated for this company: Annexure-4

Annexure-1: Details of instruments / facilities

Name of the Instrument / Bank Facilities	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	March 31, 2029	2,957.36	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	892.23	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	625.00	CARE A2+
Fund-based - LT-Working Capital Demand loan	-	-	-	-	0.00	Withdrawn

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.	Fund-based - LT-Term Loan	LT*	-	-	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	2,957.36	CARE A-; Stable	-	1)CARE A-; Stable (30-Oct-20)	1)CARE A-; Stable (01-Oct-19)	1)CARE A-; Stable (03-Oct-18)
3.	Fund-based - LT-Cash Credit	LT	892.23	CARE A-; Stable	-	1)CARE A-; Stable (30-Oct-20)	1)CARE A-; Stable (01-Oct-19)	1)CARE A-; Stable (03-Oct-18)
4.	Non-fund-based - ST-BG/LC	ST*	625.00	CARE A2+	-	1)CARE A2+ (30-Oct-20)	1)CARE A2+ (01-Oct-19)	1)CARE A2+ (03-Oct-18)
5.	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	1)CARE A-; Stable (30-Oct-20)	-	-

**Long-term / Short-term*

Anneuxre-3: Detailed explanation of covenants of the rated instruments / facilities
Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - LT-Working Capital Demand loan	Simple
4.	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 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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