Maharashtra State Power Generation Company Limited

March 31, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	15,702.65 (Enhanced from 12,843.43)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	1,550.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	**17,252.65 (Rs. Seventeen thousand two hundred fifty-two crore and sixty-five lakh only)**		

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings of bank facilities of Maharashtra State Power Generation Company Limited (MSPGCL) continues to derive strength from the full ownership of Government of Maharashtra (GoM), its scale of operation and its strategic importance for GoM in terms of power generation. The ratings favourably factor in its regulated business and its long-term arrangement with its off-taker, leading to low sales risk and stable cash flows. The ratings take cognizance of MSPGCL's long-term coal supply arrangement in place for its coal-based thermal plants.

However, the ratings continue to be constrained by high concentration risk emanating from revenue concentration and stretched collection from Maharashtra State Electricity Distribution Company Limited (MSEDCL). Moreover, there is a significant difference in delayed payment surcharge (DPS) amount booked by MSPGCL and DPS acknowledged by MSEDCL, with the ongoing dispute on the same. The ratings also factor in the moderate operational performance of the company leading to modest debt coverage and leverage metrics. The ratings take into account the capital-intensive nature of the business with the likelihood of elevated debt level in the company in the medium term.

Rating Sensitivities

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

- Material improvement in the credit profile of the off taker along with substantial reduction in average collection period to below 180 days on a sustained basis.
- Robust operational performance leading to better-than-base case coverage and leverage metrics on a sustained basis.

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

- Reduction in shareholding of the promoter and/or support from the parent company to MSPGCL.
- Weakening of the credit profile of the off-taker resulting in an elongation of collection period.
- Weakening of the capital structure and/or deterioration in the operational performance impacting the credit profile of the company.
- Any adverse outcome on DPS issue leading to substantial de-recognition of receivables or deterioration in receivable cycle beyond the current levels

Detailed description of the key rating drivers

Key Rating Strengths

Fully owned by GoM; its strategic importance underpins support

MSPGCL is wholly owned by MSEB Holding Company Ltd, which in turn is a GoM entity. MSPGCL owns and operates Maharashtra's state power generation system which includes coal, hydro, gas and few solar plants. As on March 31, 2022, the company has an installed capacity of around 13 GW. MSPGCL's Board comprises GoM-nominated administrators and professionals with several decades of experience. GoM has continued to support the company through equity infusions in the past.

Regulated business assuring stability in cash flow and return

MSPGCL operates under the framework of Maharashtra Electricity Regulatory Commission (MERC) which approves the revenues to be earned by the company. MSPGCL has assured return on equity fixed at 15.50% due to cost-plus nature of power purchase agreement (PPA) under multi year tariff (MYT) model. Under MYT regulations, the company files petition seeking review of previous MERC MYT order indicating the annual revenue requirement (ARR) depending on energy charges and fixed charges including return of equity. MYT plan imparts greater regulatory certainty to the process of tariff determination. In MYT framework, the returns and trajectory of individual costs and revenue elements of the utility are determined in advance for a period of four years.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Adequate fuel arrangement in place
A large portion (i.e., 9.54 GW) of MSPGCL's installed capacity comprises coal-based thermal plants. MSPGCL has a fuel supply agreement (FSA) with annual contracted quantity (ACQ) of 52.537 million tonnes per annum (MTPA) (including bridge linkage) to cater to the needs.

Key Rating Weaknesses
High counter party risk
MSPGCL's revenue concentration from MSEDCL leads to high counterparty risk. Furthermore, the company has been facing issues in collections from MSEDCL which has resulted in piling up of debtors, which in turn has increased the company's reliance on its working capital limits. Collection period of the company further elongated during FY21 (refers to the period April 1 to March 31) to 362 days (PY: 256 days).

Ongoing dispute with off-taker regarding calculation of delayed payment surcharge
The company has been recognising DPS which cumulatively stands at Rs.14,862 crore as on March 31, 2021. Due to difference in methodology for calculation of DPS, MSEDCL has acknowledged only Rs.4,112 crore as on March 31, 2021. As a result, there is a significant difference in the DPS amount as billed by the company and MSEDCL. The said matter is currently under dispute. As per the auditor, no provisions have been made by the company for the credit loss.

Moderate operational performance resulting in modest debt coverage indicators
The plant availability factor (PAF) of coal-based plants improved to 77.89% during FY21 (PY: 71.41%), however, the same remained below the normative level impacting the recovery of capacity charges during the year. PAF during 9MFY22 (refers to the period from April 1 to December 31) remained low at 60.54%. The gas-based plants also witnessed low PAF of 34.4% during FY21 (PY: 80.88%). On account of lower demand and fuel availability, plant load factor (PLF) continued to be low for coal-based and gas-based plants in FY21 at 43.74% and 31.17%, respectively (PY: 53.29% and 44.02%, respectively). Elongated receivable has stretched the payment to coal creditors, which in turn has also impacted fuel availability and coal quality. Capacity utilisation factor (CUF) for hydro plants moderated to 17.92% during FY21 (PY: 20.16%). Average Station Heat Rate and Auxiliary consumption remained higher-than-normative, hindering full recovery of energy charge during FY21.
Debt coverage metrics of the company continue to remain moderate as seen by total debt/GCA of 12.56x as on March 31, 2021 (PY: 12.94x). Interest coverage ratio stood stable at 1.87x during FY21 (PY: 1.85x). The capital structure of the company partially moderated to 2.12x as on March 31, 2021 (PY: 2.01x). Debt Service Coverage Ratio is projected at modest level, going forward.

Highly capital-intensive nature of business operations
By virtue of its business, MSPGCL's operation continues to be capital intensive. In order to maintain operational efficiencies (i.e., replacing old power plant units and modernisation of the existing plant units), the company would have to incur regular operational capital expenditure. As a result, increase in term borrowings of the company might impact the overall financial risk profile. The company is adding 660 MW units at its Bhusawal plant. Furthermore, the company is required to undertake installation of flue gas desulphurisation (FGD) on all its thermal power plants and the same is expected to be largely debt-funded which shall further impact the capital structure of the company.

Industry outlook
Thermal PLF has been continuously declining in the past few years. With resumption of industrial and commercial activities post the second wave of covid-19, base energy demand has witnessed improvement in the country. As a result, thermal plants are receiving higher schedule and are expected to clock improved PLF for FY22 and FY23. 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 have 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.

Liquidity – Adequate
The company has fund-based limits of Rs.9,000 crore which had high average maximum utilisation of 97.33% during the LTM-February 2022. The non-fund-based limits of Rs.1,550 crore had an average utilisation of 60.60% during LTM-February 2022. The company had cash and cash equivalents of Rs.57.49 crore as on March 31, 2021. By virtue of being a GoM enterprise, MSPGCL has demonstrated reasonable debt capital access to meet its working capital and capex requirement.

Analytical approach: Standalone

Applicable Criteria
[Definition of Default]
[Rating Outlook and Credit Watch]
[Factoring Linkages Parent Sub JV Group]
[Financial Ratios – Non financial Sector]
[Factoring Linkages Government Support]
[Liquidity Analysis of Non-financial sector entities]
[Short Term Instruments]
[Infrastructure Sector Ratings]
[Thermal Power Project]
[Solar Power Projects]

About the Company
Maharashtra State Power Generation Company Limited, incorporated in the year 2005, is a Government of Maharashtra (GoM)-owned company engaged in the power generation across thermal, solar, gas and hydro. As on March 31, 2022, the company has an installed capacity of 13,022 MW consisting of 9,540 MW thermal capacity, 2,580 MW hydro capacity, 672 MW gas-based and 230 MW solar capacity.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	24,680	23,587	NA
PBILDT	6,623	6,786	NA
PAT	160	276	NA
Overall gearing (times)	2.01	2.12	NA
Interest coverage (times)	1.85	1.87	NA

A: Audited; UA: Unaudited; 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
Fund-based - LT-Term Loan		-	-	September 2029	1242.67	CARE BBB+; Stable
Fund-based - LT-Cash Credit		-	-	-	9000.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	1550.00	CARE A2+
Fund-based - LT-Working Capital Limits		-	-	November 2026	5459.98	CARE BBB+; 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	Fund-based - LT-Term Loan	LT	1242.67	CARE BBB+; Stable	1)CARE BBB+; Stable (09-Dec-21) 2)CARE BBB+; Stable (06-Apr-21)	1)CARE BBB+; Stable (06-Oct-20) 2)CARE BBB+; Stable (12-May-20) 3)CARE BBB+; Stable (03-Apr-20)	-	1)CARE BBB+; Stable (29-Mar-19) 2)CARE BBB+; Stable (02-May-18) 3)CARE BBB+; Stable (06-Apr-18)
2	Fund-based - ST-Term loan	-	-	-	-	1)discontinued (12-May-20) 2)CARE A2+ (03-Apr-20)	-	1)CARE A2+ (29-Mar-19) 2)CARE A2+ (02-May-18) 3)CARE A2+ (06-Apr-18)
3	Fund-based - LT-Cash Credit	LT	9000.00	CARE BBB+; Stable	1)CARE BBB+; Stable (09-Dec-21) 2)CARE BBB+; Stable (06-Apr-21)	1)CARE BBB+; Stable (06-Oct-20) 2)CARE BBB+; Stable (12-May-20) 3)CARE BBB+; Stable (03-Apr-20)	-	1)CARE BBB+; Stable (29-Mar-19) 2)CARE BBB+; Stable (02-May-18) 3)CARE BBB+; Stable (06-Apr-18)
4	Non-fund-based - ST-BG/LC	ST	1550.00	CARE A2+	1)CARE A2+ (09-Dec-21) 2)CARE A2+ (06-Apr-21)	1)CARE A2+ (06-Oct-20) 2)CARE A2+ (12-May-20) 3)CARE A2+ (03-Apr-20)	-	1)CARE A2+ (29-Mar-19)
5	Fund-based - LT-Working Capital Limits	LT	5459.98	CARE BBB+; Stable	1)CARE BBB+; Stable (09-Dec-21)	-	-	-

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 instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Limits	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 Ratings Ltd. 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 for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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