Dhariwal Infrastructure Limited (Revised)

January 08, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	3,716.14 (enhanced from 3,381.02)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	75.00 (reduced from 100.00)	**CARE A3 (A Three)**	Reaffirmed
Total Bank Facilities	**3,791.14 (Rupees Three Thousand Seven Hundred Ninety One crore and Fourteen lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of Dhariwal Infrastructure Ltd (DIL) continue to derive comfort from DIL's strong parentage – being a part of the RP-Sanjiv Goenka group, satisfactory business experience of the promoters in the power sector, demonstrated financial support from the group and its promoters, Fuel Supply Agreement (FSA) with South Eastern Coalfields Ltd (SECL), reduced power off-take risk in medium term, though long-term off-take arrangement remains critical and substantial reduction in losses in FY18 (refers to the period April 01 to March 31) through saving in interest and optimum PLF in Unit II. The ratings, however, continue to be constrained by volatility in coal prices due to absence of captive coal mines, weak capital structure and moderate liquidity position.

The continued promoter support, execution of balance PPA and steady revenue thereafter are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage

The 'RP-Sanjiv Goenka' group is a leading industrial group of the country having significant presence across diverse business segments such as power, infrastructure, carbon black, retail, education, BPO and media & entertainment. DIL, which was a step down subsidiary of CESC Ltd (CESC; rated CARE AA+; Stable/ CARE A1+), is now a wholly owned subsidiary with merger of CESC Infrastructure Ltd.

Satisfactory business experience of promoters in power sector

CESC Ltd, the flagship company of the group, is a vertically integrated power utility engaged in generation, transmission and distribution of electricity to the consumers in its licensed area covering Kolkata and Howrah. CESC has successfully implemented various power projects in and around Kolkata and has a satisfactory track record of supplying power in its command area.

Demonstrated and expected fund support

DIL has received significant fund support from CESC, Haldia Energy Limited (HEL; rated CARE A+; Stable/ CARE A1+) and other group companies for funding its debt repayment obligation in view of significant cash losses over the years. The group had infused Rs.907 crore in FY17 in DIL.

Reduced power off-take risk in medium term; however, long-term off-take arrangement remains critical

DIL has long-term PPA for 100 MW with Tamil Nadu Generation & Distribution Corp Ltd (TANGEDCO) for 15 years (June 2014 to September 2028) through Case-I bidding, under two part tariff (capacity charge and energy charge) at Rs.4.91/unit (levelised tariff). DIL has entered into a long term PPA with distribution company Noida Power Company limited (NPCL) for 187 MW at Rs.4.79/unit (levelised tariff), approved by Uttar Pradesh Electricity Regulatory Commission (UPERC) vide order dated April 20, 2016.

DIL had entered into a short term PPA agreement for 8 months (starting April 2018) with Maharashtra State Power Generation Co Ltd (MAHAGENCO) for 185 MW at Rs.2.76/unit which has reduced the power off-take risk to some extent. The same has been extended by 45 days till January 2019 since the unit was shut down for 45 days. While the company is actively participating in short-term PPAs, tie-up of long-term PPA for the balance capacity shall remain a key rating monitorable.

Reduced losses in FY18 through saving in interest and optimum PLF in unit II

DIL witnessed a significant improvement in its financial performance in FY18 after continuous high losses since the commencement of the facility. The cash loss for the company has reduced significantly from Rs.381 crore in FY17 to Rs.94 crore in FY18 due to stabilization of Unit II. Further, the company has also reduced its interest outflow by replacing high cost loan with low interest loans, and reduction in interest rates in existing loan. Also with the tie-up of short term PPA

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

for 185 MW, the performance is expected to improve further in FY19. With gradual improvement in financial performance, the requirement of fund support from promoters is expected to reduce significantly.
DIL incurred a cash loss of Rs.46 crore on a total operating income of Rs.554.5 crore in H1FY19.

Key Rating Weaknesses

Fuel supply arrangement in place; however risk of coal price volatility remains

Aggregate annual coal requirement for the plant is 2.73 million MTPA (at 85% PLF, based on GCV of 3,850 kcal/kg and SHR of 2,300 kcal/unit). DIL has successfully entered into FSA with SECL during FY16 for supply of 2.73 MTPA of coal for both the units. However, DIL can draw coal under the FSA only to the extent of available PPA i.e. 300 MW. The balance coal is being procured from e-auction or imports, which exposes it to both fuel price and availability risk.
Further, DIL remains exposed to price volatility risk for PPA with TANGEDCO where DIL does not have cost plus basis of tariff fixation.

Weak capital structure

The overall gearing ratio deteriorated from 4.77x as on March 31, 2017 to 6.69x as on March 31, 2018 on account of new loans availed by the company and reduction in networth due to loss incurred by the company in FY18. However, with the commencement of power supply to TANGEDCO and NPCL, the company is expected to generate profits leading to gradual positive gross cash accruals and improvement in capital structure with the gradual build-up of net worth.

Moderate liquidity profile

The company has a moderate liquidity position with a cash and bank balance of Rs.21.63 crore as on March 31, 2018. DIL has availed term loans of Rs.220 crore in H1FY19 to meet its funds requirements. Till September 30, 2018, DIL has already repaid Rs.165 crore out of total debt repayment obligation of Rs.222 crore in FY19. The average fund based working capital utilisation of the company remains low at around 25%-30% providing cushion from liquidity perspective. Further, the promoter group is expected to extend need-based support in the event of any shortfall to meet the debt repayment obligation, as demonstrated in the past.

Analytical Approach: Standalone. The rating also factors in the continued fund support from the strong parent group

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Financial ratios – Non-Financial Sector
Rating Methodology – Infrastructure Sector Ratings
Rating Methodology – Private Power Producers Ratings

About the Company

DIL, belonging to RP-Sanjiv Goenka group, was incorporated in 2006 as a JV between Prithvi group and Manikchand Group for setting up a 600 MW thermal power plant (2 units x 300 MW) in Tadali Industrial Area, Chandrapur district, Maharashtra. Post restructuring of CESC Limited, DIL has become a wholly owned subsidiary of CESC (earlier it was a step down subsidiary of CESC). The Unit-I (300 MW) and Unit-II (300 MW) were commissioned on February 11, 2014 and August 02, 2014 respectively.
The 'RP-Sanjiv Goenka' group is a leading industrial group of the country having interests across diverse business segments such as power, infrastructure, carbon black, retail, education, BPO, and media & entertainment.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total Operating Income	481.03	867.64
PBILDT	63.17	263.22
PAT	-483.90	-198.58
Overall gearing (times)	4.77	6.69
Interest coverage (times)	0.14	0.81

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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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
Fund-based - LT-Term Loan	-	-	September 2035	2661.14	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	250.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	75.00	CARE A3
Fund-based - LT-Term Loan	-	-	September 2035	750.00	CARE BBB; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	55.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	2661.14	CARE BBB; Stable	1)CARE BBB; Stable (07-Jun-18) 2)CARE BBB; Stable (06-Apr-18)	1)CARE BBB; Stable (13-Jul-17) 2)CARE BBB; Stable (04-Apr-17)	1)CARE BBB; Stable (09-Dec-16) 2)CARE BBB (21-Oct-16)	1)CARE BBB (01-Oct-15) 2)CARE BBB (08-Apr-15)
2.	Fund-based - LT-Cash Credit	LT	250.00	CARE BBB; Stable	1)CARE BBB; Stable (07-Jun-18) 2)CARE BBB; Stable (06-Apr-18)	1)CARE BBB; Stable (13-Jul-17) 2)CARE BBB; Stable (04-Apr-17)	1)CARE BBB; Stable (09-Dec-16) 2)CARE BBB (21-Oct-16)	-
3.	Non-fund-based - ST-BG/LC	ST	75.00	CARE A3	1)CARE A3 (07-Jun-18) 2)CARE A3 (06-Apr-18)	1)CARE A3 (13-Jul-17) 2)CARE A3 (04-Apr-17)	1)CARE A3 (09-Dec-16) 2)CARE A3 (21-Oct-16)	-
4.	Fund-based - LT-Term Loan	LT	750.00	CARE BBB; Stable	1)CARE BBB; Stable (07-Jun-18) 2)CARE BBB; Stable (06-Apr-18)	1)CARE BBB; Stable (13-Jul-17) 2)CARE BBB; Stable (04-Apr-17)	-	-
5.	Non-fund-based - LT-Bank Guarantees	LT	55.00	CARE BBB; Stable	1)CARE BBB; Stable (07-Jun-18)	-	-	-

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