

Dhariwal Infrastructure Limited

September 24, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	3,321.00	CARE BBB: Stable (Triple B; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	75.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	3,396.00 (Rupees Three Thousand Three Hundred Ninety Six Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Dhariwal Infrastructure Limited (DIL) continues to derive strength from DIL's strong parentage with company being a part of RP-Sanjiv Goenka group, satisfactory business experience of promoters in power sector having professional and highly qualified management team, demonstrated financial support from the group, Fuel Supply Arrangement (FSA) with South Eastern Coalfields Limited (SECL) and reduced losses in FY19 (refers to the period from April 01 to March 31) through improvement in operational performance of the company. The ratings are, however, constrained by non-availability of long term PPA for part of the capacity exposing DIL to power offtake risk and company relying either on short term PPAs or merchant sales, volatility in coal prices, counterparty risk mainly from Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) and weak capital structure. Considering the fact that cash accruals are insufficient to meet debt servicing obligations, management have articulated to extend the funding support to DIL from the group. The rating factor in this enunciation centrally in the analysis.

Ability of the company to ramp up the PLF and tie-up of long term PPA for pending capacities shall remain key rating sensitivities. Further, continued fund support from promoter group companies to meet debt servicing obligation shall remain key rating monitorable.

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 Limited (CESC; rated CARE AA; Stable / CARE A1+), is now a wholly owned subsidiary post merger of CESC Infrastructure Limited with CESC.

Demonstrated support

DIL has received significant fund support from CESC, Haldia Energy Limited (HEL) and other group companies for funding its debt repayment obligation in view of significant cash losses over the years. HEL advanced Rs.335 crore to DIL in FY19 and Rs.130 crore in Q1FY20 to support DIL to meet its debt repayment obligations of FY19 and Q1FY20 respectively besides prepayment of Rs.100 crore. Going forward, the group is further expected to support DIL to meet its debt repayment obligations.

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. It has demonstrated high operational efficiency which is reflected in its better-than-normative Plant Load Factor and T&D loss leading to higher returns. Further, HEL, a fellow subsidiary, also has superior operational and financial performance.

Professional and highly qualified management team

All the Directors of DIL are qualified professionals with long association with CESC. They are assisted by a pool of qualified employees, having long experience in power sector. Mr. Rabi Choudhary, MD (Generation) of CESC also looks after the generation activities of DIL. He is a Bachelor of Electrical Engineering from Jadavpur University and associated with CESC group for more than 3 decades. DIL also receives technical assistance from the experienced and technical team of CESC.

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

Improvement in operational performance of the company in FY19 and Q1FY20

DIL's operational performance witnessed an improvement over the years with PLF improving from 46% in FY18 to 61% in FY19 and further to 71% in Q1FY20. Further, the average tariff for the company also increased from Rs.3.58 per unit in FY18 to Rs.3.92 per unit in FY19 and to Rs.4.27 per unit in Q1FY20.

Reduced losses in FY19 through increased PLF for Unit I

DIL witnessed a significant improvement in its financial performance in FY19 after continuous high losses since the commencement of the facility. The company earned a cash profit of Rs.8 crore in FY19 vis-à-vis cash loss of Rs.94 crore in FY18 due to operationalization of Unit 1 on account of short term PPA with MAHAGENCO (for 8 months starting from April 2018). The PLF for Unit I increased from 8% in FY18 to 43% in FY19 leading to increased revenue (on account of increase in units generated from 213 mu in FY18 to 1,119 mu in FY19) along with increased profits for the company.

The total operating income of the company improved from Rs.868 crore in FY18 to Rs.1,173 crore in FY19 on account of increase in units generated (with improvement in PLF) along with average tariff for FY19. PBILDT level witnessed an increase from Rs.263 crore in FY18 to Rs.358 crore in FY19 due to better spread of fixed cost as reflected in decline in other operating expenses (employee cost, other manufacturing expenses and other expenses) as a percentage of cost of sales from 13.32% in FY18 to 10.90% in FY19. Net loss of the company reduced from Rs.198.6 crore in FY18 to Rs.92.7 crore in FY19. Interest coverage ratio of the company stood at unity for FY19. The debt servicing was met out of fund support received from HEL. With gradual improvement in financial performance, the requirement of fund support from promoters is expected to reduce going ahead.

The company incurred a net loss of Rs.23.95 crore on a turnover of Rs.363.3 crore in Q1FY20. GCA stood at Rs.0.63 crore in Q1FY20 against a debt repayment obligation of Rs.31.1 crore. The shortfall was met out of fund infused by HEL in Q1FY20 amounting to Rs.130 crore which was also utilized to prepay part of a term loan amounting to Rs.100 crore.

Key Rating Weaknesses

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

For Unit II having capacity of 300 MW, DIL has long-term PPA for 100 MW with 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 for 15 years with distribution company Noida Power Company Limited (NPCL) for 187 MW at Rs.4.79/unit (levelised tariff), approved by UPERC vide order dated April 20, 2016.

For unit 1 having capacity of 300 MW, DIL had entered into a short term PPA agreement for 8 months (starting April 2018) with MAHAGENCO for 185 MW at Rs.3.80/unit. This agreement with MAHAGENCO ended in January 2019 and since then the company is selling the power generated from Unit I on merchant sale basis. While the company is actively participating in bidding for short-term PPAs, tie-up of long-term PPA for the balance capacity shall remain a key rating monitorable.

Fuel supply arrangement; 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. 287 MW. The balance coal is being procured from e-auction or imports, which exposes it to both fuel price and availability risk.

The price at which linkage coal will be supplied shall be notified by Coal India Limited (CIL) from time to time. Accordingly, DIL will remain exposed to coal availability risk for unit not having PPA and price volatility risk for PPA not having cost plus basis of tariff fixation.

Counterparty risk

DIL sells its generated power to NPCL and TANGEDCO under long term PPA and on merchant sale basis to other off-takers and private players. In FY19, DIL also sold power to MAHAGENCO under short term PPA for 8 months. Revenue from NPCL and TANGEDCO accounted for around 72% of total revenue in FY19 and 64% in Q1FY20.

The overall debtors level witnessed a significant increase from Rs.227 crore as on March 31, 2018 to Rs.397 crore as on March 31, 2019 and further to Rs.402 crore as on June 30, 2019 (Rs.251 cr from TANGEDCO, Rs.99 cr from NPCL and rest from others). Currently, the company has received payments from TANGEDCO till January 2019.

Weak capital structure

The capital structure of the company continues to remain weak in FY19 compared to FY18 on account of reduction in networth due to continued losses incurred by the company. The debt equity ratio deteriorated from 6.06x as on March 31, 2018 to 7.44x as on March 31, 2019 while the overall gearing ratio deteriorated from 6.69x as on March 31, 2018 to 8.08x as on March 31, 2019.

Liquidity Analysis - Adequate

The company has an adequate liquidity position with an average working capital utilisation of 14% during the last 12

months ending July 2019. The GCA for FY19 stood at Rs.8.15 crore and the company received fund support from its fellow subsidiary HEL amounting to Rs.335 crore in FY19 to meet its debt repayment obligation of Rs.215 crore. The repayment obligation for FY20 stands at Rs.142 crore which shall be met out of fund support to be received from HEL. Further, DIL received Rs.130 crore in Q1FY20 from HEL which was utilized to meet its debt repayment obligation for Q1FY20 and prepayment of term loan aggregating Rs.100 crore. DIL had cash and bank balance of Rs.24.9 crore and unutilized line of credit amounting to Rs.130 crore as on June 30, 2019. The company is expected to receive further fund infusion from its group companies to meet its debt repayment obligation going forward in the absence of sufficient cash accruals.

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

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology – Private Power Producers Ratings](#)

[Rating Methodology: Factoring Linkages in 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. DIL is a wholly owned 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)	FY18 (A)	FY19 (A)
Total Operating Income	867.64	1172.80
PBILDT	263.22	357.91
PAT	-198.58	-92.70
Overall gearing (times)	6.69	8.08
Interest coverage (times)	0.81	1.00

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Available

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

Annexure-1: Details of 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	2281.00	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	735.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	2281.00	CARE BBB; Stable	-	1)CARE BBB; Stable (08-Jan-19) 2)CARE BBB; Stable (07-Jun-18) 3)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)
2.	Fund-based - LT-Cash Credit	LT	250.00	CARE BBB; Stable	-	1)CARE BBB; Stable (08-Jan-19) 2)CARE BBB; Stable (07-Jun-18) 3)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 (08-Jan-19) 2)CARE A3 (07-Jun-18) 3)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	735.00	CARE BBB; Stable	-	1)CARE BBB; Stable (08-Jan-19) 2)CARE BBB; Stable (07-Jun-18) 3)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 (08-Jan-19) 2)CARE BBB; Stable (07-Jun-18)	-	-

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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