

Dhariwal Infrastructure Limited

October 08, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	2,976.30 (Reduced from 3,321.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	75.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	3,051.30 (Rs. Three Thousand Fifty-One Crore and Thirty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Dhariwal Infrastructure Limited (DIL) takes into account significant improvement in the operational and financial performance of the company in FY20 (refers to the period April 01 to March 31) and Q1FY21 on account of the short term Power Purchase Agreement (PPA) company had signed with Maharashtra State Power Generation Company Limited (MSPGCL) along with the prepayment of high cost long term debt amounting to Rs.291 crore in FY20 which has led to savings in finance cost. Given that PPA with MSPGCL is valid till October 31, 2020, the extension of short term PPA shall remain key rating monitorable. The ratings also favorably factors in financial flexibility that DIL enjoys by virtue of being part of RP Sanjiv Goenka group, satisfactory business experience of promoters in the power sector having professional and highly qualified management team, demonstrated financial support from the group and Fuel Supply Arrangement (FSA) with South Eastern Coalfields Limited (SECL). 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 on short-term PPA, volatility in coal prices, counterparty risk mainly from Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO), weak capital structure though witnessed an improvement in FY20. The ratings also factor in dependence on group support to meet its debt servicing obligations though mitigated to an extent in view of demonstrated support in the past and management's articulation to extend the funding support to DIL in future as well to meet the debt obligations timely. The rating factor in this enunciation centrally in the analysis.

Key Rating Sensitivities

Positive Factors

- Company earning sufficient cash profits to meet its debt repayment obligations on its own on a sustained basis.
- Tie-up of long-term PPA for its Unit-1 having capacity of 300 MW.
- Release of entire old dues outstanding with TANGEDCO and Noida Power Company Limited.

Negative Factors

- Non-tie-up of short-term PPA with MSPGCL for Unit-1.
- Any debt laden capex resulting in deterioration in capital structure with overall gearing ratio going above 8x.

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.

Demonstrated support

DIL has received significant fund support from CESC and Haldia Energy Ltd. for funding its debt repayment obligation in view of significant cash losses over the years. As on August 31, 2020, CESC and HEL together have a balance of Rs.1,460 crore, in the form of FDs and Mutual funds along with undrawn line of credit, which can be utilized to service any debt repayment/interest servicing obligation of DIL, going forward, in the absence of any major capex commitment. In FY20, HEL advanced Rs.525 crore to DIL for providing financial assistance. 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, 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

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

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.

Reduced losses in FY20 and Q1FY21

DIL witnessed a significant improvement in its financial performance in FY20 after continuous high losses since the commencement of the facility. The company earned a cash profit of Rs.90 crore in FY20 vis-à-vis cash profit of Rs.8 crore in FY19 due to higher revenue from Unit I on account of increase in units sold from 1,022 mu in FY19 to 1,170 mu in FY20 along with increase in average tariff for sale of energy to NPCL for Unit II. In FY20, NPCL drew power to an extent of only 76% of the agreed off-take capacity. Hence, the company recovered demand charges for the balance 24% capacity which led to increase in average tariff realized for FY20.

The total operating income of the company improved from Rs.1,173 crore in FY19 to Rs.1,310 crore in FY20 on account of increase in units generated (with improvement in overall PLF from 61% in FY19 to 65% in FY20) along with average tariff from Rs.3.92/unit in FY19 to Rs.4.18/unit in FY20. PBILDT level and margin witnessed an increase in FY20 compared to FY19 due to reduction in coal cost as a percentage of net sales. Net loss of the company reduced from Rs.92.7 crore in FY19 to Rs.9.7 crore in FY20 due to increase in operating profit along with decline in capital charges in FY20. The company earned cash profit of Rs.89.76 crore vis-à-vis debt repayment obligation of Rs.269 crore in FY20 (including repayment of short term loan of Rs.125 crore). The shortfall in debt servicing was met out of fund support received from HEL amounting to Rs.525 crore. Further, out of the said Rs.525 Cr., a sum of Rs.291 crore was utilised towards pre-payment of high cost term loan in FY 20. With gradual improvement in financial performance, the requirement of fund support from promoters is expected to reduce significantly.

The total operating income of the company witnessed a decline from Rs.363 crore in Q1FY20 to Rs.344 crore in Q1FY21 on account of reduction in average tariff from Rs.4.27/unit in Q1FY20 to Rs.3.76/unit in Q1FY21. The average tariff declined due to increase in units sold to MSPGCL where the tariff is low (Rs.2.87/unit) in Q1FY21 compared to Q1FY20 where the company sold the power generated from Unit 1 on merchant sale basis at a tariff of Rs.4.03/unit. The company earned PAT of Rs.24 crore in Q1FY21 vis-à-vis net loss of Rs.24 crore in Q1FY20 on account of increasing in PBILDT along with decline in interest costs due to reduction in term loans on account of prepayment. The company earned a GCA of Rs.50.10 crore vis-à-vis debt repayment obligation of Rs.38 crore in Q1FY21.

Improvement in operational performance of the company in FY20 and Q1FY21

DIL's operational performance witnessed an improvement over the years with combined PLF improving from 61% in FY19 to 65% in FY20 and further to 76% in Q1FY21 and July 2020. Further, the average tariff for the company also increased from Rs.3.92 per unit in FY19 to Rs.4.18 per unit in FY20. However, the same declined to Rs.3.76 per unit in Q1FY21 due to decline in proportion of sales to NPCL having higher tariff compared to MSPGCL with lower tariff. PAF remained above 90% for both the units in FY20.

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 25 years with distribution company Noida Power Company Limited 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 with Maharashtra State Power Generation Company Limited (MSPGCL) effective from November 2019 for a period of 5 months for 185MW at a rate of Rs.2.76/unit. The contract had been extended till October 31, 2020. The management expects the extension of short term PPA with MSPGCL for another one year.

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.

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 South Eastern Coal Fields (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. W.r.t. the short term PPA with MSPGCL, the coal is supplied by MSPGCL and therefore, as long as the short term PPA is there, the coal availability risk is low. For the remaining balance coal, it is being procured from e-auction or imports, which exposes it to fuel price 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

The overall debtors level witnessed a significant increase from Rs.397 crore as on March 31, 2019 to Rs.506 crore as on March 31, 2020 and further to Rs.597 crore as on June 30, 2020. The company has collected Rs.190 crore out of the debtors outstanding as on June 30, 2020 till September 25, 2020.

The increase in debtors is on account of increase in dues from TANGEDCO which has been currently releasing 50% of the bills from April 2020 to July 2020 and the balance amount shall be paid by the Discom once the discom receives the payment from PFC/REC under Atmanirbhar Bharat, as articulated by the management. Further, the dues from NPCL has increased on account of NPCL making part payment only and not making payment for additional cost due to coal quality and escalated index adjusted as per Uttar Pradesh Electricity Regulatory Commission (UPERC) order. UPERC had given DIL an order dated February 05, 2019 by which they allowed DIL to raise the invoice including the past period after adjusting the coal quality and CERC escalation as per UPERC direction. However, by a separate order, UPERC also directed NPCL to pay on the basis of their original order. So due to this mismatch in these two orders given by the regulator, the debtors have been built-up. However, since there are conflicting orders, NPCL is not able to make the full payment against the same. The management has maintained that once the True up petition filed by DIL is disposed by the Commission, DIL will recover the differential amount as approved by the Commission.

Weak capital structure though witnessed an improvement in FY20

The capital structure of the company though witnessed an improvement in FY20, continues to remain weak in FY20 compared to FY19 on account of reduction in networth due to continued losses incurred by the company. The debt equity ratio witnessed an improvement from 7.36x as on March 31, 2019 to 6.49x as on March 31, 2020 and further to 6.11x as on June 30, 2020 on account of scheduled payment of term loans along with prepayment of term loan amounting to Rs.291 crore in FY20. The overall gearing ratio also witnessed an improvement from 8.00x as on March 31, 2019 to 6.92x as on March 31, 2020 and further to 6.48x as on June 30, 2020 on account of the same reason. TDGCA also witnessed a significant improvement from 415.30x as on March 31, 2019 to 31.86x as on March 31, 2020 on account of increase in GCA along with reduction in total debt.

Impact of Covid-19

The pandemic Covid-19 had a limited impact on the operations of the company as TANGEDCO and MSPGCL continued to draw almost full power. The only impact was because of NPCL where there had been a curtailment of power due to demand shortfall in Noida. However, the impact of the curtailment was not a major one as the demand rose again in June 2020 and there was a net impact of only 20% in Q1FY21 w.r.t. the power sold to NPCL when compared to Q1FY20. Overall, the combined PLF of the company improved from 71% in Q1FY20 to 76% in Q1FY21.

Liquidity Analysis - Adequate

The company has an adequate liquidity position with cash and cash equivalents amounting to Rs.13 crore along with undrawn line of credit amounting to Rs.117 crore as on August 31, 2020. The average CC utilisation during the last 12 months ended August 2020 stood at 77.5%. The company earned GCA of Rs.90 crore vis-à-vis debt repayment obligation of Rs.142 crore along with repayment of short term loan amounting to Rs.125 crore. The shortfall in repayment was met out of fund infused by HEL in FY20 amounting to Rs.525 crore which was utilized for the shortfall of cash accruals to repay term loan obligations and prepay part of a term loan amounting to Rs.291 crore (high cost debt). The company has a debt repayment obligation of Rs.165 crore in FY21 (out of which Rs.37.65 crore has already been repaid in Q1FY21). Further, with respect to availment of moratorium, the company did not avail the moratorium. The fund support from HEL is expected to reduce significantly going forward on account of increased revenue and cash flow since DIL is expected to generate additional revenues on account of the short term PPA signed for Unit 1. Besides, the liquidity of DIL draws comfort from the financial flexibility it enjoys by virtue of being part of RPSG group.

Analytical approach: Standalone. The rating also factors in the continued fund support from Haldia Energy Limited (based on the support DIL has been receiving since inception).

Applicable Criteria

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
 CARE's Policy of Default Recognition
 Financial ratios – Non-Financial Sector
 Rating Methodology – Private Power Producers Ratings
 Rating Methodology: Consolidation and Factoring Linkages in Ratings
 Criteria on Short Term Instruments
 Liquidity Analysis of Non-Financial Sector Entities
 Rating Methodology: Thermal Power Producers

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.

DIL is governed by six members Board of Directors. All the Directors are highly qualified professionals with long industry experience.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1173	1310
PBILDT	358	415
PAT	-93	-10
Overall gearing (times)	8.00	6.92
Interest coverage (times)	1.00	1.24

A: Audited

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 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 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	2671.30	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	250.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	75.00	CARE A3
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	1956.92	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Sep-19)	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)
2.	Fund-based - LT-Cash Credit	LT	250.00	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Sep-19)	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)
3.	Non-fund-based - ST-BG/LC	ST	75.00	CARE A3	-	1)CARE A3 (24-Sep-19)	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)
4.	Fund-based - LT-Term Loan	LT	714.38	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Sep-19)	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 (24-Sep-19)	1)CARE BBB; Stable (08-Jan-19) 2)CARE BBB; Stable (07-Jun-18)	-

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 the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT-Bank Guarantees	Simple
4.	Non-fund-based - ST-BG/LC	Simple

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.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact

Name: Punit Singhania
Contact no.: +91-33-4018 1620
Email ID: punit.singhania@careratings.com

Relationship Contact

Name: Lalit Sikaria
Contact no.: +91-33-4018 1607
Email ID: lalit.sikaria@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**