India Power Corporation Limited

March 04, 2020

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	225.52 (Reduced from 326.43)	**CARE BBB; Credit Watch with Negative Implications (Triple B; Credit Watch with Negative Implications)**	**Continues on credit watch with negative implications**
Short-term Bank Facilities	27.57 (Reduced from 126.54)	**CARE A3; Credit Watch with Negative Implications (A Three; Credit Watch with Negative Implications)**	**Continues on credit watch with negative implications**
Total Bank Facilities	**253.09 (Rs. Two hundred fifty three crore and nine lakh only)**		
Long-term Instrument – Debenture - NCD	**32.00 (Rs. Thirty two crore only)**	**CARE BBB; Credit Watch with Negative Implications (Triple B; Credit Watch with Negative Implications)**	**Continues on credit watch with negative implications**

Details of facilities/instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instrument issue of India Power Corporation Limited (IPCL) continue to draw strength from experienced promoters, demonstrated support by the promoters to the company, cost plus based tariff structure supported by operational Monthly Variable Cost Adjustment (MVCA) for pass-through of increase in power purchase cost, lower level of AT&C losses compared to normative, full metered supply with satisfactory collection efficiency, tie-up of PPAs at competitive rates leading to reduction in cost of supply, improvement in capital structure in FY19 (refers to the period April 01 to March 31) on account of prepayment of loans albeit slight moderation in 9MFY20 and adequate liquidity position. The ratings are, however, constrained by exposure to regulatory risks, non-approval of tariff order and Annual Performance Review (APR), high receivables from group entity (Power trust), risk of uncertain weather conditions for wind power assets, moderate financial performance in FY19 and 9MFY20, high exposure in group entities and risks associated with implementation of expansion projects.

CARE continues to keep the ratings of IPCL on 'Credit Watch with Negative Implications' in view of pending clarity with respect to liability which can arise on IPCL as a pledgor for the loans availed by Meenakshi Energy Limited (MEL) and the possible impact of the same on the credit profile of IPCL, in the event of unfavourable decision for IPCL from the Hon'ble XIV Additional Chief Justice. It also factors in the pending clarity on the validity of the franchise agreement, currently sub-judice, with South Bihar Power Distribution Company Limited and the final outcome of the same.

Rating Sensitivities

Positive Factors

- Company earning sufficient cash profits to meet its debt repayment obligations on a sustained basis
- Improvement in PAT margins of the company beyond 7% on a sustained basis
- Improvement in capital structure with overall gearing going below 0.50x on a sustained basis

Negative Factors

- Deterioration in capital structure with overall gearing ratio going above 1.5x
- Continued cash losses incurred by the company
- Any liability arising on account of unfavourable decision against IPCL w.r.t corporate guarantee provided for MEL.
- Delay in approval of tariff, truing up of orders and fuel cost escalation pass through by WBERC.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and demonstrated support to the company by the promoters

IPCL was promoted by the Kolkata-based Kanoria family having various business interests and mainly engaged in construction equipment and infrastructure financing. IPCL was incorporated in 1919 to supply power in its licensed area comprising of industrial belts of Asansol, West Bengal. The promoters infused funds in the form of unsecured loans amounting to Rs.57 crore in FY19 and further Rs.67 crore in 9MFY20 for the cash loss funding and to meet the shortfall in

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

repayment obligations of IPCL. Continued support from the group remains key rating sensitivity.

Cost plus based tariff structure supported by operational MVCA for pass-through of increase in power purchase cost
Under the WBERC Tariff Regulations 2011, a fixed return on equity approved gross fixed assets is allowed to IPCL (i.e. 15.5% on generation and 16.5% on distribution). Last tariff order for IPCL has been approved for FY17. APR has been approved till FY13. The company has Rs.68.73 crore outstanding as on March 31, 2019 against Rs.49.44 crore as on March 31, 2018 in Fuel and Power Purchase Cost Adjustment (FPPCA) account. The APR for FY13 was approved on December 02, 2019 as per which IPCL has already recovered through tariff an amount of Rs.20.36 crore in excess of the admissible revenue for the year 2012-13 (Claimed ARR: Rs.599.09 crore; Approved ARR: Rs.555.97 crore and Amount Realized: Rs.576.32 crore). In terms of the tariff regulation, the entire amount or part thereof shall be adjusted with the amount of APR for 2017-18 or that for any other ensuing year as may be decided by the commission. The gap in ARR claimed and ARR approved is on account of disallowance of fuel, O&M costs and non-consideration of final project cost of J K Nagar 220 KV capital assets and 12 MW Dishergarh power plant. As per the management, the company shall challenge the said order in Appellate Tribunal.

Lower level of AT&C loss compared to normative
The company has been continuously carrying out up-gradation of the T&D infrastructure on an ongoing basis. AT&C losses though increased to 4.18% in FY19 (3.19% in FY18) owing to commissioning of new distribution lines around J.K. Nagar Area, continues to remain well within the permissible regulatory norm.

Full metered supply with satisfactory collection efficiency
IPCL's collection efficiency has remained satisfactory over the years. The same was at 99.97% in FY19 vis-à-vis 99.15% in FY18. However, considering collection from wind mill operations, which were transferred to IPCL (as part of reverse merger) during FY14, collection efficiency was 98.29% in FY19 vis-à-vis 94.0% in FY18. The improvement is on account of sale of 52 MW wind power in Rajasthan (out of 60 MW in Rajasthan) during FY19 where there was a lag of 2-3 months in collection.

Tie-up of PPAs at competitive rates leading to reduction in cost of supply
The company is gradually shifting its focus towards procuring of power from the exchange (rather than entering into long-term PPA's) so as to minimize its input cost and to make itself more competitive in its command area. The average cost of power purchase increased from Rs.3.71/unit in FY18 to Rs.4.12/unit in FY19, however, the same reduced to Rs.4.07/unit in H1FY20 with average power purchase cost of Rs.3.77/unit in Q2FY20. The reduction in average power purchase cost in Q2FY20 is on account of reduction in cost of energy purchase from Damodar Valley Corporation (DVC) due to the new PPA entered by the company with DVC. IPCL entered into a long term PPA with DVC in July 2019 for 12 years for supply of 16 MW energy at a tariff to be determined by CERC from time to time.
Further, the company has entered into short term PPA with Tata Power for purchase of 85MW power at a rate of Rs.3.49/unit from November 2019 to October 2020. Also, LOI has been received from SECI for purchase of 100 MW power at a rate of Rs.2.69/unit which shall begin from January 2021 for a period of 25 years. This would result in reduction in power purchase cost going ahead.

Improvement in capital structure in FY19 albeit slight moderation in 9MFY20
The capital structure of IPCL witnessed a significant improvement in FY19 compared to FY18. The debt-equity ratio improved from 1.38x as on March 31, 2018 to 0.64x as on March 31, 2019 while the overall gearing ratio improved significantly from 2.01x as on March 31, 2018 to 1.00x as on March 31, 2019 on account of pre-payment of loans amounting to Rs.333 crore in January 2019. However, the capital structure witnessed deterioration in 9MFY20 with overall gearing ratio deteriorating to 1.14x as on December 31, 2019 due to infusion of unsecured loans by promoters.

Key Rating Weaknesses
Exposure to regulatory risks
Majority of IPCL's power is being supplied to high-tension (HT) consumers. With the Open Access Regulations in place, IPCL may face significant demand uncertainty in this aspect as the possibility of existing consumers approaching its competitors for direct sale of power cannot be ruled out in future. However, that entails additional cost on account of wheeling charges for transmission lines in IPCL's area and necessary approvals from Regulatory Authority. Further, to reduce the possibility of such migration, IPCL continues its measures towards consumer satisfaction like lower power procurement cost, timely grievance redressal, reliable and good quality power, timely billing & collection and loss reduction initiatives, etc.
The company's licensee business demonstrated positive units growth after 2 years of decline in past. IPCL has sold 787.48 Million Units of power in its license area in West Bengal during FY19 compared to 705.16 Million Units in FY18.

High receivables from group entity - Power Trust
IPCL had invested in India Power Corporation (Haldia) Ltd (IPCL (Haldia)) in the form of Fully & Compulsorily Convertible Debentures (FCCD) of Rs.490.5 crore of face value Rs.10 each which have been transferred to Power Trust at book value in March 2017 and thereafter IPCL (Haldia) ceased to be a subsidiary w.e.f. March 31, 2017 and had become an associate. Further during FY18, IPCL had transferred the remaining investment in the form of Compulsorily Convertible Preference Shares (CCPS) of Rs.306.82 crore to Power Trust. The receivables against the above transactions (FCCD & CCPS transfer) stood at Rs.489.5 crore as on March 31, 2018 from Power Trust. In FY19, IPCL received Rs.286.27 crore from Power Trust, thereby reducing the receivable to Rs.203.22 crore as on March 31, 2019. In the current year, IPCL received Rs.2.62 crore with outstanding receivable of Rs.200.6 crore as on December 31, 2019. Recovery of these dues from Power Trust remains key rating monitorable.

Risk of uncertain weather conditions for wind power assets
IPCL also operates 43.2 MW of wind power capacity (Gujarat – 24.8 MW, Karnataka – 10.4 MW and Rajasthan – 8 MW) on an operating lease basis. Profitability from wind segment operation is exposed to uncertain weather conditions.

Moderate financial performance in FY19 and 9MFY20
IPCL's revenue from sale of power witnessed a y-o-y increase of 10.56% in FY19, mainly due to increase in the sale of power units (from 705.16 MU in FY18 to 787.48 MU in FY19) for the regulated (HT/LT) business.
Despite increase in the revenue from sale of power in FY19, PBILDT levels deteriorated (Rs.87.31 crore in FY19 vis-à-vis Rs.106.24 crore in FY18) mainly on account of increase in power purchase cost (Rs.4.12/kwh in FY19 vis-à-vis Rs.3.71/kwh in FY18) which has not been passed on into the tariff (however, the same shall be adjusted with future tariff post approval from WBERC) along with slight decline in average tariff from Rs.5.64/unit in FY18 to Rs.5.58/unit in FY19. PAT also witnessed a decline from Rs.21.34 crore in FY18 to Rs.18.70 crore in FY19 on account of decline in PBILDT along with similar levels of capital costs. The company incurred a cash loss of Rs.27.28 crore in FY19 (adjusting non-cash item pertaining to liability no longer required written back). The shortfall in repayments was met out of the fund inflow received by the company from transfer of investment to its group entity (Power Trust).
In 9MFY20, IPCL's revenue from sale of power witnessed a y-o-y decline of 12.9% on account of decrease in sale of power units along with decline in average tariff for the regulated business. PBILDT margin witnessed a decline from 14.27% in 9MFY19 to 9.32% in 9MFY20 on account of increase in cost of energy purchased in 9MFY20 compared to 9MFY19. PAT margin however, improved from 2.36% in 9MFY19 to 3.68% in 9MFY20 on account of significant reduction in interest cost due to prepayment of term loan by the company in January 2019.

High exposure in group entities
IPCL has investment in subsidiary companies in the form of investment (Equity, CCPS & FCCD) and loans & advances amounting to the tune of Rs.161.8 crore as on March 31, 2019 (Rs.155.1 crore as on March 31, 2018) mainly in MEL and IPCL Bodhgaya accounting for 47.9% (~48.3% in FY18) of its Adjusted Networth (Networth adjusted for investment in group entity Power Trust) as on March 31, 2019.
Further, IPCL had given Corporate Guarantee on September 23, 2016 in favor of lenders of MEL for a loan amounting to Rs.2,800 crore as on March 31, 2019 (Rs.2,818 crore as on March 31, 2018) subject to WBERC approval. WBERC has declined the approval vide their letter dated November 10, 2017, which has been accordingly intimated to the lenders. Accordingly the lenders of MEL were informed that the Corporate Guarantee given earlier is void.
Further on May 02, 2018, the 95.07% equity stake of IPCL in MEL, which was fully pledged with SBI CAP Trustee Company Limited (SBI CAP) on behalf of the lenders, was invoked by the Lenders and the said shares have been thereafter transferred to the Lenders A/c. IPCL has contested in the court of law, the validity of corporate guarantee and the matter is pending with Hon'ble XIV Additional Chief Judge cum Commercial court Hyderabad and is sub-judice.
MEL doesn't have any power off take arrangement in place and the power plant (300MW) is currently nonoperational and is under insolvency in NCLT.
IPCL has an outstanding exposure of Rs.22.30 crore to IPCL (Bodhgaya) as on March 31, 2019 in the form of loans and advances as against Rs.2.72 crore in the form of loans and advances and Rs.20.00 crore in the form of corporate guarantee as on March 31, 2018. However, IPCL Bodhgaya power distribution franchisee agreement dated December 31, 2013 in Gaya has been terminated by South Bihar Power Distribution Company Limited vide notice dated July 04, 2018 and the said matter is currently sub-judice.
Recoverability of investments and loans and advances from both the entities is uncertain.

Competition from other players in the command area
IPCL is facing competition from DVC and West Bengal State Electricity Distribution Company Limited (WBSEDCL) in its command area. Further, in order to meet its power requirements, IPCL also purchases some power from DVC and WBSEDCL. However, IPCL is now gradually moving towards open access which has led to decline in its cost of supply. Reduction in cost of supply would improve IPCL's competitive position going ahead.

Risks associated with implementation of expansion projects
The project for supply of traction power to Eastern Railways has been partially implemented in September 2019 with a small span of 400 metre transmission line is yet to be set up for Railway which is expected to be completed by March 2020. The project cost is estimated at Rs.69 crore out of which the company has already incurred Rs.66 crore as on date. The company has completed setting up of 132 kv transmission line for supply of power for 38 MVA to new consumers since September 2019 which has increased IPCL's capacity by 20% which shall lead to higher revenues going forward.

Liquidity - Adequate
The company has an adequate liquidity profile with cash and liquid investments of Rs.13 crore as on December 31, 2019. IPCL incurred cash loss of Rs.27 crore in FY19, repaid debt obligation of Rs.51 crore and prepaid of Rs.333 cr of its term debt which was funded through unsecured loans from group companies amounting to Rs.57 crore, receipts from long term deposits and other advances amounting to Rs.54 crore, increase in working capital utilisation by Rs.20 crore and receipt of Rs.286 crore from Power Trust. Further, IPCL earned GCA of Rs.13.5 crore and received unsecured loan from companies amounting to Rs.67.1 crore in 9MFY20 to meet its debt repayment obligations of Rs.46.26 crore in 9MFY20 and balance Rs.7.86 crore is payable in Q4FY20. The company is expected to repay its balance term debt through cash accruals and receipt of funds from Power Trust.

Analytical approach: Standalone. The rating also factors in support from group and corporate guarantees extended to group entities.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to credit ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology – Infrastructure Sector Ratings

About the Company
IPCL – [erstwhile DPSC Ltd (DPSC)] is currently engaged in transmission & distribution of power across its licensed area, spread over 618 sq. km across Asansol to Ranigunj industrial belts of West Bengal. IPCL has a distribution network in three circles (Dishergarh, Seebpore and Luchipur) with connected load of about 250 MVA. IPCL was a licensee under the provisions of the Indian Electricity Act, 1910 (since repealed) and had become a deemed licensee in terms of the first provision to section 14 of the Electricity Act 2003. It is currently operating as per the provisions of the West Bengal Electricity Regulatory Commission (WBERC) Regulations, 2011.
IPCL has its own 12 MW captive coal-based power generation plant. However, from April 2019 onwards, the 12 MW power plant is non-operational due to non-availability of coal at economical price, which would have otherwise resulted in higher cost of production. IPCL also operates 43.2 MW wind-based power capacities (Gujarat – 24.8 MW, Karnataka – 10.4 MW and Rajasthan – 8 MW) on an operating lease basis; which contributed around 7.5% of the total income from operations for FY19 (as against 9.8% in FY18).
In 2010, Kanoria family of Kolkata acquired DPSC Ltd. through its investment company, India Power Corporation Ltd (erstwhile IPCL) from Andrew Yule & Co. Ltd. In 2013, erstwhile IPCL got merged into DPSC and consequently DPSC was changed to IPCL.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Operating Income	497.92	536.88
PBILDT	106.24	87.31
PAT	21.34	18.70
Overall gearing (times)	2.01	1.00
Interest coverage (times)	1.37	1.17

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-Cash Credit	-	-	-	145.43	CARE BBB (Under Credit watch with Negative Implications)
Non-fund-based - ST-BG/LC	-	-	-	27.57	CARE A3 (Under Credit watch with Negative Implications)
Fund-based - LT-Term Loan	-	-	September 2025	80.09	CARE BBB (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	November 03, 2010	12.00%	September 19, 2022	32.00	CARE BBB (Under Credit watch with Negative Implications)

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-Cash Credit	LT	145.43	CARE BBB (Under Credit watch with Negative Implications)	1)CARE BBB (Under Credit watch with Negative Implications) (10-Feb-20)	1)CARE BBB (Under Credit watch with Negative Implications) (15-Oct-18) 2)CARE A- (Under Credit watch with Negative Implications) (07-Apr-18)	1)CARE A; Negative (18-May-17)	-
2.	Non-fund-based - ST-BG/LC	ST	27.57	CARE A3 (Under Credit watch with Negative Implications)	1)CARE A3 (Under Credit watch with Negative Implications) (10-Feb-20)	1)CARE A3 (Under Credit watch with Negative Implications) (15-Oct-18) 2)CARE A2 (Under Credit watch with Negative Implications) (07-Apr-18)	1)CARE A2+ (18-May-17)	-
3.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (15-Oct-18) 2)CARE A- (Under Credit watch with Negative Implications) (07-Apr-18)	1)CARE A; Negative (18-May-17)	-
4.	Debentures-Non Convertible	LT	32.00	CARE BBB (Under Credit	1)CARE BBB (Under Credit	1)CARE BBB (Under Credit	1)CARE A; Negative	-

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
	Debentures			watch with Negative Implications)	watch with Negative Implications) (10-Feb-20)	watch with Negative Implications) (15-Oct-18) 2)CARE A- (Under Credit watch with Negative Implications) (07-Apr-18)	(18-May-17)	
5.	Fund-based - LT-Term Loan	LT	80.09	CARE BBB (Under Credit watch with Negative Implications)	1)CARE BBB (Under Credit watch with Negative Implications) (10-Feb-20)	1)CARE BBB (Under Credit watch with Negative Implications) (15-Oct-18) 2)CARE A- (Under Credit watch with Negative Implications) (07-Apr-18)	1)CARE A; Negative (18-May-17)	-
6.	Short Term Instruments-CP/STD	ST	-	-	-	-	1)Withdrawn (18-May-17)	-

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.*

Contact us

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

Analyst Contact
Name: Mr. Punit Singhania
Contact No. - 033-4018 1620
Email id - punit.singhania@careratings.com

Business Development Contact
Name: Mr. Lalit Sikaria
Contact No. - 033-4018 1607
Email id – lalit.sikaria@careratings.com

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