India Power Corporation Limited

October 15, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	326.43 (reduced from Rs.333.90 crore)	**CARE BBB (Triple B) (Credit watch with negative Implications)**	**Revised from CARE A- (Single A minus) (Credit watch with negative Implications)**
Short-term Bank Facilities	126.54 (reduced from Rs.131.00 crore)	**CARE A3 (A Three) (Credit watch with negative Implications)**	**Revised from CARE A2 (A Two) (Credit watch with negative Implications)**
Total Facilities	**452.97 (Rs. Four hundred fifty two crore and ninety seven lakh only)**		
Outstanding NCD issue	80.00	**CARE BBB (Triple B) (Credit watch with negative Implications)**	**Revised from CARE A- (Single A minus) (Credit watch with negative Implications)**
Proposed NCD issue	-	-	**Withdrawn**
Total Instruments	**80.00 (Rs. Eighty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

India Power Corporation Ltd (IPCL) is a power distribution licensee in the state of West Bengal with investments in power distribution, power generation and other allied activities, primarily through its group companies.

The revision in ratings assigned to IPCL takes into account the deterioration in the financial risk profile of the company marked by low cash accruals in FY18 & Q1FY19. It also factors in the continuance of high receivables due from other entities.

The ratings however continue to draw strength from the long business experience & successful track record of the promoters, low business risk due to regulated operation, low Transmission & Distribution (T&D) loss and fully metered supply with satisfactory collection efficiency.

The ratings are constrained by exposure to regulatory risks, risk of uncertain weather conditions for wind power assets, significant finance charge on high level of borrowings and risks associated with the ongoing projects. Further, during the last two fiscals IPCL has witnessed moderation in the demand from the regulated power business.

Improvement in the power off-take scenario, finalization of tariff by WBERC in a timely manner, reduction in the current debt levels and realization of dues from other entities are the key rating sensitivities.

IPCL had an outstanding corporate guarantee of Rs.20.0 crore as on Mar.31, 2018 for the bank facilities of its subsidiary, India Power Corporation (Bodhgaya) Ltd (IPCL-Bodhgaya). However, IPCL-Bodhgaya's power distribution franchise agreement, dated 31.12.2013, in Gaya has been terminated by the South Bihar Power Distribution Company Limited, vide notice dated 04.07.2018, and the said matter is currently sub-judice.

Further, IPCL had an outstanding corporate guarantee of Rs.2,818.3 crore as on Mar.31, 2018 for the bank facilities of its subsidiary Meenakshi Energy Ltd (MEL) which is setting up a coal-based thermal power plant in Andhra Pradesh. WBERC, vide order dated November 9, 2017, had directed IPCL not to issue corporate guarantee to any funding agencies without its prior approval; which was then intimated to the lenders of MEL. However, on 2nd May 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 latter 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.

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

CARE continues to keep the rating assigned to IPCL, under 'Credit Watch with Negative Implications' pending clarity on the validity of the corporate guarantee extended to MEL and the possible impact of the same on the credit profile of IPCL, in the event of unfavorable decision for IPCL from the Hon'ble XIV Additional Chief Judge. 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.

Detailed description of the key rating drivers

Key Rating Strengths

Group support & experienced promoters with long track record of operation

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.

Low business risk due to regulated nature of operations

Under the WBERC Tariff Regulations 2011, the tariff is determined depending on the expected cost of operations and a fixed return on equity approved gross fixed assets is allowed to IPCL (i.e. 15.5% on generation and 16.5% on distribution) based on the Annual Revenue Requirements (ARR) filed by the company with WBERC.

Lower level of T&D loss

T&D loss continued to remain low at 3.15% in FY18 (~3% in FY17) and well within permissible regulatory norm of 5.25%.

Full metered supply with satisfactory collection efficiency

IPCL's collection efficiency has remained satisfactory over the years. In case of the regulated business the same was at ~98% in FY17 vis-à-vis 99% in FY16.

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.

Proposed capex in IPCL

IPCL proposes to construct 132 kV transmission line and supply of 3-Phase, 132 kV power to Eastern Railway at the Pandabeswar Traction Sub-station and to various prospective industrial customers in and around Dhasal and Ikhra area (well within the licensed area of IPCL) for a total cost of Rs.69 crore (70:30 debt-equity ratio). IPCL has incurred Rs.38.0 crore till September 2018 and the project is expected to commission in Q4FY19 (revised from Q2FY19).

Power off-take risk in its subsidiary where IPCL has significant exposure; however matter is currently sub-judice

IPCL has extended corporate guarantee for loans availed by its subsidiary MEL. WBERC, vide order dated November 9, 2017, had directed IPCL not to issue corporate guarantee to any funding agencies without its prior approval; which was then intimated to the lenders of MEL. However, on 2nd May 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 latter 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 has 300 MW (Phase I) of thermal power capacity (operational since Oct 2012/ Apr 2013) in Andhra Pradesh, with 700MW (Phase II) of capacity under construction. The project cost for Phase II amounts to Rs.5,500 crore (rationalized from Rs.6,073 cr post takeover from the earlier management) being funded in a debt equity ratio of 42:58. The company has already incurred Rs.4,905 crore till Dec.31, 2017 and it is expected to be commissioned (in phases) by March 2019 (revised from June 2018). MEL currently doesn't have adequate power off take arrangement in place and the power plant (300MW) is currently nonoperational.

IPCL had also extended advances of Rs.131.1 crore to MEL as on Mar.31, 2018 apart from the guarantee extended.

Receivables from other entities

During FY18, IPCL had sold off its remaining investments (Rs.306.8 crore) in Hiranmaye Energy Ltd (HEL; formerly known as India Power Corporation (Haldia) Ltd) to its group entity and an amount of Rs.489.5 crore is receivable as on March 31, 2018 (Rs.184.5 crore as on March 31, 2017). Recovery of these dues remains a key rating sensitivity.

Deterioration in the financial risk profile, marked by low cash accruals in FY18 & Q1FY19

IPCL's revenue from sale of power witnessed a marginal increase of ~1% in FY18 vis-à-vis FY17 mainly due to increase in the units sold for the regulated power business. PBILDT levels however deteriorated on account of increase in the employee expenses and power purchased cost (Rs.3.71/kwh in FY18 vis-à-vis Rs.3.51/kwh) which was not passed on in the tariff during the said period. This coupled with high interest cost, due to high level of borrowing, kept PAT at moderate levels. GCA remained weak at Rs.7.8 crore in FY18, after adjusting for a non-cash item of Rs.31.1 crore pertaining to liability no longer required written back. Interest coverage ratio also continued to remain weak at 0.75x in FY18 as against 0.78x in FY17. IPCL has a moderated capital structure characterized by high adjusted overall gearing of 2.01x as on March 31, 2018 (as against 1.9x as on March 31, 2017) mainly due to debt availed for investment in HEL. Also TD/GCA remained high at 83.08x as on March 31, 2018.

During Q1FY19, the company has reported PAT of Rs.6.3 crore on a Total Income of Rs.122.6 crore.

The company expects to add about 150 – 200 MVA load in its license area in next 12 -18 months on account of grant of connectivity to intra-State transmission system of PGCIL and increase in demand by various industrial consumers within the license area.

Analytical approach: Standalone while factoring linkages with group including corporate guarantees extended to group entities.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy of Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Infrastructure Sector Ratings
Financial ratios – Non-Financial Sector

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. It is currently operating as per the provisions of the West Bengal Electricity Regulatory Commission (WBERC) Regulations, 2011.

In 2010, Kanoria family of Kolkata acquired DPSC through its investment company, India Power Corporation Ltd (erstwhile IPCL) from Andrew Yule & Co. Ltd. In 2013, erstwhile IPCL got merged into DPSC and subsequently the name of DPSC was changed to IPCL.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	450.2	450.0
PBILDT	95.2	58.3
PBT (after exceptional item)	61.3	34.6
PAT	39.1	21.4
Overall gearing (times)	1.96	2.01
Interest coverage (times)	0.78	0.75

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

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.*

Analyst Contact:
Name: Abhishek Khemka
Tel: #033-40181610
Mobile: #9831099290
Email: abhishek.khemka@careratings.com

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

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-Cash Credit	-	-	-	154.46	CARE BBB (Under Credit watch with Negative Implications)
Non-fund-based - ST-BG/LC	-	-	-	126.54	CARE A3 (Under Credit watch with Negative Implications)
Fund-based - LT-Term Loan	-	-	June, 2025	171.97	CARE BBB (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	-	12.00%	-	0.00	Withdrawn
Debentures-Non Convertible Debentures	November 03, 2010	12.00%	September 19, 2022	80.00	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 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-Cash Credit	LT	154.46	CARE BBB (Under Credit watch with Negative Implications)	1)CARE A- (Under Credit watch with Negative Implications) (07-Apr-18)	1)CARE A; Negative (18-May-17)	-	1)CARE A+ (Under Credit Watch) (22-Mar-16) 2)CARE A+ (05-Aug-15)
2.	Non-fund-based - ST-BG/LC	ST	126.54	CARE A3 (Under Credit watch with Negative Implications)	1)CARE A2 (Under Credit watch with Negative Implications) (07-Apr-18)	1)CARE A2+ (18-May-17)	-	1)CARE A1+ (Under Credit Watch) (22-Mar-16) 2)CARE A1+ (05-Aug-15)
3.	Debentures-Non Convertible Debentures	LT	-	-	1)CARE A- (Under Credit watch with Negative Implications) (07-Apr-18)	1)CARE A; Negative (18-May-17)	-	1)CARE A+ (Under Credit Watch) (22-Mar-16) 2)CARE A+ (05-Aug-15)
4.	Debentures-Non Convertible Debentures	LT	80.00	CARE BBB (Under Credit watch with Negative Implications)	1)CARE A- (Under Credit watch with Negative Implications) (07-Apr-18)	1)CARE A; Negative (18-May-17)	-	1)CARE A+ (Under Credit Watch) (22-Mar-16) 2)CARE A+ (05-Aug-15)
5.	Fund-based - LT-Term Loan	LT	171.97	CARE BBB (Under Credit watch with Negative Implications)	1)CARE A- (Under Credit watch with Negative Implications) (07-Apr-18)	1)CARE A; Negative (18-May-17)	-	1)CARE A+ (Under Credit Watch) (22-Mar-16) 2)CARE A+ (05-Aug-15)
6.	Short Term Instruments-CP/STD	ST	-	-	-	1)Withdrawn (18-May-17)	-	1)CARE A1+ (Under Credit Watch) (22-Mar-16) 2)CARE A1+ (05-Aug-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691