India Power Corporation Ltd.(Revised)

May 18, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	338.43 (reduced from 352.00)	**CARE A; Negative (Single A; Outlook: Negative)**	**Removed from Credit watch and Revised from CARE A+ (Single A plus)**
Short-term Bank Facilities	131.0	**CARE A2+ (A two plus)**	**Removed from Credit watch and Revised from CARE A1+ (A one plus)**
Total Facilities	**469.43 (Rs. Four Hundred and Sixty Nine crore and Forty Three lacs only)**		
Outstanding NCD issue	100.0	**CARE A; Negative (Single A; Outlook: Negative)**	**Removed from Credit watch and Revised from CARE A+ (Single A plus)**
Proposed NCD issue	180.0		
Commercial Paper	0.0	**-**	**Withdrawn**
Total Instruments	**280.0 (Rs. Two Hundred and 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 of IPCL takes into account the moderation in the financial risk profile of the company during FY16 & 9MFY17 and stressed power industry scenario.

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, fully metered supply with satisfactory collection efficiency.

The ratings are constrained by exposure to regulatory risks, low power prices and exposure (fund based – Rs.319 crore & non-fund based – Rs.3,022 crore) in the group power generating companies having high power off take risk, coupled with risks associated with project implementation.

Ability of the company to complete the projects on a timely manner, improvement in the power offtake scenario and reduction in the current debt levels, followed by finalization of tariff by WBERC in a timely manner are the key rating sensitivities.

The ratings have been removed from credit watch post analyzing the impact of acquisition of Meenakshi Energy Ltd. on the company.

Outlook Negative:

The outlook on the long term rating is negative on expectation of deterioration in financial risk profile due to high debt levels in IPCL and power offtake risk in its group power generating companies. The outlook may be revised to stable in the event of reduction in the current debt levels with better visibility of the power selling arrangements.

For arriving at the ratings, CARE has combined the business and financial risk profile of IPCL and its group companies companies [India Power Corporation (Haldia) Ltd, Meenakshi Energy Ltd, India Power Corporation (BodhGaya) Ltd] as they are operating under common management and have strong financial linkages.

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

Detailed Description of key rating drivers

Key Rating Strengths

Group support & experienced promoters with long track record of operation

IPCL belongs to the Kolkata-based Srei Group, an established business house 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.

The company had Rs.180.65 crore outstanding as on March 31, 2016 towards Fuel and Power Purchase Cost Adjustment (FPPCA) account against which APR has been approved till FY12. WBERC has recently allowed Rs.27.95 crore of FPPCA to be recovered through tariff in four equal instalments starting from March 01, 2017.

Lower level of T&D loss

T&D loss continued to remain low at 2.31% in FY16 (2.31% in FY15) and well within permissible regulatory norm of 5.25%.

Full metered supply with satisfactory collection efficiency

IPCL's collection efficiency has remained excellent over the years. In case of the regulated business the same was at 99.0% in FY16 vis-à-vis 98.5% in FY15. However, considering collection from wind mill operations, which were transferred to IPCL (as part of reverse merger) during FY14, collection efficiency was ~94% in FY16. This is because revenue from Rajasthan based wind mills (60 MW) are collected with lag of 2-3 months.

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 (i.e. DVC & WBSEDCL) for direct sale of power cannot be ruled out in future. However, that entails cost of setting up new transmission lines in IPCL's area and permission from Regulatory Authority.

Proposed capex in IPCL

IPCL proposes to construction 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.75 crore (75:30 debt-equity ratio). IPCL has incurred Rs.1.3 crores till March 2017 and the project is expected to commission in Q2FY19.

Power Off take risk in its group power generating companies

IPCL has made an investment of Rs.307 crore (*as on March 31, 2017*) in IPCL-Haldia and has extended corporate guarantee for loans (~Rs. 3,022 crore) availed by Meenakshi Energy Ltd.

IPCL-Haldia is setting up a thermal power plant of 450MW in Haldia district of West Bengal at an project cost of Rs.3,307 crore (revised from Rs.2,656cr); being financed in the debt equity ratio of 70:30. The first unit of the project (150 MW) was synchronized in March 2017 (revised from envisaged timeline of Sep'16) and the remaining 300 MW is expected to be commissioned (in phases) by Oct'17. Till Sep 30, 2016, the company has expended Rs.2,933 crore (89% of the Total Project Cost) financed out of debt of Rs.1,726cr, creditors/others of Rs.205cr and Rs.1,002cr out of equity. The company currently does not have any long term Power Purchase Agreement (PPA). However in the interim, the company has signed short term PPA of 130 MW for tenure of 3 months (approved by WBERC). Given the power offtake risk on account of inadequate long term power offtake arrangements with repayment of loans commencing in FY18, the debt coverage indicators remain weak. However the company has requested the lenders to extend the repayment schedule based on revised COD.

MEL is currently operating 300MW (Phase I) thermal power project 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 favourable debt equity ratio of 42:58. The company has already incurred Rs.4,001 crore till Sep.30, 2016. Of the remaining Rs.1,500 crore to be incurred on the project, MEL has undrawn tied-up debt of Rs.172 crore and cash & bank balance of *Rs.1,429crore as on Sep.30, 2016*. The project is expected to be commissioned (in phases) by March 2018.

MEL currently has short term PPA's (Phase I) for 270MW, which is scheduled to end in May 2017. The company however has received a LoA from AP Discom for 200MW of capacity for tenure of 12 years, awaiting execution of PPA against the same. For Phase II, the company doesn't have any PPA. Phase II of the project has faced significantly time overruns in the past. Timely completion of the project along with signing of long term PPA for the phase II of the project would be crucial for the performance of the company.

Nevertheless, in view of current power market scenario, low power offtake by Discoms under PPAs and inordinate delays in payment of power procured under PPAs, the management is of the view that the long term PPAs are rather not in the interest of the generating companies. Further, in order to improve competitiveness and viability, various steps have been taken by the management for reducing the power generation cost.

Financial risk profile marked by decline in the profitability during FY16 & 9MFY17, with high gearing ratios
Revenue for sale of power witnessed ~7% decline (y-o-y basis) in FY16 mainly due to decline in the sale of power (units) for the regulated (HT/LT). The profitability of the company was impacted in FY16 mainly due to significant increase in interest cost during FY16 on account of increase in debt levels. Debt levels of the company increased from Rs.538.5 crore as on March 31, 2015 to Rs.856.2 crore as on March 31, 2016. As a result, interest coverage significantly deteriorated from 2.12x in FY15 to 0.98x in FY16.
Despite lower PBILDT and significant increase in interest cost, PBT level increased during FY16 due to income of Rs.52.8 crore pertaining to interest recoverable from IPCL-Haldia (which is non-cash in nature). GCA remained low (though positive) at Rs.1.3 crore during FY16.
Overall gearing further deteriorated from 2.26x as on Mar 31, 2015 to 2.97x as on Mar 31, 2016 due to increase in debt. Average utilization of the working capital limit was ~62% during March 2016 to February 2017.
During 9MFY17, the company has reported PAT of Rs.11.1crore [includes income of Rs.63.5 crore pertaining to interest recoverable from IPCL-Haldia] on a total Operating Income of Rs.358.3 crore. The company has also received Rs.267.4 crore from ENGIE Global Developments B.V as consideration towards completion of takeover of MEL. Going forward, debt coverage indicators would remain moderate on account of higher interest costs vis-à-vis level of cash flows.

Analytical approach: Consolidated [IPCL and its group companies - IPCL (Haldia), MEL and IPCL (Bodhgaya)]

Applicable Criteria
CARE's Policy on Default Recognition
Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
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 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-based SREI Group 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.
As on March 31, 2017, IPCL has investments (Equity/CCPS/FCCD) to the tune of Rs.319 crore (Rs.598 crore as on Mar'16) in its group companies, with major exposure in India Power Corporation (Haldia) Ltd (IPCL-Haldia) of Rs.307 crore (Rs.592 crore as on Mar'16).
During FY17, IPCL had acquired the entire equity stake (95.1% with face value of Rs.3,812 crore) of Engie Global Developments B.V. (Engie) in Meenkashi Energy Limited (MEL; erstwhile Meenkashi Energy Private Limited), for a price consideration of $1 (about Rs.67) and completed the acquisition process in Sep'16. MEL is implementing coal-based thermal power plants in Andhra Pradesh (in two phases); of which 300MW is operational since April 2013 and 700MW (2 X 350MW) is under implementation phase.
In FY16, IPCL achieved PAT (after defd tax) of Rs.31.9 crore (Rs.24.2 crore in FY15) on a Total Operative Income of Rs.585.6crore (Rs.627.4 crore in FY15).
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: Vineet Chamaria
Tel # 033 4018 1609
Mobile #9051730850
Email: vineet.chamaria@careratings.com

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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-Cash Credit	-	-	-	150.00	CARE A; Negative
Non-fund-based - ST-BG/LC	-	-	-	131.00	CARE A2+
Fund-based - LT-Term Loan	-	-	March 2031	188.43	CARE A; Negative
Debentures-Non Convertible Debentures	-	-	Proposed	180.00	CARE A; Negative
Debentures-Non Convertible Debentures	-	-	September 2022	100.00	CARE A; Negative
Short Term Instruments-CP/STD	-	-	-	50.00	Withdrawn

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	150.00	CARE A; Negative	1)CARE A; Negative (18-May-17)	-	1)CARE A+ (Under Credit Watch) (22-Mar-16) 2)CARE A+ (05-Aug-15)	1)CARE A+ (28-Oct-14)
2.	Non-fund-based - ST-BG/LC	ST	131.00	CARE A2+	1)CARE A2+ (18-May-17)	-	1)CARE A1+ (Under Credit Watch) (22-Mar-16) 2)CARE A1+ (05-Aug-15)	1)CARE A1+ (28-Oct-14)
3.	Debentures-Non Convertible Debentures	LT	180.00	CARE A; Negative	1)CARE A; Negative (18-May-17)	-	1)CARE A+ (Under Credit Watch) (22-Mar-16) 2)CARE A+ (05-Aug-15)	1)CARE A+ (28-Oct-14)
4.	Debentures-Non Convertible Debentures	LT	100.00	CARE A; Negative	1)CARE A; Negative (18-May-17)	-	1)CARE A+ (Under Credit Watch) (22-Mar-16) 2)CARE A+ (05-Aug-15)	1)CARE A+ (28-Oct-14)
5.	Fund-based - LT-Term Loan	LT	188.43	CARE A; Negative	1)CARE A; Negative (18-May-17)	-	1)CARE A+ (Under Credit Watch) (22-Mar-16) 2)CARE A+ (05-Aug-15)	1)CARE A+ (28-Oct-14)
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)	1)CARE A1+ (28-Oct-14)

CONTACT

Head Office Mumbai

Mr. Mehul Pandya
Cell: +91-98242 56265
E-mail: mehul.pandya@careratings.com

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

CREDIT ANALYSIS & RESEARCH LIMITED
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. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@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

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