India Power Corporation Ltd.

April 07, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	333.90 (reduced from 338.43)	**CARE A- (Single A minus) (Credit watch with Negative Implications)**	**Rating Revised from CARE A; Negative (Single A; Outlook: Negative) Placed on credit watch with negative implications**
Short-term Bank Facilities	131.0	**CARE A2 (A two) (Credit watch with Negative Implications)**	**Rating Revised from CARE A2+ (A two plus) Placed on credit watch with negative implications**
Total	**464.90 (Rs. Four Hundred and Sixty Four crore and Ninety lakh only)**		
Outstanding NCD issue	80.00 (reduced from 100.00)	**CARE A- (Single A minus) (Credit watch with Negative Implications)**	**Rating Revised from CARE A; Negative (Single A; Outlook: Negative) Placed on credit watch with negative implications**
Proposed NCD issue	180.00		
Total Instruments	**260.00 (Rs. Two Hundred and Sixty crore only)**		

Details of instrument/facilities in Annexure-1

<u>Detailed Rationale & Key Rating Drivers</u>

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 the ratings assigned to IPCL takes into account the moderate debt coverage indicators due to significant interest outgo on high level of borrowings. The ratings also factor in the 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 and risks associated with the ongoing projects. Further, the company has witnessed decline in demand in regulated power business in FY17 and 9MFY18.

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

IPCL had an outstanding corporate guarantee of Rs.2844.8 crore as on Mar.31, 2017 for the bank facilities of its subsidiary Meenakshi Energy Ltd (MEL) which is setting up a coal-based thermal power plant in Andhra Pradesh. IPCL has maintained that the aforesaid guarantee is not enforceable, as, based on application by IPCL, WBERC (vide order dated November 9, 2017), has directed IPCL not to issue corporate guarantee to any funding agencies without its prior approval.

CARE has placed the ratings 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 invocation of the same.

<u>Detailed Description of key rating drivers</u>

<u>Key Rating Strengths</u>

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.

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

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% in FY17 (*2.3% in FY16*) 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. However, considering collection from wind mill operation, collection efficiency was ~94% in FY17. 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 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.8.5 crores till Dec 2017 and the project is expected to commission in Q2FY19.

Power off-take risk in its subsidiary where IPCL has significant exposure

IPCL has extended corporate guarantee for loans availed by its subsidiary MEL. MEL is currently operating 300 MW (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 debt equity ratio of 42:58. The company has already incurred Rs.4,905 crore till Dec.31, 2017. Of the remaining Rs.595 crore to be incurred on the project, MEL has undrawn tied-up debt of Rs.168 crore and cash & bank balance of Rs.529 crore as on Dec.31, 2017. The project is expected to be commissioned (in phases) by June 2018. MEL currently doesn't have adequate power off take arrangement in place to operate the plant at satisfactory PLF levels. However, the company has entered into some short term PPA's and has also emerged as L1 bidder for supply of 200 MW power for a period of 13 years to Bangladesh.

IPCL had also extended advances of Rs.64 crore to MEL as on Mar.31, 2017 apart from the guarantee extended.

Receivables from other entities

Rs.184.5 crore was receivable since March 2017 on account of sale of investments in a group entity in FY17. During FY18, the company has further sold off its investments in the entity of Rs.306.82 crore. The total amount of Rs.491.32 crore is recoverable as on Feb.28, 2018. Recovery of these dues remains a key rating sensitivity.

Moderate debt coverage indicators

Revenue for sale of power witnessed a ~20% decline (y-o-y basis) in FY17 as against ~12% in FY16 occasioned out of decline in the sale of power (units) for the regulated (HT/LT) business on account of stressed power industry scenario. PBILDT levels and margin however improved on the back of considerable decline in the overall cost of power purchased post successful commissioning of the high powered sub-station at J.K. Nagar which facilitated the company to draw power from the state grid/open access at a very competitive rate.

The company, reported a profit of Rs.14.50 crore at operational PBT level during FY17, after netting off from interest outgo the interest receivable of Rs.63.54 crore from a group entity. Interest cost increased to Rs.121.9 cr in FY17 vis-à-vis 93.8 cr in FY16. PAT level, continued to remain positive mainly due to extraordinary item of Rs.267.34 crore pertaining to funds received from ENGIE Global Developments B.V as part of deal to acquire MEL. Accordingly GCA remained comfortable at Rs.219.7 crore during FY17. PBILDT interest coverage, though improved marginally, continued to remain weak in FY17 at 0.78 times as against 0.66 times in FY16.

The adjusted overall gearing ratio, though improved from 3.28x as on Mar.31, 2016, remained high at 1.96x as on March 31, 2017 mainly due to debt availed for investment in HEL.

During 9MFY18, the company has reported PAT of Rs.10.4 crore on a total operating Income of Rs.319.1 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 the group including corporate guarantees extended. Earlier, CARE had combined the business and financial risk profile of IPCL and its group companies [Hiranmaye Energy Ltd (HEL), Meenakshi Energy Ltd, India Power Corporation (Bodhgaya) Ltd] as they were operating under common management and had strong financial linkages. IPCL presently does not have any exposure to HEL and clarity is pending on guarantee extended to MEL.

Applicable Criteria
CARE's Policy on Default Recognition
Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
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. 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)	FY16 (A)	FY17 (A)
Total operating income	562.4	450.2
PBILDT	62.1	95.2
PBT (after exceptional item)	44.2	61.2
PAT	32.3	39.1
Overall gearing (times)	3.28	1.96
PBILDT Interest coverage (times)	0.66	0.78

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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.*

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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- (Under Credit watch with Negative Implications)
Fund-based - LT-Term Loan	-	-	Dec 2030	183.90	CARE A- (Under Credit watch with Negative Implications)
Non-fund-based - ST-BG/LC	-	-	-	131.00	CARE A2 (Under Credit watch with Negative Implications)
Proposed Debentures-Non Convertible Debentures	-	-	-	180.00	CARE A- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	-	-	Sep, 2022	80.00	CARE A- (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	150.00	CARE A- (Under Credit watch with Negative Implications)	-	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	131.00	CARE A2 (Under Credit watch with Negative Implications)	-	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	180.00	CARE A- (Under Credit watch with Negative Implications)	-	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 A- (Under Credit watch with Negative Implications)	-	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	183.90	CARE A- (Under Credit watch with Negative Implications)	-	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)

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