

## OPGS Power Gujarat Private Limited

April 12, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	1497.40 <sup>^</sup>	<b>CARE A-(SO); Stable</b> <b>[Single A minus (Structured Obligation);</b> <b>Outlook :Stable]</b>	Reaffirmed
Long-term Bank Facilities –Cash Credit	135.00 <sup>^</sup>	<b>CARE A-(SO); Stable</b> <b>[Single A minus (Structured Obligation);</b> <b>Outlook: Stable]</b>	Reaffirmed
Short term bank facilities	430.00 <sup>^</sup>	<b>CARE A2+(SO)</b> <b>[A two plus (Structured Obligation)]</b>	Reaffirmed
<b>Total Facilities</b>	<b>2062.40</b> <b>(Rupees Two thousand sixty two crore and forty lakh only)</b>		

<sup>^</sup> backed by Letter of Comfort (LoC) from OPG Power Ventures Plc (Rated CARE A; Stable)

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The rating of the long term bank facilities and short term bank facilities of OPGS Power Gujarat Private Limited (OPGS Gujarat) for aggregate amount of Rs. 2062.40 crore factors in credit enhancement in the form of letter of comfort provided by OPG Power Ventures PLC (OPGPLC).

The credit profile of OPG Power Ventures PLC (OPGPLC) derives strength from its experienced promoters and management, diverse location of power generation assets, diversified client base (industrial consumers) which ensures lower consumer concentration risk, reasonable track record of commissioned projects, presence of off-take arrangements by way of Power Purchase Agreements (PPA) for a large portion of the operational capacity, and a satisfactory financial risk profile with moderate leverage and debt coverage indicators.

The rating, however, is constrained by the weak credit profile of one of the key customers - TANGEDCO (80MW), limited track record of operations of the Gujarat based power plants, and exposure to volatility in fuel price and foreign currency exchange rate movements on account of reliance on imported coal.

Steady performance of the completed projects and the extent of support required for the new projects are the key rating sensitivities.

### Detailed description of the key rating drivers of the LoC provider – OPG Power Ventures PLC

#### Key Rating Strengths

**Experienced promoters:** OPGPL is part of the OPG group, founded by the Late Mr. Om Prakash Gupta, which has been in operations for over five decades. All the power generation companies of the OPG group are grouped as subsidiaries under OPG Power Ventures PLC (OPGPLC; rated CARE A), which is listed in the Alternative Investment Market (AIM) of London. In FY16, the group has also commissioned 300 MW (2\*150 MW) thermal power unit in the state of Gujarat.

**Presence of power purchase agreements (PPA) with diverse industrial consumers and TANGEDCO at remunerative tariffs:** Of the total 714MW, one of the SPV's of OPGPL, OPG Power Generation Private Limited (OPGPL) sells 80 MW to TANGEDCO under long term PPA. The contract allows pass through of inland/ overseas transportation charges and fuel handling charges. The balance 334 MW (from Tamil Nadu Power plant) is sold to others customers (under group captive) model at the rate of 5.1/kWh while 192 MW from OPGPLC's another SPV, OPG Power Gujarat Pvt. Ltd. (OPGPGL) is sold to industrial customers at a tariff rate of Rs4.8/kWh.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Counterparty credit risk associated with sale of power to TANGEDCO reduces in FY17:** Till FY16, OPGPL was selling 157MW to TANGEDCO which has significant operating and accumulated losses, thus exposing it to credit risk associated with TANGEDCO. However, the counter-party risks associated with TANGEDCO is mitigated from June 2016 onwards since 77MW out of 157 MW (which was under short term PPA to TANGEDCO) is now sold to industrial consumers.

**Low fuel risk due to presence of fuel supply agreements:** OPGPLC has tied up for domestic coal supply for tenure of 5 years with Mahanadi Coalfields Limited, for Unit I – III (Imported: Domestic coal ratio is 65:35) while Unit IV (entirely) is based on imported coal. On the other hand, the Gujarat power plant's 300MW is operating currently on 100% imported coal.

**Comfortable financial performance:** Total Operating Income of OPGPLC witnessed growth of 31% in FY16 mainly on account of commissioning of 180 MW in Chennai and 150MW in Gujarat. With remunerative tariff rate and relatively lower cost of generation, profitability remained at healthy levels with PBILDT margin of 37.34% for FY16. Going forward, the debt is expected to increase marginally on account of debt taken for Karnataka Solar Project – 62MW.

#### **Key Rating Weaknesses**

**Increase in international thermal coal prices coupled with forex volatility would impact profitability:** Both the SPVs rely on imported coal whose prices have increased considerably since June 2016. They have been importing lower GCV coal based on its technologically advanced configuration in the boilers. Although the demand for lower GCV coal is lower and is available at lower prices, any increase in thermal coal prices would put pressure on the profitability of the SPVs. Further, a large portion of the company's working capital limits are in the form of LCs/ buyers credit for import of coal which is currently 100% hedged at present.

**Analytical approach:** The rating of the bank facilities of OPGPGL is based on the assessment of OPGPLC which has given a letter of comfort for the said facilities. While assessing OPGPLC, the financials of its two SPVs, OPG Power Generation Private and OPGS Power Gujarat Private Limited have been consolidated.

#### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for Private Power Producers](#)

#### **About the Company - OPGPGL**

OPGS Power Gujarat Pvt Ltd (OPGPGL) is a 62.07% subsidiary of Gita Power and Infrastructure, which is a wholly owned subsidiary controlled by OPG Power Ventures PLC (OPGPLC; rated CARE A). Under OPGPGL, the group has developed its second green-field thermal power plant. It comprises of two units with a capacity of 150MW each. One of the units was commissioned in April 2015 and the other plant started operations in January 2016 and stabilized in June 2016.

As on December 31, 2016, OPGPGL has PPAs in place for 192 MW of the total capacity with group captive customers (PPAs with additional group captive customers currently are under negotiation) at tariffs linked to DISCOM rates. The company has Letter of Assurance (LOA) from South Eastern Coalfields Ltd for coal supply. Additionally, the company has tied up for imported coal supplies amounting to the entire required quantity.

#### **Background - OPGPLC**

OPG Power Ventures PLC (OPGPLC), promoted by Mr. O.P. Gupta and his son Mr. Arvind Gupta, is set up to develop and operate power plants in India. OPGPLC is the holding company, located in Isle of Man, UK Territory. It is listed on London Stock Exchange and has raised equity in two stretches - May 2008 & June 2011 aggregating to £ 130 MN under AIM (Alternative Investment Market) route. The promoters hold 50.90% stake in this company.

OPGPLC's SPV viz OPG Power Generation Private Limited (rated CARE A+; Stable/A1) has 414 MW thermal power plant in Chennai (4 Units); Unit 1 & 2 of 77MW each, Unit 3 of 80MW and Unit 4 of 180MW. Additionally, its another SPV OPGS Power Gujarat Pvt. Ltd. has recently commissioned 300 MW (2 units of 150MW each) of thermal power plant in Gujarat.

In addition, OPGPLC plans to invest GBP 37mn (Rs 300 crore) for two solar power projects, one in Karnataka with a capacity of 62MW and another in Jharkand with a capacity of 124MW.

Additionally, OPGPLC has entered into a JV arrangement with Noble Chartering in August 2014, a subsidiary of Noble Group, to secure attractive long term rates for international freight. The Company has previously used, for its coal shipments, vessels contracted through Noble Chartering. Under the Long Term Freight Arrangement ("LTFA"), between them, OPGPLC and Noble are to purchase and own, jointly and equally, two 64,000t cargo vessels. After scheduled delivery of the vessels in May 2017 and Dec -17, by virtue of the project based nature of the freight arrangement, OPGPLC will be charged an LTFA rate under the JVA for the shipment of its imported coal cargo which is expected to be lower than the long term contract rates that are currently available to the company.

During FY16, OPGPLC reported total operating income of GBP 132 mn and PAT of GBP 16 mn as against total operating income of GBP 101 mn and PAT of GBP 28 mn during FY15.

During FY16, OPGPGL reported total operating income of Rs.95.2 crore and loss of Rs.42.2 crore.

**Status of non-cooperation with previous CRA: NA**

**Any other information: NA**

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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-Term Loan	-	-	March 2036	1497.40	CARE A- (SO); Stable
Fund-based - LT-Cash Credit	-	-	-	135.00	CARE A- (SO); Stable
Non-fund-based - ST-BG/LC	-	-	-	430.00	CARE A2+ (SO)

**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-Term Loan	LT	1497.40	CARE A- (SO); Stable	-	1)CARE A- (SO) (10-May-16)	-	-
2.	Fund-based - LT-Cash Credit	LT	135.00	CARE A- (SO); Stable	-	1)CARE A- (SO) (10-May-16)	-	-
3.	Non-fund-based - ST-BG/LC	ST	430.00	CARE A2+ (SO)	-	1)CARE A2+ (SO) (10-May-16)	-	-
4.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE BBB- (Is); Stable	-	1)CARE BBB- (Is); Stable (15-Mar-17)	-	-

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