

## Parsa Kente Collieries Limited

January 06, 2020

### Ratings

| Facilities                             | Amount (Rs. Crore)                                                        | Ratings <sup>[1]</sup>                                                        | Rating Action                                                                          |
|----------------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| Long Term / Short Term Bank Facilities | 385.00                                                                    | CARE BBB; Positive / CARE A3+<br>[Triple B; Outlook: Positive / A Three Plus] | Revised from CARE BBB; Stable / CARE A3+<br>[Triple B; Outlook: Stable / A Three Plus] |
| <b>Total Facilities</b>                | <b>385.00</b><br><b>[Rupees Three Hundred and Eighty Five Crore Only]</b> |                                                                               |                                                                                        |

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings continue to derive strength from the strong parentage of Parsa Kente Collieries Limited (PKCL) being a 74% joint venture (JV) of Adani Enterprises Limited [AEL; rated CARE A; Stable / CARE A1], financial support extended by AEL to PKCL, extensive experience of the Adani Group in the energy value chain, ramp-up in the scale of coal mining operations of the Parsa East and Kenta Basan (PEKB) coal block by AEL in FY19 along-with consequent improvement in its total operating income, profitability and cash accruals, receipt of favorable order of Hon'ble Supreme Court of India with respect to price escalation claim of PKCL, PEKB coal block being economically viable source of coal for RRVUNL to whom the coal block is allocated and presence of a pass-through payment mechanism for receipts from RRVUNL towards mining fees and reimbursements; with PKCL retaining a fixed 4% of mining fees with itself.

The ratings are, however, constrained on account of weak financial risk profile of PKCL's sole counterparty i.e. Rajasthan Rajya Vidyut Utpadan Nigam Limited [RRVUNL; rated CARE BBB+ (CE); Stable / CARE A3+ (CE) / CARE D (Unsupported Rating)], working capital intensive nature of its operations, leveraged capital structure due to its low capital base and regulatory risk associated with any cancellation of forest clearance granted to RRVUNL for the PEKB coal block with the matter being currently sub-judice.

### Rating Sensitivities

#### Positive Factors

- Significant improvement in the financial risk profile of PKCL's off-taker
- Supply of coal mining volumes above the contracted volumes on a sustained basis

#### Negative Factors

- Increase in operating cycle leading to significant increase in working capital borrowings
- Decline in the coal mining volumes below the contracted volumes on a sustained basis

### Outlook: Positive

The outlook on the rating has been revised to 'Positive' based on the expectation that PKCL shall be able to consistently maintain the mine throughput and sustain the volumes to the contracted levels in the medium term. The outlook may be revised to 'Stable' if there is a significant decline in the coal mining volumes below the contacted volumes.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Strong promoter group with diversified business operations

PKCL is a JV company between AEL and RRVUNL with AEL holding 74% and RRVUNL holding balance 26% equity. The primary sponsor i.e. AEL is the flagship company of the Adani Group. Incorporated in 1993, AEL is being chaired by Mr. Gautam Adani. AEL, on a standalone basis, has mainly Integrated Coal Management (ICM), Mine Developer and Operator (MDO) and power trading businesses, whereas, Adani Group as a whole is engaged in diversified areas of businesses and operates in a range of sectors, primarily energy including domestic and overseas coal mining, power generation, transmission and distribution, port operations, logistics, oil & gas exploration and city gas distribution etc. through various group entities. Adani Group is also involved in businesses such as agro-processing & storage, commodities trading, solar cell & module manufacturing, shipping, bunkering, roads, sewage treatment, defence etc.

##### Economically viable source of coal for RRVUNL

As per the terms of contractual arrangement, PKCL has agreed to supply mined coal from the PEKB coal block to RRVUNL at a pre-defined rate of mining fees plus transportation cost and duties & taxes at actuals. The rate of mining fees is

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

escalable linked to wholesale price index (WPI) and consumer price index (CPI) on a yearly basis. The rate of mining fees which is currently being charged by PKCL to RRVUNL is lower compared to the prevailing price being charged by Coal India Limited (CIL) for similar grade of coal. Accordingly, it is the most economical source of coal for generation of power by RRVUNL which substantiates the continuation of this business arrangement for a reasonably long period of time.

***Presence of a pass-through payment mechanism for receipts from RRVUNL***

Since the coal block is now operational, PKCL's current role is to primarily facilitate the payment flow from RRVUNL to all involved parties and manage the payment receipt risk from RRVUNL. PKCL recognizes only the mining fees as its total operating income whereas the entire charges receivable from RRVUNL (including railway freight, road freight along-with duties & taxes) are accounted as receivables in its books. Also, the payables of PKCL comprises of payments to be made to AEL viz. railway freight and 96% of the total mining fees (as PKCL retains a fixed 4% of the total mining fees with itself as its income for services rendered by it). Hence, the operations of PKCL are largely in the form of a facilitator. For any delay in receipt of payment from RRVUNL, it has flexibility of delaying payment to AEL.

***Ramp-up of coal mining operations at the PEKB coal block by AEL as per the Coal Mining Services Agreement (CMSA) during FY19 along-with growth in total operating income, profitability and cash accruals***

As per the Coal Mining and Delivery Agreement (CMDA), PKCL is required to supply certain minimum quantity of coal every year to RRVUNL's plant. And hence, the revenue of PKCL is dependent on successful ramp-up of the coal mining operations at the PEKB coal block by AEL. The total quantity of coal mined during FY17 and FY18 was lower at 7.33 million tonne (MMT) and 7.04 MMT respectively as against the minimum required coal mining quantity of 8.65 MMT and 10.50 MMT respectively primarily due to transportation bottlenecks wherein there was delay in completion of one stretch of 37 km railway corridor (Sarguja Rail Corridor) from the mines to the nearest rail-head by another Adani Group company. However, the said rail corridor was completed by end FY18 which has consequently resulted in growth in coal dispatch volume to 12.13 MMT during FY19 which is more than the annual committed volume of 10.50 MMT for FY19. However, on account of extended monsoon in FY20, the coal mining volumes declined to 4.71 MMT in H1FY20.

Due to delay in completion of the above stretch of railway line, RRVUNL floated tender for road transportation of coal for this stretch and the same was facilitated by PKCL. Consequently, till March 2018 no penalty on account of any short supply of coal has been levied by RRVUNL on PKCL. Going forward, achievement of minimum required coal supply to RRVUNL and RRVUNL's future stance on any short supply of coal shall be a key monitorable.

Apart from increase in the coal mining volumes, there has been an increase in the rate of coal mining fees of PKCL during FY19 over FY18. The increase in coal mining volumes along-with increase in the rate of coal mining fees has led to consequent increase in the total operating income, profitability and cash accruals of PKCL during FY19. PKCL's total operating income and gross cash accruals improved from Rs.842.91 crore and Rs.2.57 crore respectively in FY18 to Rs.1,555.10 crore and Rs.20.07 crore respectively in FY19. Its PAT margin and interest coverage ratio improved from 0.29% and 1.45 times respectively in FY18 to 1.28% and 2.02 times respectively in FY19. Profitability and cash accruals in FY19 were higher as compared to FY18 also due to write-off of prior period income of Rs.5.70 crore after the adverse order of Hon'ble High Court of Rajasthan dated February 28, 2018 with respect to escalation benefits for disputed base price of coal for the period of FY14 to FY17 and higher legal and professional expenses of Rs.3.00 crore towards the proceedings of the court in this matter. However, on May 27, 2019, PKCL has received favorable order from Hon'ble Supreme Court of India with respect to price escalation claim for its coal MDO business related to PEKB coal block. The performance of PKCL is expected to improve further in FY20 on the basis of the aforesaid order.

**Key Rating Weaknesses**

***Leveraged capital structure primarily due to its nature of business***

As per the arrangement, PKCL passes on all the payments received from RRVUNL except 4% of the mining fees, with which it services its interest obligations. Accordingly, build-up of its net-worth is very minimal. Also, till FY15, PKCL was fully passing on the delayed payment charges received from RRVUNL to AEL since it had no working capital limit sanctioned initially. However, subsequently, PKCL had availed working capital limit of Rs.100 crore during FY16 to make timely payment to AEL. In order to meet its increasing working capital requirement and timely payment to AEL, PKCL has enhanced its working capital limit to Rs.185 crore from banks as on March 31, 2017. With the ramp up in the scale of coal mining operations upon completion of the construction work of the railway corridor, PKCL has further enhanced its working capital limits by Rs.200 crore thereby taking its total sanctioned working capital limits to Rs.385 crore as on March 31, 2018. As on March 31, 2019, PKCL had outstanding unsecured loans of Rs.175.21 crore [PY: Rs.80.34 crore] from group companies out of which Rs.60 crore is subordinated to its bank borrowings and are considered as 'quasi equity' (as per sanction stipulation of bank). On account of ramp-up in its coal mining volumes along-with delay in receipt of payment from RRVUNL, the working capital requirement of PKCL increased in FY19 leading to increase in its working capital bank borrowings and unsecured loans resulting in moderation in its capital structure. Its overall gearing moderated to 3.47 times as on March 31, 2019 as compared to 2.03 times as on March 31, 2018. The overall gearing improved to 2.95 times in H1FY20 due to increase in the net-worth base.

**Weak credit risk profile of the counterparty**

PEKB coal block has been allocated to RRVUNL to meet the coal requirements of its thermal power stations in Rajasthan viz. Chhabra Phase-II and Kalisindh. RRVUNL, the only counter-party for PKCL, has a below average credit risk profile. Financial risk profile of RRVUNL had weakened during FY15 and FY16 upon disallowance of some cost by Rajasthan Electricity Regulatory Commission (RERC). Subsequently, it showed shown improvement in FY17 and continued to improve in FY18 also with PAT margin of 6.12% [PY:1.78%] and interest coverage of 1.68 times [PY:1.51 times] during FY18 on a consolidated basis. However, RRVUNL's financial risk profile has deteriorated during FY19 marked by PBILDT and PAT margin of 33.08% and 1.91% respectively along-with interest coverage ratio of 1.47 times. RRVUNL, being a Government of Rajasthan (GoR) entity, has not defaulted in its payments to PKCL till now; although payments have been received with delay beyond normal credit period. However, RRVUNL is liable to pay delayed payment charges as per the terms of the agreement. PKCL has billed a sum of ~Rs.87 crore and ~Rs.92 crore as delayed payment charges during FY19 and H1FY20 as compared to ~Rs.33 crore during FY18.

**Regulatory risk associated with any cancellation of forest clearance of PEKB coal block in the future**

An appeal had been filed before the National Green Tribunal (NGT), New Delhi against grant of forest clearance to RRVUNL in respect of PEKB coal block. NGT vide its order had passed direction for setting aside of forest clearance, remanding back the case to Ministry of Environment and Forests (MoEF) and directed stoppage of work at the mine site. Against the above order of NGT, RRVUNL has filed appeal before Hon'ble Supreme Court of India which has given stay over the order of NGT. Appeal filed by RRVUNL before the Hon'ble Supreme Court of India is pending for adjudication. Any adverse outcome with respect to cancellation of environment clearance for the block may result in disruption of operations. However, as per the terms of the CMDA, PKCL shall be entitled to recover the capital cost incurred for the block from RRVUNL in case of cancellation of the block.

**Liquidity: Adequate**

As per its business model, PKCL is required to make upfront payment towards reimbursable expenditure like duties & taxes whereas it receives the payments from RRVUNL with some time lag which essentially leads to working capital intensive nature of its operations and with increasing scale of its operations, its working capital intensity has also increased. Accordingly, PKCL has got its working capital limits enhanced from Rs.185 crore to Rs.385 crore to take care of any delay in payment by RRVUNL. With respect to payment of 96% of mining fees & railway freight, it pays the same to AEL upon receipt of the same from RRVUNL. Hence, any delays in payments by RRVUNL are managed through extended credit period and unsecured loans from AEL apart from working capital borrowings. Although the operating cycle of PKCL marginally increased from 59 days in FY18 to 62 days in FY19, its average utilization of working capital limits (fund based and non-fund based) has reduced from 95.83% during 12 months ended September 2018 to 66.07% during 12 months ended September 2019 on the back of improved collections from RRVUNL mainly during Q2FY20. Going forward, with the expected growth in its scale of operations, PKCL's working capital requirement is also expected to increase. Accordingly, payment track record from RRVUNL would be one of the key rating monitorable.

**Analytical Approach:** Standalone along-with support from its parent viz. AEL in the form of unsecured loans and extended credit period

**Applicable Criteria**

[Criteria on Assigning 'Outlook' and 'Credit Watch'](#)

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

[Rating Methodology - Service Sector Companies](#)

[Rating Methodology - Consolidation and Factoring Linkages in Ratings](#)

[Criteria for Short Term Instruments](#)

[Financial Ratios - Non-Financial Sector](#)

**About the Company**

The PEKB coal block in Chhattisgarh is allocated by the Ministry of Coal (MoC), Government of India (GoI) to RRVUNL to mainly meet the coal requirement of RRVUNL's thermal power plants viz. Chhabra Phase-II (500 MW) and Kalisindh (2 units x 600 MW) in Rajasthan. In May 2006, RRVUNL had issued a tender to appoint a JV partner for mine development and operation of the PEKB coal block, transportation and delivery of the coal to its thermal power stations, through a competitive bidding process. The selection of the successful bidder by RRVUNL for development and operation of PEKB coal block was based on the quoted price of coal for the first year of coal mining operations. Based on the quotes received from AEL, it was awarded the contract by RRVUNL. Subsequently, in accordance with the terms of the bid, PKCL was incorporated on October 16, 2007 as a JV company between AEL and RRVUNL with AEL and RRVUNL holding 74% and 26% stake respectively. The primary objective of PKCL is to act as the MDO of the PEKB coal block along-with responsibility of transportation and delivery of the coal to RRVUNL's thermal power stations. Subsequently, in July 2008, PKCL entered into a CMDA with RRVUNL for a period of 30 years. In July 2009, PKCL sub-contracted the MDO work to

erstwhile Adani Mining Private Limited (AMPL, which used to be a 100% subsidiary of AEL, however subsequently it was merged with AEL during business restructuring of the Adani Group w.e.f. April 01, 2015) by way of entering into a CMSA for development and operation of the PEKB coal block and supply of coal to the designated thermal power plants of RRVUNL for a period of 30 years, in accordance with the terms of the CMDA. AEL commenced coal mining operations in FY13 and coal mining volumes have gradually improved.

| Brief Financials - PKCL (Rs. Crore) | FY18 (A) | FY19 (A) |
|-------------------------------------|----------|----------|
| Total Operating Income              | 842.91   | 1,555.10 |
| PBILDT                              | 28.23    | 62.08    |
| PAT                                 | 2.41     | 19.93    |
| Overall Gearing (times)             | 2.03     | 3.47     |
| Interest Coverage (times)           | 1.45     | 2.02     |

A: Audited

As per provisional results for H1FY20, PKCL reported total operating income of Rs.831.84 crore with a PAT of Rs.20.90 crore.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

#### Annexure-1: Details of Facilities

| Name of the Bank Facilities     | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---------------------------------|------------------|-------------|---------------|-------------------------------|-------------------------------------------|
| Fund-based/Non-fund-based-LT/ST | NA               | NA          | NA            | 385.00                        | CARE BBB; Positive / CARE A3+             |

NA: Not Applicable

#### Annexure-2: Rating History of last three years

| Sr. No. | Name of the 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-Working Capital Limits      | LT              | -                              | -                             | -                                         | 1)Withdrawn (26-Apr-18)                                          | 1)CARE BBB (29-Nov-17)                    | 1)CARE BBB (12-Aug-16)                    |
| 2.      | Fund-based/Non-fund-based-LT/ST             | LT/ST           | 385.00                         | CARE BBB; Positive / CARE A3+ | 1)CARE BBB; Stable / CARE A3+ (03-Apr-19) | 1)CARE BBB; Stable (06-Dec-18)<br>2)CARE BBB; Stable (26-Apr-18) | 1)CARE BBB (29-Nov-17)                    | 1)CARE BBB (12-Aug-16)                    |
| 3.      | Fund-based - LT-Working Capital Demand loan | -               | -                              | -                             | -                                         | -                                                                | 1)Withdrawn (29-Nov-17)                   | 1)CARE BBB (12-Aug-16)                    |

**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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