

# Infomerics Valuation And Rating Pvt. Ltd.

## Press Release

### India Power Corporation Limited

December 24, 2018

## Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Current Rating	Rating Action
1.	Fund Based Facilities-Line of Credit	165.00*	IVR BBB/(Credit Watch with Negative Implications) [IVR Triple B/ (Credit Watch with Negative Implications)]	Revised from IVR A/Negative Outlook (IVR Single A with Negative Outlook)
	<b>Total</b>	<b>165.00</b>		

\*present outstanding

## Details of Facilities are in Annexure 1

## Detailed Rationale

The revision in the rating factors in the decline in profitability due to surge in interest costs and fall in tariff resulting in weakening debt protection metrics. The revision further takes into account the delay in debt servicing by the company's erstwhile subsidiary, Meenakshi Energy Ltd, and account turning NPA and project implementation risks.

The rating continues to factor in long standing of the promoters in infrastructure financing and power sector, adequate power selling arrangements, low T&D loss, moderate liquidity buffer and high collection efficiency.

Improvement in the company's financial profile and debt protection metrics along with timely implementation of ongoing project are the key rating sensitivities.

Infomerics has placed the rating assigned to IPCL under "Credit Watch with Negative Implications" due to the impending status of the company's erstwhile subsidiary Meenakshi Energy Ltd. (MEL), wherein the share pledge was invoked and the ownership of the company was transferred to its lenders and the likelihood of crystallising of MEL's liability on IPCL.

## Key Rating Drivers and Detailed Description

## Key Rating Strengths

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### ***Long standing of the promoters in Infrastructure financing and Power sector***

The promoters of IPCL have a long standing experience in infrastructure financing and power sector. The erstwhile IPCL, incorporated in 2003 & belonging to the promoters of the SREI group, was mainly operating windmills under lease. The promoters of IPCL acquired Dishergarh Power Supply Co. Ltd in 2010 through the disinvestment process initiated by Andrew Yule & Co Ltd.

### ***Group Support***

The SREI group, based out of Kolkata with over 25 years' experience, has major interest in leasing & financial services, while over the recent years, it has also gained experience in power and real estate construction. With long-standing experience, the group works cohesively with IPCL.

### ***Adequate power selling arrangement***

IPCL sells thermal power (both own generation and bought-out) to various High Tension and Low Tension consumers. As for its wind power capacity, it has long term PPAs in place with various state owned power distribution companies and hence, it has not witnessed any difficulty in selling power. As for its solar power, its output is sold to West Bengal Green Energy Development Ltd.

### ***Low T&D loss***

The T&D loss of the company has generally been low ranging between 2.31-3.15% during the last three years. It is well within the 5.25% norm fixed by the W.B. Electricity Regulatory Commission.

### ***High collection efficiency***

IPCL demonstrated satisfactory performance in terms of collection of receivables from power which was about 99% of its demand. Its average receivable collection period ranged in the vicinity of 30-45 days during the last three years.

### ***Moderate liquidity buffer by way of considerable amount of unutilised working capital bank limit***

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The company has a fund based working capital bank limit of Rs.167 crore with average utilization being in the range of 52% during the last 12 months ended July 2018. In spite of this, the company had to resort to refinancing in order to timely service its debt obligations.

### **Key Rating Weaknesses**

#### ***Project implementation risks***

The company is currently setting up a transmission line from its JK Nagar sub-station to the Eastern Railways traction sub-station at Pandabeshwar in Burdwan District of West Bengal. IPCL has an agreement with Eastern Railways for supply of 132 KV, 3-phase power to the traction substation of Eastern Railways at Pandabeshwar. The estimated cost of project is Rs.68.91crores which is likely to be entirely funded through internal accruals, Till FY18 end, Rs.40 crore has been spent. The COD of the project is March 2019.

#### ***Weakening debt protection metrics***

The capital structure of IPCL, both on standalone and consolidated basis, was impacted in view of substantial amount of debt taken for implementing large projects through the associate and subsidiary companies. The position was impacted more in view of funding a part of the equity for the projects out of borrowings in IPCL's books (standalone); whereas, major portion of the projects were yet to commence operation and generate accruals. Further, delays in cash flows generation from these projects and lower level of accruals from existing operation (due to surge in interest cost and fall in tariff) led to weakening in debt protection matrices and resorting to refinancing for timely debt servicing.

#### ***Default in erstwhile subsidiary company***

Meenakshi Energy Ltd, (MEL) a subsidiary company of IPCL had defaulted in the recent past. Consequently, the share pledge clause got triggered and the ownership of the company has been transferred to the lenders and the MEL has ceased to be a subsidiary of IPCL.

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### Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Default Recognition and Post-Default Curing Period

### Liquidity

The profitability of the company got adversely impacted in the recent past due to decline in tariff, on one hand, and surge in interest expenses, on the other. Resultantly, the cash accruals was lower leading to a pressure on its debt protection parameters. The company has managed to contain utilisation of its fund based bank limit (average being in the range of 52%), providing a liquidity buffer for any eventuality. It is also trying to improve its working capital position by liquidating a part of its regulatory asset. Overall, the company is expected not to encounter any difficulty in meeting its near-term debt obligation.

### About the Company

IPCL, the merged entity of erstwhile IPCL and DPSC Ltd. (DPSC), currently belongs to the promoters of SREI group. The erstwhile IPCL was incorporated in 2003, while DPSC was incorporated way back in 1919. DPSC, previously belonging to AYCL- a Govt. of India undertaking, was taken over by the current promoters in 2010 through the disinvestment process initiated at the instance of Govt. of India. The current promoters have major interest in leasing & financial services, power and real estate construction. IPCL is currently, engaged in the businesses of generation, transmission and distribution of electricity. It, currently, has 109.20 MW of power generating capacity (wind power of 95.20 MW, thermal power of 12 MW and solar power of 2 MW).

### Financials (Standalone)

(Rs. Crore)

For the year ended / As On	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	496.95	497.15

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EBITDA	95.18	105.40
PAT	39.12	21.34
Total Debt	598.97	634.61
Long Term Debt	485.68	433.06
Tangible Networth	1119.87	1141.19
<b>Ratios (%)</b>		
EBITDA Margin (%)	21.14	21.20
PAT Margin (%)	7.58	4.10
Long Term Debt Equity Ratio (x)	0.43	0.38
Overall Gearing Ratio (x)	0.53	0.56

Classification as per Infomerics' standards

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

**Any other information:** Nil

**Rating History for last three years:**

S. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term fund-based facilities-Line of Credit	Long Term	165.00	IVR BBB/ Credit Watch with Negative Implications	IVR A/ Negative Outlook (July 05, 2017, earlier rated amount Rs.225 crore)	--	--

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments/facilities rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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## Infomerics Valuation And Rating Pvt. Ltd.

### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term fund-based facilities- Line of Credit	--	--	Maximum tenure of 7 years, renewable annually	165.00	IVR BBB/ Credit Watch with Negative Implications