Press Release

India Power Corporation Ltd.

July 5, 2017

Rating

Instrument / Facility	**Amount**	**Rating**	**Rating Action**
Long-term Credit Facility of Axis Bank	Rs.225.00 crores	IVR A/Negative Outlook (pronounced IVR Single A with Negative Outlook)	Assigned

Details of Instrument are in Annexure 1

Infomerics Valuation and Rating Pvt. Ltd. has assigned IVR A/Negative Outlook (pronounced IVR Single A with negative outlook) rating to the outstanding Rs.225.00 crores Long-term credit facility of India Power Corporation Ltd (IPCL). Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

Detailed Rationale

The rating derives comfort from the established & long track record of the company, group support, adequate power selling arrangements for the existing operations, low T&D losses & high collection efficiency, considerable amount of unutilised working capital bank limit providing moderate liquidity buffer and improvement in EBIDTA margin. The rating also takes into consideration the risks associated with implementation of large power projects, lack of adequate PPAs for these projects and relatively low debt protection matrices though improving. The outlook is negative on account of the high debt funded projects being implemented through its subsidiary/associate companies and lack of adequate PPAs for these projects. Project implementation in timely manner, tying up of PPAs for these projects and improvement in financial and debt protection matrices are the key rating sensitivities.

List of Key Rating Drivers

- ✓ Established & long track record of the company.
- ✓ Cohesive working of the group with IPCL.
- ✓ Adequate Power Purchase Agreement (PPA).
- ✓ Satisfactory Transmission & Distribution (T & D) loss and high collection efficiency.
- ✓ Relatively low debt protection matrices, however FY17 characterised by improvement in EBIDTA margin and debt protection parameter.
- ✓ Considerable amount of unutilised working capital bank limit providing modest liquidity buffer.
- ✓ Risks associated with implementation of large power projects.
- ✓ Lack of adequate PPAs in the group companies.
- ✓ Continuing buoyancy for power demand in India.

Detailed Description of Key Rating Drivers

Long presence in the market: IPCL is the renamed entity arising out of the reverse merger of the erstwhile DPSCL and the erstwhile IPCL. DPSCL, incorporated in 1919, was predominantly engaged in distribution of power, besides having some power generating capacity. It was owned by AYCL – a Govt. of India undertaking, LIC and other insurance companies. The erstwhile IPCL incorporated in 2003 & belonging to the promoters of SREI group, was mainly operating windmills under lease arrangements. The promoters of IPCL acquired DPSCL in 2010 through the disinvestment process initiated by AYCL, at the instance of Govt. of India.

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

Adequate power selling arrangement for the existing operations: IPCL sells the thermal power (both own generation and bought-out) to various HT and LT consumers. As for its wind power capacity, it has adequate PPAs in place with various state owned power distribution companies and hence, it does not encounter any difficulty in selling power.

Low T&D losses: The T&D loss of the company has generally been low ranging between 2.31-3.5% 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%. Its average receivable collection period ranged in the vicinity of 50-60 days in the last three years.

Moderate liquidity buffer by way of considerable amount of unutilised working capital bank limit: The company has a fund based working capital bank limit of Rs.150 crores with average utilisation being in the range of 59% in the last 12 months. This provides a moderate liquidity buffer.

Improvement in EBIDTA margin and debt protection parameters: The company has exhibited some improvement in EBIDTA margin and debt protection parameters like Long-term debt/Gross Cash Accruals and Long-term debt/EBITDA in FY17 vis-à-vis FY16 (Audited).

Project implementation risks with lack of long term PPAs: The company is supporting the two large projects undertaken - one by its associate company, IPCL Haldia Ltd. (IPCHL) and another by its subsidiary, Meeakshi Energy Limited (MEL).

IPCHL, an associate company, is implementing 450 MW (3 units of 150 MW each) coal based thermal power plant at Haldia, Purba Medinipur District, West Bengal, at a project cost of Rs.3306.70 crores, being funded at a debt-equity ratio of 70:30. The construction work for one unit is completed and it is in trial run and is likely to commence commercial operation soon. The remaining two units are expected to be operational by December, 2017. The financial closure (both debt & equity) has been fully achieved. The company has entered into a short Term PPA of 130 MW with IPCL and is negotiating with WBSEDCL for a PPA of 300 MW at an optimum tariff.

MEL, a subsidiary of IPCL, which was acquired by IPCL in September, 2016, is having operational capacity of 300 MW (operational since April 2013). The company reported a gross revenue of Rs.782 crores in FY16 which was earned through short-term PPAs with Telengana Discoms and small quantity was sold in open access. It is also setting up a coal fired 700 MW (2 x 350 MW) thermal power plant at Nellore, Andhra Pradesh. The total project cost for 700 MW capacity is estimated to be Rs.5548 crores, being funded at a debt-

equity ratio of 42:58. The financial closure (both debt & equity) for the project has been achieved. The company has short-term PPAs, however long-term PPAs are being pursued.
Hence the implementation of these projects and lack of long term PPAs pose significant risks.
Relatively low debt protection matrices: The capital structure of IPCL, both on standalone and consolidated basis, is impacted in view of involvement of substantial amount of debt for implementing the large projects through the associate and subsidiary companies and major portion of the projects are yet to commence operation and generate accruals.

Strong demand potential for power

The domestic power sector appears to have considerable growth potential, given the fact that the country is likely to be power deficient in many pockets particularly during the peak period due to mismatch between robust power demand and creation of supply facilities.

Analytical Approach: Consolidated

Applicable Criteria

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation

Consolidation of Companies

<u>About the Company</u>

IPCL, the merged entity of erstwhile IPCL and DPSC Ltd. (DPSCL), currently belongs to the Promoters of SREI group. The erstwhile IPCL was incorporated in 2003, while DPSCL was incorporated way back in 1919. DPSCL, previously owned by Andrew Yule & Co. Ltd,- a Govt. of India undertaking, LIC and other insurance companies, 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). IPCL is about to commission a 450 MW thermal power plant in Haldia, West Bengal, through its associate, Indian Power Corporation (Haldia) Ltd. The group through its newly acquired subsidiary, Meenakshi

Energy Ltd is having existing operational capacity of 300 MW and is implementing 700 MW at Nellore, Andhra Pradesh.

Financials (Stand-alone)

(Rs. Crores)

For the year ended / As on	31-03-2015	31-03-2016	31-03-2017
	Audited	Audited	Provisional
Total Operating Income	627.4	585.6	450.2
EBITDA	94.4	85.1	95.2
Depreciation	15.1	18.0	17.8
Interest	44.6	34.2	58.4
PAT	24.2	31.9	39.1
Gross Cash Accruals (GCA)	44.7	54.1	62.6
Total Debt	538.5	856.2	588.5
Long Term Debt	420.7	682.0	475.2
Tangible Net worth	1028.2	1061.2	1118.9
Total Capital Employed	1741.6	2107.4	1881.7
Ratios			
Growth Ratios (%)			
a. Increase in Total Income	-9.67	-6.66	-23.12
b. Increase in EBIDTA	3.53	-9.85	11.82
c. Increase in PBT	-18.42	18.93	40.66
d. Increase in PAT	-17.31	31.92	22.66
Profitability Ratios (%)			
a. EBIDTA margin	15.05	14.54	21.14
b. PBT margin	5.82	7.30	13.05
b. PAT Margin	3.84	5.35	8.34
c. Return On Capital Employed - Operating	5.05	3.54	3.90
d. Return On Capital Employed - Total	4.79	3.49	3.88
e. Return on Networth	2.38	3.05	3.59
f. Cost of Avg. Borrowings	9.58	4.90	8.08
Solvency Ratios			
Long Term			
a. Long Term Debt Equity ratio	0.41	0.64	0.42
b. Overall Gearing ratio	0.52	0.81	0.53
c. Interest Coverage (times)	2.12	2.49	1.63
d. Long Term debt/GCA (years)	9.41	12.61	7.59

e. Long Term Debt / EBIDTA	4.46	8.01	4.99
f. Total Debt / GCA (years)	12.05	15.83	9.40
g. DSCR (x)	1.14	0.93	1.16
Short Term			
a. Current Ratio	0.90	1.05	1.48
b. Quick Ratio	0.84	1.01	1.46
Turnover Ratios			
a. Working Cap Turnover Ratio	5.74	3.18	1.58
b. Avg. Collection Period (days)	49	54	63
c. Average Inventory (days)	11	12	13
d. Average Finished Goods holding period (days)	0	0	0
e. Average Raw Material holding period (days)	362	356	393
f. Average Creditors (days)	65	72	114
g. Operating cycle	-5	-6	-37

Financials (Consolidated)

(Rs. Crores)

For the year ended / As on	**31-03-2014**	**31-03-2015**	**31-03-2016**
	Audited	**Audited**	**Audited**
Total Operating Income	694.5	718.4	732.1
EBITDA	90.7	96.4	96.7
Depreciation	14.6	15.2	18.7
Interest	34.7	45.5	43.7
PAT	28.7	24.8	32.4
Gross Cash Accruals (GCA)	54.2	45.6	55.6
Total Debt	391.9	555.4	974.2
Long Term Debt	317.8	428.3	785.5
Tangible Net worth	1001.0	1028.3	1061.8
Total Capital Employed	1569.3	1758.8	2227.1
Ratios			
Growth Ratios (%)			
a. Increase in Total Income	NM	3.43	1.92
b. Increase in EBIDTA	NM	6.31	0.28
c. Increase in PAT	NM	-13.55	30.31
Profitability Ratios (%)			
a. EBIDTA Margin	13.06	13.42	13.21
b. PAT Margin	4.12	3.45	4.36
c. Return On Capital Employed - Operating	5.24	5.14	3.98

d. Return On Capital Employed - Total	4.85	4.88	3.92
e. Return on Networth	2.87	2.45	3.10
f. Cost of Avg. Borrowings	7.99	8.78	5.36
Solvency Ratios			
Long Term			
a. Long Term Debt Equity ratio	0.32	0.42	0.74
b. Overall Gearing ratio	0.39	0.54	0.92
c. Interest Coverage (times)	2.61	2.12	2.21
d. Long Term debt/GCA (years)	5.87	9.39	14.14
e. Long Term Debt / EBIDTA	3.50	4.44	8.12
f. Total Debt / GCA (years)	7.24	12.18	17.53
g. DSCR (x)	1.40	1.12	0.92
Short Term			
a. Current Ratio	1.02	0.93	1.28
b. Quick Ratio	0.96	0.86	1.24
Turnover Ratios			
a. Working Cap Turnover Ratio	13.88	6.12	2.92
b. Avg. Collection Period (days)	48	48	59
c. Average Inventory (days)	9	11	11
d. Average Finished Goods holding period (days)	0	0	0
e. Average Raw Material holding period (days)	252	397	406
f. Average Creditors (days)	57	118	131
g. Operating cycle	-1	-59	-61

NM: Not Meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years: Not applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics Valuation and Rating Pvt Ltd

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 is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facility

Name of Facility	Date of approval/sanction	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs Crores)	Rating Assigned/ Outlook
Long Term Credit Facility of Axis Bank	September 18, 2015	MCLR + 1.15%	Maximum tenure of 7 years, renewable annually	225.00	IVR A/Negative Outlook (pronounced IVR Single A with negative Outlook)