Lalitpur Power Generation Company Ltd (LPGCL)

February 09, 2023

Ratings

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Fund based Bank facilities – Term loan	10,172	IVR BBB+/ Stable [IVR Triple BBB Plus with Stable Outlook]	IVR BBB-/ Stable [IVR Triple BBB Minus with Stable Outlook]	Revised	Simple
Long Term Fund based Bank facilities – Cash Credit	2,697	IVR BBB+/ Stable [IVR Triple BBB Plus with Stable Outlook]	IVR BBB-/ Stable [IVR Triple BBB Minus with Stable Outlook]	Revised	Simple
Long Term/ Short Term Non-Fund based Bank facilities – LC/BG/Derivatives	641	IVR BBB+/ Stable/ IVR A2 [IVR Triple BBB Plus with Stable Outlook/ IVR A Two]	IVR BBB-/ Stable/ IVR A3 [IVR Triple BBB Minus with Stable Outlook/ IVR A Three]	Revised	Simple
Total	**Rs. 13,510 Crore (Rupees Thirteen thousand five hundred and ten crore only)**				

Details of Facilities are in Annexure 1

Detailed Rationale

The rating action reflects improvement in cash flows and liquidity of Lalitpur Power Generation Company Ltd (LPGCL) owing to improvement in collections from Uttar Pradesh Power Corporation Ltd. (UPPCL) through both escrow account as well as direct payments. The quantum of direct collections amounted to Rs.2864 crore for ten months ended January 2023. Company also has been maintaining Debt Service Reserve Account (DSRA) to the extent of debt servicing for one quarter. The company has been making prepayment of principal instalments of its term loans and as on date, the Company has prepaid entire rupee term loan instalments till March 2024 and made a furtherpart prepayment for June 2024 instalment. Going forward, the company plans to prepay its loans using the cash flows received from UPPCL, thereby leading to savings in interest cost and easing the debt servicing requirement for the period.

LPGCL's ratings continue to reflect that the full capacity is tied up in long-term Power Purchase Agreement (PPA) providing strong revenue visibility, long-term Fuel Supply Agreement (FSA), operational track record with adequate plant availability levels, escrow collections providing stability in cash flows and, experienced promoters. These strengths are partially offset by counterparty risk associated with weak power off-taker, UPPCL, moderate leverage levels, regulatory risks pending approval of final project cost and tariff by Uttar Pradesh Electricity Regulatory Commission (UPERC).

Key Rating Sensitivities:

Upward Factors

- Substantial increase and timely collections of monthly dues via escrow mechanism resulting in less dependency on direct payments from UPPCL.
- Sustained improvement in leverage and debt protection metrics resulting from prepayments of debt obligations.
- Improvement in credit profile of UPPCL

Downward Factors

- Deterioration in receipt of payments from UPPCL adversely impacting cash flows and liquidity position of the company.
- Disallowance in approval of the project capital cost by the UPERC.
- Under performance of operating parameters leading to under recovery of revenues, impacting cash flows.

List of Key Rating Drivers with Detailed Description:

Key Rating Strengths

Full capacity tied up in long-term PPA providing strong revenue visibility.

The company has its entire capacity of 1,980 MW tied up with UPPCL for 25 years on take-or- pay basis. The availability-based tariff under PPA is on a two-part basis (Capacity and Energy charges) which is determined on the basis of UPERC guidelines. The capacity charges are recoverable in full on the company achieving the normative Plant Availability Factor (PAF) of 85%. In case the plant availability is lower than the normative PAF, the capacity charges are recoverable on a pro rata basis. The energy charge is determined on the basis of landed cost of fuel applied onthe quantity of fuel consumption. The cost of fuel is on the basis of pre-approved normative operating parameters like station heat rate, secondary oil consumption, auxiliary consumption as per UPERC regulations and is a pass-through item.

Fuel supply risk mitigated through firm long-term FSAs

The company has signed multiple long-term FSAs with subsidiaries of Coal India Limited and has secured 8.35 MTPA of long-term coal linkages. LPGCL has ensured coal tie-up which is sufficient for meeting more than 85% Plant Load Factor (PLF) – as per the PPA. Moreover, in case of any further coal requirement or unavailability of coal, LPGCL can procure coal from other sources such as special forward e-auction and if in the process any price variance arises, it is fully passed through to UPPCL. This protects from any major fluctuations in fuel cost.

Escrow collections provide stability in cash flows

LPGCL has been earmarked exclusive geographies by UPPCL wherein it receives collection directly from the end-customers of UPPCL. Collections in escrow accounts are “wholly & exclusively” for LPGCL ensuring monthly collection of more than Rs.300 crore per month which are sufficient to meet interest and principal. In the previous financial year (FY2021-22), the company has received around Rs 238 crores average monthly collections through this mechanism, a number which has increased to around Rs 342 crores in current financial year till January 2023. Recently UPERC vide its order dated October 3, 2022, directed UPPCL to enhance the escrow mechanism to Rs. 660 crores which will add further comfort and boost the overall cash flows for the company.

Operational track record with adequate plant availability levels

All the three units of the project have been operational since December 2016, thus mitigating any execution related challenges. The plant availability has remained higher than the normative level in the past years. It improved to 88.6% for 10MFY23 as against 85.3% in FY22 full year thus ensuring full recovery of capacity charge. Other operational parameters like station heat rate and auxiliary consumption have been within normative range. The PLF also improved to 66.6%for 10MFY23 as against 55.1% in FY22 full year.

Experienced promoters

The Shishir Bajaj group has diversified businesses including sugar and ethanol production, manufacturing and marketing of FMCG products, bagasse-based co-generation of power, real estate/ infrastructure development and coal-based power generation. The group through its subsidiaries holds the entire shareholding of LPGCL. Mr Kushagra Nayan Bajaj is the Executive Chairman of LPGCL. The promoters are ably supported by the team of senior management which has several years of experience in finance, marketing and production across diverse sectors.

Key Rating Weaknesses

Counterparty credit risk associated with weak off-taker

The counterparty credit risks remain high for LPGCL because the financial profile of UPPCL continues to be weak and continues to be governed by the government’s directives. The average working capital cycle has remained stretched in the past due to pending dues from UPPCL. While there has been an improvement in receiving monthly billing from escrow collection, delays have been observed in the past for the remaining payments which are paid directly by UPPCL. In FY22, the government diverted amount payable to LPGCL to sugar cane farmers (sugar cane dues of group company of LPGCL were paid off in this manner). The company has also received payment of Rs.2183 crores from UPPCL towards one-time billing for additional claims related to the previous period, wherein the companyhas received favorable order from Hon'ble Supreme court. Going forward, the realization of the balance dues including additional claims from UPPCL and consistent improvement in monthlycollections are crucial for sustaining its liquidity position.

Moderate leverage level

The leverage level for the company remains high despite improvement over the past one year, with gearing ratio at 2.12x, TOL/TNW at 2.32x and debt/EBITDA at 5.79x as on March 31, 2022. However, looking at long term nature of thermal power plant and stable infrastructure nature of business, leverage indicators are considered acceptable. The company has prepaid rupee term loan instalments till March 2024 and has also made part prepayment for June 2024 instalment. The term loan outstanding as on December 31, 2022, is at Rs. 10,172 crores vis a vis Rs. 11,229 crores as per the repayment schedule. Going forward also the company plansto continue prepaying the term loan instalments as and when liquidity is available. Hence leverage indicators are projected to improve further with debt prepayment and increase in networth due to profit accretion, resulting in improvement in debt protection metrics.

Pending approval of final project cost and tariff by UPERC

The capital cost for the 1,980-MW project of LPGCL increased by 53% to Rs. 18,575 crores against the initially appraised cost of Rs. 12,112 crores, because of a mix of issues including delays in execution and additional costs associated with auxiliary infrastructure (transmission, water intake system and railway siding). The company has attributed the same to delays in commissioning of the transmission line by the state transmission utility and the additional cost to works executed on behalf of UP discoms. The approval for the final project cost and tariff from UPERC are pending, with provisional cost approved at Rs. 14,269 crores. The approval of the final project (Rs. 17,725 crore excluding margin money for working capital of Rs. 850

crore), without any disallowances and the consequent increase in capacity charges for the previous years, is a key monitorable.

Analytical Approach: Standalone approach

Applicable Criteria:

Criteria of assigning Rating Outlook

Rating Methodology – Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria on Default Recognition

Liquidity –Adequate

The company's liquidity position is adequate characterised by moderate utilisation of working capital limits at 71% for the last 12 months ended December 31, 2022, and a DSRA balance of Rs.524 crores as on December 31, 2022, which is equivalent to one quarter of debt servicing obligations. The company has prepaid its rupee principal obligations till March 2024 and made a part prepayment for June 2024 instalment too. The company plans to use further surplus liquidity in future also towards pre-payments and expects to remain ahead of scheduled principal repayment obligations.

Financials (Standalone basis): (In Crore)

For the year ended/ As on*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	4714.96	5585.37
EBITDA	2235.11	2279.18
PAT	671.93	260.15
Total Debt	13656.84	13195.73
Tangible Net Worth	5952.92	6236.51
EBITDA margin (%)	47.40	40.81
PAT margin (%)	11.30	4.27
Overall Gearing Ratio (x)	2.29	2.12

* *Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-22 (25/03/22)	Date(s) & Rating(s) assigned in 2021-21	Date(s) & Rating(s) assigned in 2019-20
1	Fund Based Bank Facilities- Term Loan	Long Term	10,172	IVR BBB+/ Stable	IVR BBB-/ Stable	-	-
2	Fund Based Bank Facilities- Cash credit	Long Term	2697	IVR BBB+/ Stable	IVR BBB-/ Stable	-	-
3	Non-Fund BasedBank Facilities-	Long Term/ Short Term	641	IVR BBB+/ Stable/ IVR A2	IVR BBB-/ Stable/ IVR A3	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to the best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates a wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust, and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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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 Bank facilities – Term loan	-	-	September, 2037	10,172	IVR BBB+/ Stable [IVR Triple BBB Plus with Stable Outlook]
Long Term Fund based Bank facilities – Cash Credit	-	-	-	2,697	IVR BBB+/ Stable [IVR Triple BBB Plus with Stable Outlook]
Long Term/ Short Term Non-Fund based Bank facilities – LC/BG/Derivatives					IVR BBB+/ Stable/ A2 [IVR Triple BBB Plus with Stable Outlook/ IVR A Two]

Annexure 2: List of companies considered for consolidated analysis: Not applicable.

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-LPGCL-feb23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Nil

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