Lalitpur Power Generation Company Limited (LPGCL)
March 25, 2022

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities – Term Loan	11,709	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Long Term Fund based Bank Facilities – Cash Credit	2697	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	
Long Term/Short Term Fund based Bank Facilities – LC/BG/Derivatives Limits	709	IVR BBB-/Stable/IVR A3 (IVR Triple B Minus with Stable Outlook and IVR A Three)	Assigned	
Total	**15,115**			

Detailed Rationale

The Issuer rating assigned to Lalitpur Power Generation Company Limited factors track record of timely servicing of interest and principal repayment of bank debt for last one year, established operational track record of thermal power plant with adequate availability levels, power purchase agreements (PPAs) with the discoms of Uttar Pradesh for the entire capacity with cost plus tariff structure providing strong revenue visibility, long term Fuel supply agreement with subsidiaries of Coal India Limited, strong promoter background with professional management team and healthy liquidity position as the company has received bulk payment from UPPCL resulting creation of DSRA & prepayment of principal payment of bank debt till Dec- 2022.

The rating is however constrained by high counterparty credit risks because of the exposure to Uttar Pradesh discoms, which have weak financial health leading to payment delays resulting dealy in debt servicing between Jan-2021 to March 2021, relatively high leverage with modest coverage metrics and pending approval of final project cost and tariff by UPERC.

Key Rating Sensitivities:

Upward Factors

- Sustained and timely collection of monthly due via escrow mechanism
- Timely recovery of outstanding dues from UPPCL
- Effective working capital management improving overall liquidity position

Downward Factors

- Deterioration in payment cycle adversely impacting liquidity position.
- Disallowance in approval of the project capital cost
- Under performance of operating parameters resulting under recovery in revenues.

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 the four DISCOMs of Uttar Pradesh through UPPCL for 25 years on take-or-pay basis. The tariff under PPA is two part basis (fixed and variable) which is determined on the basis of UPERC guidelines. The fixed charge is recoverable in full if the plant availability is at least the normative PAF. In case the plant availability is lower than the normative PAF, the capacity charges are recoverable on a pro rata basis. The variable charge is determined on the basis of landed cost of fuel applied on the quantity of fuel consumption. The cost of fuel on the basis of pre-approved normative operating parameter (eg. station heat rate (SHR), secondary oil consumption, auxiliary etc) is a pass-through item.

Fuel supply risk mitigated through firm long term FSA

Company has signed FSAs with different subsidiaries of Coal India Limited and secured 7.12 MTPA of long term coal linkage under the SHAKTI scheme of the Government of India (GOI). Further Company has also secured 1.19 MTPA of long term linkage Coal under Round IV of SHAKTI scheme of the Government of India, Execution of LOA/FSA signing are under process as per the Shakti Scheme of GOI. Now in total Company has long term linkage Coal of 8.31 MTPA. Further, Bajaj Energy Ltd. (BEL) (Group Company) has long term FSA for 1.60 MTPA with NCL. Under the Inter-Plant Transfer (IPT) scheme of Coal India Ltd., this coal is transferable to LPGCL. With all above, LPGCL has now ensured coal tie-up which is sufficient for meeting 85% PLF – as per PPA.

Moreover, in case of any further coal requirement, LPGCL can procure coal from other alternate sources (with permission of UPPCL) like special forward e-auction etc, as the variable cost is fully pass through to UPPCL as per the PPA..

Realisation of large dues from UPPCL in March 2021 and August 2021 supporting liquidity

The company received Rs. 4,781 crore from UPPCL in March 2021 and Rs. 1,288 crore in August 2021, mainly from the GoI's liquidity support scheme for the state discoms. This has enabled a significant improvement in its liquidity profile with creation of one quarter's DSRA. It also prepaid the principal instalments for the next four quarters using the liquidity inflow, thereby leading to savings in interest cost and easing the debt servicing requirement for this period.

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 son of Mr Shishir Bajaj and is the Executive - Chairman of LPGCL. He has completed his BSc from Carnegie Mellon University and MBA from Northwestern University. 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.

Full project capacity is operational and adequate availability levels –

All the three units of the project are operational since December 2016, thus mitigating the execution-related challenges. The plant availability remained higher than the normative level over the past 4 years. LPGCL's operational performance has been moderate characterized by a satisfactory station heat rate (SHR) and auxiliary consumption over last 4 years. The plant has also maintained requisite plant availability in the past ensuring full recovery of capacity charge

Key Rating Weaknesses

Counterparty credit risk associated with weak off-taker

The counterparty credit risks remain high for LPGCL because of the exposure to Uttar Pradesh discoms, which have weak financial health leading to payment delays. The overall pending dues, including past claims (Rs. 2200 crs), remained high at Rs. 4326 crore as on 28th Feb 2022 despite the large realisation of dues in March 2021 and August 2021. This is also due to the additional claims related to the previous period, wherein the company has received favourable orders from Supreme Court. Going forward, the realisation of the balance dues including additional claims from UPPCL and improvement in monthly collections are crucial for sustaining its liquidity position.

Delays in debt servicing till March 2021

There were delays in debt servicing by LPGCL between January 2021 and March 2021 due to deferred payments from UPPCL, including the disbursement under tranche-II of the GoI's liquidity scheme. However, the debt servicing remained timely post March 2021 and the company has prepaid the debt instalments for the next four quarters, i.e. from December 2021 to September 2022, along with partial pre-payment for December 2022 quarter.

Relatively High leverage level

The leverage level for the company remains high despite improvement over the past one year, with gearing ratio at 2.3x, TOL/TNW at 2.53x and debt/EBITDA at 6.11x as on March 31, 2021. However, looking at the initial stage of operation and long gestation nature of thermal power plant leverage indicators looks modest. Leverage indicators are projected to improve with debt repayment and increase in net worth due to profit accretion.

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 crore against the initially appraised cost of Rs. 12,112 crore, 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 crore. 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, would have positive impact on overall financial risk profile of LPGCL.

Analytical Approach: Standalone

Applicable Criteria (Please add Hyperlink to the respective criteria):

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Issuer Rating

Policy on Default Recognition

Liquidity – Adequate

The company's liquidity position is adequate as characterised by the significant buffer in its working capital facilities provided by bank. The average utilisation in the 13-month period ending January 2022 was 62% of its sanctioned limits. The company also has paid its principal obligation till Dec 2022 and is expected to remain ahead of schedule in terms of repayment of principal obligation. The company is also expected to receive claim (Already received order from Supreme Court) of Rs. 2000 crs in near term from UPPCL which is expected to provide strong liquidity support. Liquidity is also supported by DSRA equivalent to one quarter's debt servicing

About the Company

Lalitpur Power Generation Company Limited (LPGCL) is a special purpose vehicle of the Shishir Bajaj group incorporated on September 4, 2009 to set up a super critical thermal power plant in Lalitpur district, Uttar Pradesh. The plant has three units of 660 MW with a total capacity of 1,980 MW. Pursuant to the expression of interest (EoI) call by U.P Power Corporation Ltd (UPPCL) in November 2009 for setting up power generation projects in UP, Bajaj Energy Group was identified as the selected bidder for owning, implementing and operating the project. Accordingly, the Group signed a Memorandum of Understanding (MoU) with the Government of Uttar Pradesh (GoUP) and the ownership of LPGCL was transferred to the Bajaj Energy Group in December 2010. The shareholding of LPGCL is among Bajaj Hindusthan Sugar Limited, Bajaj Energy Limited and Bajaj Power Ventures Private Limited.

LPGCL entered into a 25-year PPA with the state distribution utilities of UP, through UPPCL, on a cost-plus tariff principle for 90% of the project capacity in December 2010. Subsequently in May 2011, LPGCL received GoUP's approval for tying up the remaining 10% of the project capacity through long-term PPA with UPPCL. The supplementary PPA for this capacity was signed in June 2011. LPGCL implemented the project through two major packages, with the boiler turbine generator (BTG) package awarded to BHEL and the balance of plant (BoP) package to Carbery Infrastructure Pvt. Ltd (CIPL) in May 2011. The first unit of the project was commissioned in December 2015, followed by the second unit in October 2016 and the third unit in December 2016. The actual cost of the project stood at Rs. 18,575 crore.

The operation of the power plant is profitable since its inception from December 2016. LPGCL has Power Purchase Agreement (PPA) with UPPCL (a UP State Government owned entity) having Full Cost Pass-through, "Take or Pay" and Assured ROE of 16% p.a. (post-tax) – in line with NTPC's business model.

Financials (Standalone):

For the year ended*/As on	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	5177.43	4714.96
EBITDA	2787.37	2235.11
PAT	225.43	671.93
Total Debt	15625.97	13656.84
Tangible Net Worth	5284.93	5952.92
EBITDA Margin (%)	53.84	47.40
PAT Margin (%)	4.07	11.30
Overall Gearing Ratio (x)	2.96	2.29

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument /Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan	Long Term Fund Based	11,709	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	NA	NA	NA
2	Cash Credit		2697				
3	LC/BG/Derivatives Limits	Short Term non Fund Based	709	IVR BBB-/Stable/IVR A3 (IVR Triple B Minus with Stable Outlook and IVR A Three)			

Name and Contact Details of the Rating Analyst:

Name: Noman Agashiwala Tel: 022- 62396023 Email: noman.agashiwala@infomerics.com	Name: Sarnambar Roy Tel: 022- 62396023 Email: sroy@infomerics.com

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. It 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.

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 Bank Facilities – Term Loan	-	-	Upto FY2038	11,709	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)
Long Term Fund based Bank Facilities – Cash Credit	-	-	-	2697	
Long Term/Short Term Fund based Bank Facilities – LC/BG/Derivatives Limits	-	-	-	709	IVR BBB-/Stable/IVR A3 (IVR Triple B Minus with Stable Outlook and IVR A Three)

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/lalitpur-power-lenders-mar22.pdf

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