Press Release

Lalitpur Power Generation Company Ltd (LPGCL)
August 22, 2023

Ratings

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Fund based Bank facilities – Term loan	9,386 (Reduced from 10,172)	IVR A-/ Stable [IVR Single A Minus with Stable Outlook]	IVR BBB+/ Stable [IVR Triple BBB Plus with Stable Outlook]	Revised	Simple
Long Term Fund based Bank facilities – Cash Credit	2,697	IVR A-/ Stable [IVR Single A Minus with Stable Outlook]	IVR BBB+/ Stable [IVR Triple BBB Plus with Stable Outlook]	Revised	Simple
Long Term/ Short Term Non-Fund based Bank facilities – LC/BG/Derivatives	587 (Reduced from 641)	IVR A-/ Stable/ IVR A2+ [IVR Single A Minus with Stable Outlook/ IVR A Two Plus]	IVR BBB+/ Stable/ IVR A2 [IVR Triple BBB Plus with Stable Outlook/ IVR A Two]	Revised	Simple
Total	**Rs. 12,670 Crore (Rupees Twelve thousand six hundred and seventy 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 escrow collections amounted to Rs. 4,045 crore and of direct collections amounted to Rs.3,484 crore for FY23. 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 September 2024. It has also prepaid Rs.445 crore of covid moratorium dues which are payable in June and September 2037. 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).

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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 as against normative, leading to under recovery of costs thereby 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 a 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 regulations. 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 on the 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 FY22, the company received around Rs.238 crores average monthly collections through this mechanism, a number which has increased to around Rs 337 crores in FY23. Currently around 50% of the collections are routed through escrow mechanism. 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 flow 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 was 85.4% in FY23 and 85.3% in FY22 thus ensuring full recovery of capacity charge. For Q1FY24 plant availability was 97.7%. Other operational parameters like station heat rate and auxiliary consumption have been within normative range. The PLF improved to 65.4%for FY23 as against 55.1% for FY22. It was 78.9% for Q1FY24 on account of improved demand.

Moderate capital structure and debt protection metrics

The leverage level for the company has improved due to repayments and prepayments over the past one year, with overall gearing ratio at 1.74x as on March 31, 2023, as against 2.12x as on March 31, 2022. TOL/TNW stood at 1.54x and total debt/EBITDA at 5.78x as on/for the year ended March 31, 2023. However, considering a long term stable infrastructure nature of the asset backed by take or pay agreement, the overall gearing for LPGCL considered comfortable backed by strong net worth base of Rs. 6573 crores as on March 31, 2023. The company prepaid term loan instalments till September 2024 (5 quarters prepaid). It has also prepaid Rs.445 crores towards covid moratorium dues payable in June and September 2037.The company plans to continue prepaying the term loan instalments as and when surplus liquidity is available. The company is also maintaining a DSRA balance of Rs.538 crores which covers its one quarter repayments.

The debt protection metrics have remained moderate for LPGCL with a DSCR of 1.67x and interest coverage at1.43x in FY23. However, the company has prepaid principal instalments of its term loans till September 2024 instalment. The company is 5 quarters ahead of its debt repayment obligations. It has also prepaid Rs.445 crore of covid moratorium dues payable in June and September 2037. The term loan outstanding as on July 31, 2023, is at Rs. 9,386 crores vis a vis Rs. 10,788 crores as per the repayment schedule. Going forward also the company plans to continue prepaying the term loan instalments as and when liquidity is available, thereby leading to savings in interest cost and easing the debt servicing requirement for the period.

Experienced promoters

The Shishir Bajaj group has diversified businesses including sugar and ethanol production, bagasse-based co-generation of power, manufacturing and marketing of FMCG products 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. The total receivables from UPPCL stood at Rs.3,406 crores as on June 30, 2023. As per the management UPPCL has been regularly paying towards the receivables. The company had also received payment of Rs.2183 crores in October 2022 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. However, in FY22, the government had unilaterally transferred an amount of Rs.1000 crores payable to LPGCL to sugar cane farmers (sugar cane dues of group company of LPGCL were paid off in this manner). Going forward, the realization of the balance dues including additional claims from UPPCL and consistent improvement in monthly collections are crucial for sustaining its liquidity position.

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 additional costs associated with auxiliary infrastructure (canal lining, water intake system and railway siding). The company has also 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, presently the company is billing to UPPCL based on provisional tariff order of 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 major 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 56% for the last 12 months ended June 30, 2022, and a DSRA balance of Rs.538 crores as on March 31, 2023, which is equivalent to one quarter of debt servicing obligations. The company has prepaid its rupee principal obligations till September 2024. It has also prepaid Rs.445 crores towards covid moratorium dues payable in June and September 2037. The company plans to use further surplus liquidity in future also towards pre-payments and expects to remain ahead of scheduled principal repayment obligations.

About the Company:

Lalitpur Power Generation Company Limited (LPGCL), incorporated on September 4, 2009, is owned by the Shishir Bajaj group. The shareholding of LPGCL is among Bajaj Hindusthan Sugar Limited, Bajaj Energy Limited, and Bajaj Power Ventures Private Limited. It has set up a super critical thermal power plant in Lalitpur district, Uttar Pradesh. The plant has three units of 660 MW each with a total capacity of 1,980 MW. The first unit of the project was commissioned in October 2015, followed by the second unit in October 2016 and the third unit in December 2016.

Financials (Standalone basis): (In Crore)

For the year ended/ As on*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	5585.37	6629.09
EBITDA	2279.18	1980.05
PAT	260.15	320.10
Total Debt	13195.73	11439.23
Tangible Net Worth	6236.51	6573.02
EBITDA margin (%)	40.81	29.87
PAT margin (%)	4.27	4.38
Overall Gearing Ratio (x)	2.12	1.74

** 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 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (09/02/23)	Date(s) & Rating(s) assigned in 2021-22 (25/03/22)	Date(s) & Rating(s) assigned in 2020-21
1	Fund Based Bank Facilities- Term Loan	Long Term	9386	IVR A-/ Stable	IVR BBB+/ Stable	IVR BBB-/ Stable	-
2	Fund Based Bank Facilities- Cash credit	Long Term	2697	IVR A-/ Stable	IVR BBB+/ Stable	IVR BBB-/ Stable	-
3	Non-Fund BasedBank Facilities-	Long Term/ Short Term	587	IVR A-/ Stable/ IVR A2+	IVR BBB+/ Stable/ IVR A2	IVR BBB-/ Stable/ IVR A3	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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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	9386	IVR A-/ Stable [IVR Single A Minus with Stable Outlook]
Long Term Fund based Bank	-	-	-	2697	IVR A-/ Stable

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
facilities – Cash Credit					[IVR Single A Minus with Stable Outlook]
Long Term/ Short Term Non-Fund based Bank facilities – LC/BG/Derivatives	-	-	-	587	IVR A-/ Stable/A2+ [IVR Single A Minus with Stable Outlook / IVR A Two Plus]

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-aug23.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