## Lalitpur Power Generation Company Limited

**July 12, 2024**

**Ratings**

| Instrument / Facility | Amount (Rs. crore) | Current Ratings | Previous Ratings | Rating Action | Complexity Indicator |
|---|---|---|---|---|---|
| Long Term Facilities | 8343.00 (Reduced from Rs. 12083.00 crore) | IVR A/ Stable (IVR A with Stable Outlook) | IVR A-/ Stable (IVR A Minus with Stable Outlook) | Upgraded | Simple |
| Long Term /Short Term Bank Facilities | 270.00 (Reduced from Rs. 587.00 crore) | IVR A/ Stable / IVR A1 (IVR A with Stable Outlook / IVR A One) | IVR A-/ Stable / IVR A2+ (IVR A Minus with Stable Outlook / IVR A Two Plus) | Upgraded | Simple |
| **Total** | **8613.00 (Rupees Eight thousand six hundred and thirteen crore only)** | | | | |

**Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.**

**Detailed Rationale**

Infomerics Ratings has upgraded the rating assigned to the long term and short-term facilities of Lalitpur Power Generation Company Limited (LPGCL). The rating action reflects improvement in cash flows and liquidity of 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. 4130 crore and direct collections amounted to Rs.5627 crore for FY24 (refers to period April 1st, 2023 to March 31st, 2024). The company has been making prepayment of principal instalments of its term loans and has prepaid entire rupee term loan instalments till March 2026 and partially for June 26 and ECB loan till September 2026. 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, regulatory risks pending approval of final project cost and tariff by Uttar Pradesh Electricity Regulatory Commission (UPERC) and sizable exposure to group company.

The Stable outlook reflects LPGCL's established operating track record, presence of a long-term PPA under cost-plus tariff principles, availability of fuel under long-term linkage and timely cash flows received from UPPCL through escrow mechanism and directly.

**Key Rating Sensitivities:**

**Upward Factors**

- Sustained increase and timely collections of monthly dues via escrow mechanism and directly resulting in effective working capital management and liquidity.
- Sustained improvement in leverage and debt protection metrics resulting from prepayments of debt obligations.
- Improvement in the operational performance of the company resulting in higher revenues and profitability on a sustained basis.

**Downward Factors**

- Deterioration in receipt of payments from UPPCL adversely impacting cash flows and liquidity position, significant deterioration in credit profile of off taker.
- 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 and debt servicing.
- Large debt-funded capex or further investment in group companies, leading to deterioration of capital structure and liquidity of the company.

**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 till FY2042. 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 Fuel Supply Agreements**

The company has signed multiple long-term FSAs with subsidiaries of Coal India Limited and has secured 8.35 Million Metric Tonnes Per Annum (MMTPA) 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 crore average monthly collections through this mechanism, a number which has increased to around Rs 335-345 crore in FY23 and FY24. Currently around 50% of the collections are routed through escrow mechanism. Backed by increasing power demand, cashflows from this segment are expected to remain healthy. In addition, direct average monthly collections from UPPCL have been steadily improving to Rs 471 crore in FY24 as compared to Rs 290 crore in FY23 supported by the LPS Scheme launched in June 2022. Stable cashflows through escrow and direct collections while maintaining the liquidity cushion will remain a key rating monitorable over the medium term.

**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 factor has remained higher than the normative level of 85% in the past years. It was 91% in FY24, 85.4% in FY23 and 85.3% in FY22 thus ensuring full recovery of capacity charge. Other operational parameters like station heat rate and auxiliary consumption have been within normative range. The PLF improved to 71% in FY24 from 65.4% in FY23 as against 55.1% in FY22.

**Improvement in capital structure and debt protection metrics**

The leverage level for the company has been improving due to repayments and prepayments over the last two years. Overall gearing ratio improved to 1.09x as on March 31, 2024 (provisional), as against 1.74x as on March 31, 2023. TOL/TNW improved to 1.25x (PY: 1.92x) and total debt/EBITDA to 3.74x (PY: 5.78x) as on/for the year ended March 31, 2024 (provisional). Considering the long-term stable infrastructure nature of the asset backed by take or pay agreement, the overall gearing for LPGCL is considered comfortable backed by strong net worth base of Rs. 7051.40 crore as on March 31, 2024 (provisional). The company has prepaid rupee term loan instalments fully till March 2026 and June 2026 onwards partially and for ECB loan till September 2026. The Debt Service Reserve Account (DSRA) requirement has been waived off in February 2024 by lenders and the DSRA balance of Rs.538 crore has been used for prepayment of debt. The debt protection metrics have improved with DSCR of 2.25x and interest coverage of 1.79x in FY24 (provisional). 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. 1227 crore as on March 31, 2024. As per the management UPPCL has been regularly paying towards the receivables. However, in FY22 and FY24, the government had unilaterally transferred an amount of Rs.1000 crore and Rs.1361 crore respectively 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 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 crore against the initially appraised cost of Rs. 12,112 crore, 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 crore. 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.

**Sizable exposure to group company**

LPGCL has an equity investment in Bajaj Energy Limited (BEL) of Rs.1196.32 crore as on March 31, 2024. If the investment in BEL is adjusted the overall gearing deteriorates at 2.20x as on March 31, 2024 (provisional), as against 2.05x as on March 31, 2023. The management has further articulated that no further investment in group companies is envisaged in the medium term.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology – Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

**Liquidity – Strong**

The company's liquidity position is adequate characterised by low utilisation of working capital limits at 36.18% for the last 12 months ended May 31, 2024. The company has reduced its working capital limits from Rs. 2697 crore to Rs. 1789 crore in February 2024 as the escrow collections and reduced limits will suffice to meet its operational expenses. DSRA has been waived off by the lenders in February 2024 and the DSRA balance of Rs.538 crore has been utilised for prepayment of debt. The company remains committed to use all surplus cashflow towards prepayment of its debt obligations thus having prepaid about 4-5 quarters of maturing debt obligations. The company has already prepaid its principal obligations on all rupee term loans till March 2026 fully and June 2026 onwards partially and for ECB loan till September 2026.

**About the Company**

Lalitpur Power Generation Company Limited, incorporated on September 4, 2009, is owned by the Shishir Bajaj group. The shareholding of LPGCL is amongst 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 identical 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):**

(Rs. crore)

| For the year ended/ As on* | 31-03-2023 | 31-03-2024 |
|---|---|---|
| | Audited | Provisional |
| Total Operating Income | 6629.09 | 6361.21 |
| EBITDA | 1980.05 | 2052.77 |
| PAT | 320.10 | 478.52 |
| Total Debt | 11439.23 | 7670.60 |
| Tangible Net Worth | 6573.02 | 7051.40 |
| EBITDA Margin (%) | 29.87 | 32.27 |
| PAT Margin (%) | 4.38 | 6.94 |
| Overall Gearing Ratio (x) | 1.74 | 1.09 |
| Interest Coverage (x) | 1.43 | 1.79 |

** Classification as per Infomerics' standards.*

**Status of non-cooperation with previous CRA: None.**

**Any other information: Nil.**

**Rating History for last three years:**

| Sr. No. | Name of Facilities | Current Ratings (Year 2024-25) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type (Long Term / Short Term) | Amount outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2023-24 | Date(s) & Rating(s) assigned in 2022-23 | Date(s) & Rating(s) assigned in in 2021-22 |
| | | | | | (August 22, 2023) | (February 09, 2023) | (March 25, 2022) |
| 1. | Fund based facilities -Term Loan | Long Term | 6554.00 (Reduced from Rs. 9386.00 crore) | IVR A / Stable | IVR A- / Stable | IVR BBB+ / Stable | IVR BBB- / Stable |
| 2. | Fund based bank facilities – Cash Credit | Long Term | 1789.00 (Reduced from Rs. 2697.00 crore) | IVR A / Stable | IVR A- / Stable | IVR BBB+ / Stable | IVR BBB- / Stable |
| 3. | Non-fund-based bank facilities - Bank Guarantee | Long Term / Short Term | 122.00 (Reduced from Rs. 398.00 crore) | IVR A / Stable / IVR A1 | IVR A- / Stable / IVR A2+ | IVR BBB+ / Stable / IVR A2 | IVR BBB- / Stable / IVR A3 |
| 4. | Non-fund-based bank facilities - Letter of Credit | Long Term / Short Term | 33.00 | IVR A / Stable / IVR A1 | IVR A- / Stable / IVR A2+ | IVR BBB+ / Stable / IVR A2 | IVR BBB- / Stable / IVR A3 |

| Sr. No. | Name of Facilities | Current Ratings (Year 2024-25) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type (Long Term / Short Term) | Amount outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2023-24 | Date(s) & Rating(s) assigned in 2022-23 | Date(s) & Rating(s) assigned in in 2021-22 |
| | | | | | (August 22, 2023) | (February 09, 2023) | (March 25, 2022) |
| 5. | Non-fund-based bank facilities – Forward Contract | Long Term / Short Term | 115.00 (Reduced from Rs. 156.00 crore) | IVR A / Stable / IVR A1 | IVR A- / Stable / IVR A2+ | IVR BBB+ / Stable / IVR A2 | IVR BBB- / Stable / IVR A3 |

**Analytical Contacts:**


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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.

For more information and definition of ratings please visit www.infomerics.com.



**Annexure 1: Facility Details**

| Name of Facility | ISIN | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|---|---|---|---|---|---|---|
| Fund based facilities - Term Loan | - | - | - | September 2037 | 6554.00 | IVR A / Stable |
| Fund based bank facilities – Cash Credit | - | - | - | - | 1789.00 | IVR A / Stable |
| Non-fund-based bank facilities - Bank Guarantee | - | - | - | - | 122.00 | IVR A / Stable / IVR A1 |
| Non-fund-based bank facilities - Letter of Credit | - | - | - | - | 33.00 | IVR A / Stable / IVR A1 |
| Non-fund-based bank facilities – Forward Contract | | | | | 115.00 | IVR A / Stable / IVR A1 |

**Annexure 2: Facility wise lender details https://www.infomerics.com/admin/prfiles/len-LPGCL-july24.pdf**

**Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable**

**Annexure 4: List of companies considered for consolidated/Combined analysis: 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.