

R.K.M Powergen Private Limited

July 05, 2023

Facilities/Instruments	Amount (₹ crore)	Ratings ¹	Rating Action
Long-term / Short-term bank facilities	300.00	CARE BB+; Stable / CARE A4+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of R.K.M Powergen Private Limited (RKMPPPL) are constrained on account of lack of long-term / medium-term power purchase agreements (PPAs) for a significant portion of its power generation capacity thereby exposing it to price and volume risk associated with the merchant market and high variable cost of power generation due to lack of railway siding which affects the cost competitiveness of the power generated from the plant. The ratings are also tempered due to counterparty risk emanating for sale of power to weak state power distribution companies (Discoms) leading to payment delays, inherent risk associated with implementation of flue gas desulphurization (FGD) system and railway siding and stretched liquidity profile.

The ratings, however, derive strength from long-term PPA in place for 350 MW power generation capacity with U.P. Power Corporation Limited (UPPCL) along with availability of fuel supply arrangements for meeting fuel requirement under the long-term PPA with UPPCL. The ratings also draw comfort from high realization by RKMPPPL in the merchant market coupled with stable financial performance during FY23.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Tie-up of additional power generation capacity under long-term / medium-term PPAs.
- Completion of construction of railway siding.
- Significant improvement in the credit profile of the off-takers.
- Significant and sustained improvement in the operational and financial performance.
- Improvement in the DSCRs to 1.20x on a sustained basis.

Negative factors

- Sustained delay in construction of railway siding.
- Inordinate delays in realization of dues from the off-takers.
- Significant deterioration in the operational and financial performance.
- Deterioration in the DSCRs to 1.05x on a sustained basis.

Analytical approach Standalone

Outlook:

The stable outlook on the long-term rating reflects CARE Ratings Limited's (CARE Ratings') expectation of high merchant power tariffs in the near term coupled with long-term revenue visibility from its long-term PPA with UPPCL.

Detailed description of the key rating drivers:

Key weaknesses

Exposure to risk pertaining to lower merchant power tariff and demand; albeit high merchant realisation during FY23:

Out of total power generation capacity of RKMPPPL, only 350 MW capacity has been tied-up under long-term PPA with UPPCL. Balance capacity is either un-tied or PPAs are not operational. Thus, a significant portion i.e., around 76% of the total installed power generation capacity of RKMPPPL is open which exposes it to volatility in the merchant power tariffs and demand. The merchant power tariffs are a function of various variables including availability of fuel, fuel cost, generation cost from alternative sources, demand-supply situation and average plant load factor (PLF) of the power plants. However, during FY22 and FY23, due to high power demand in the country, RKMPPPL's realizations from the merchant power market have improved significantly to ₹4.19/kWh and ₹.7.08/kWh respectively as against ₹2.65/kWh in FY21 which has led to an improvement in its operational and financial performance.

High variable cost of generation:

There is no permanent railway siding constructed near the plant site of RKMPPPL and therefore, the fuel is transported to the plant site from the nearest railway station using dumpers. This coupled with reliance on domestic e-auction coal, moderate operating efficiencies in terms of station heat rate and auxiliary consumption leads to high variable cost of power generation for RKMPPPL which affects the cost competitiveness of the power generated from the plant. However, commissioning of railway

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

siding and securing additional linkage for domestic coal is expected to lead to a decline in the variable cost of power generation of RKMPPPL thereby leading to better cost competitiveness.

Counterparty risk emanating for sale of power to weak state Discoms:

RKMPPPL, through its long-term PPA with UPPCL, has exposure to the state Discoms of Uttar Pradesh. UPPCL is the holding company of power distribution companies for the state of Uttar Pradesh. UPPCL has weak financial risk profile, with sustained net losses, high gearing levels and significantly stretched payables days. The Discoms under UPPCL have been reporting high aggregate technical & commercial (AT&C) losses and average cost of supply and average realizable revenue (ACS-ARR) gap. Also, in May 2022, RKMPPPL signed a 3-year PPA with the Haryana Discoms which also has a weak financial risk profile. Consequently, timely realization of receivables by RKMPPPL from its counterparties would be a key rating monitorable. Nevertheless, the company has received 4-weeks revolving letter of credit (LC) from UPPCL as payment security mechanism. As on March 31, 2023, RKMPPPL had outstanding receivables of around ₹135 crore from PTC India Limited (PTC), an aggregator supplying power to the Telangana Discom. RKMPPPL discontinued supplies under the said PPA since October 2021 (which was valid till February 2023) due to significant delays by the Telangana Discom in making the payments. Also, the key off-taker of RKMPPPL i.e., UPPCL has opted to clear the outstanding dues as on June 03, 2022 in 40 equal instalments under the Electricity (LPS and Related Matters) Rules, 2022 (LPS scheme). The aggregate receivables of RKMPPPL reduced from around Rs.750 crore at FY22 end to around Rs.374 crore at FY23 end mainly due to realization of dues from UPPCL under the LPS scheme and also realization of part dues from the Telangana Discom.

Inherent risk associated with implementation of FGD system and railway siding:

RKMPPPL has two major capex plans relating to installation of FGD system and construction of railway siding and other ancillary capex. The total cost of FGD is proposed to be funded in a debt-to-equity ratio of 70:30. The said capex is expected to be incurred in FY25 and FY26 as the timelines for FGD installation has been shifted till December 31, 2026. Equity requirement for the FGD capex will be met through internal accruals whereas debt tie-up is pending. The total capex requirement for construction of railway siding and other ancillary capex is around ₹300 crore which would be funded through the available free cash & cash equivalents. Debt-funded capex plans on the back of moderate financial risk profile exposes RKMPPPL to inherent project implementation risk, including time and cost overrun.

Key strengths**Operational power project with long-term PPA in place for 350 MW power generation capacity:**

RKMPPPL commissioned its entire power generation capacity of 1,440 MW by March 2019. RKMPPPL has signed long-term PPAs with UPPCL for 350 MW and with Chhattisgarh State Power Utility for 35% of the power generation capacity (30% on a cost-plus basis and 5% on a variable cost basis). Out of the said long-term PPAs, PPA of only 350 MW with UPPCL is operational whereas PPA with Chhattisgarh State Power Utility is non-operational. In May 2022, RKMPPPL signed a 3-year PPA with the Haryana Discoms. However, RKMPPPL has not commenced any power supplies under the said PPA till date. Earlier RKMPPPL had also signed a 3-year PPA of 550 MW with Telangana Discom which was valid till February 2023. However, RKMPPPL discontinued supplies under the said PPA since October 2021 due to significant delays by the Telangana Discom in making the payments. The supplies under the Haryana PPA are expected to commence from FY25 onwards once domestic linkage coal is secured by the company. Also, RKMPPPL is endeavouring to tie-up additional capacity under long-term/medium-term PPAs. The long-term and medium-term PPAs of RKMPPPL provide a medium-term revenue visibility to the company.

Fuel supply arrangements meeting fuel requirement under long-term PPA:

RKMPPPL's total requirement for running the plant at 85% PLF (considering station heat rate of 2,440 kCal/kWh and gross calorific value (GCV) of coal of 3,600 kCal/kg) is around 7.27 million metric tonne per annum (MMTPA). As against the same, RKMPPPL has signed a long-term fuel supply agreement (FSA) of 1.79 MMTPA with the subsidiaries of Coal India Limited in order to meet the fuel requirement of its PPA with UPPCL. For balance fuel requirement, RKMPPPL is dependent upon domestic e-auction coal. The fuel supplies under the long-term FSA mitigates fuel supply risk for supplies under the long-term PPA. Also, in order to secure domestic coal for the Haryana PPA, the company is expected to participate in the forthcoming auctions under the Scheme for Harnessing and Allocating Koyala Transparently in India (SHAKTI) policy.

Stable financial performance during FY23:

RKMPPPL reported PLF of 47.55% in FY23 as against 54.46% in FY22. Despite the same, the total operating income (TOI) of RKMPPPL increased from ₹2,646 crore in FY22 to ₹3,039 crore in FY23. The improvement in TOI is mainly attributable to better realisations by the company in the merchant market due to high power demand in the country. RKMPPPL was able to realize ₹7.08/kWh from the merchant market in FY23 as compared with ₹4.19/kWh in FY22. However, PBILD T and PAT margin declined to 31.93% and 6.73% respectively in FY23 as against 38.96% and 6.62% respectively for FY22 mainly due to higher domestic e-auction coal cost. RKMPPPL's leverage and debt coverage indicators improved in FY23. Its overall gearing stood at 1.05x in FY23 as against 1.11x in FY22 whereas its total debt/PBILD T stood at 5.52x in FY23 as against 5.58x in FY22. PBILD T interest coverage in FY23 was 1.64x as against 1.60x in FY22. Continuation of high realisations from the merchant market coupled with commencement of power supplies under the medium-term PPA with the Haryana Discoms is expected to aid to the operational and financial performance of the company.

Liquidity: Stretched

The liquidity of RKMPPPL is characterized by tightly matching repayment obligations vis-à-vis cash accruals over the next few years. RKMPPPL's capex towards installation of FGD system is likely to be funded through a mix of debt and internal accruals whereas the capex towards railway siding and other ancillary capex is expected to be funded through available free cash & cash equivalents of around ₹812 crore of the company as on March 31, 2023. RKMPPPL's requirement of fund-based working capital limits is higher due to the requirement of upfront payment for sourcing of domestic coal and weak credit profile of its counterparties leading to payment delays. RKMPPPL has sanctioned fund-based working capital limits of ₹436.32 crore which remains largely utilized. Lastly, RKMPPPL has created a debt service reserve account (DSRA) of ₹140 crore by way of fixed deposits (FD) as per the terms of the restructuring.

Applicable criteria

['Outlook' or 'Rating Watch' to Credit Ratings](#)

[Default Recognition](#)

[Curing Period](#)

[Rating of Short-Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Infrastructure Sector Ratings](#)

[Thermal Power](#)

[Financial Ratios - Non-Financial Sector](#)

[Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Generation

Incorporated in December 2004, RKMPPPL has set-up and operates a 1,440 MW (360 MW x 4 units) coal-based thermal power generation plant in Uchpinda, Janjgir-Champa district of Chhattisgarh. RMPPL was promoted as a joint venture (JV) company between R.K. Powergen Private Limited (holding 46.66% equity stake in RKMPPPL), Mudajaya Corporation Berhad, Malaysia (MCB) (holding 10.93% stake in RKMPPPL) and Enerk International Holdings Limited (holding 8.10% stake in RKMPPPL). The balance shareholding in RKMPPPL is held by the lenders post implementation of the resolution scheme. Unit-I of the project was commissioned in November 2015, followed by unit-II in February 2016, unit-III in November 2017 and unit-IV in March 2019. The project was commissioned at a project cost of ₹13,827.71 crore (₹9.60 crore per MW), including multiple cost overruns.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (UA)
Total operating income	2,646	3,039
PBILDT	1,031	971
PAT	175	205
Overall gearing (times)	1.25	1.11
Interest coverage (times)	1.60	1.64

A: Audited; UA: Unaudited; The above financials have been adjusted as per CARE Ratings' criteria.

Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments/facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument/Bank Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	-	300.00	CARE BB+; Stable / CARE A4+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1.	Fund-based - LT/ ST-Cash Credit	LT/ST*	300.00	CARE BB+; Stable / CARE A4+	-	-	-	-

*Long-term/Short-term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments/facilities rated

Sr. No.	Name of the Instrument/Bank Facilities	Complexity Level
1.	Fund-based - LT/ ST-Cash Credit	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

<p>Media Contact</p> <p>Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Pradeep Kumar V Senior Director CARE Ratings Limited Phone: +91-98407 54521 E-mail: pradeep.kumar@careedge.in</p>	<p>Analytical Contacts</p> <p>Name: Sudhir Kumar Director CARE Ratings Limited Phone: +91-120-445 2006 E-mail: sudhir.kumar@careedge.in</p> <p>Name: Janki Aswani Assistant Director CARE Ratings Limited Phone: +91-79-4026 5612 E-mail: janki.aswani@careedge.in</p> <p>Name: Ashutosh Sureka Rating Analyst CARE Ratings Limited E-mail: ashutosh.sureka@careedge.in</p>
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About us:

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