June 25, 2024

Karnataka Power Corporation Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based term loan	19,922.62	19,922.62	[ICRA]BB (Stable); reaffirmed
Long term – Fund-based cash credit	978.50	978.50	[ICRA]BB (Stable); reaffirmed
Long term – Non-fund based	194.00	194.00	[ICRA]BB (Stable); reaffirmed
Short term – Fund-based – Short-term loan	13,407.00	13,407.00	[ICRA]A4; reaffirmed
Total	**34,502.12**	**34,502.12**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA's rating reaffirmation factors in Karnataka Power Corporation Limited's (KPCL) 100% ownership by the Government of Karnataka (GoK) and the strategic importance of the company to the state power sector. The ratings also derive comfort from the limited offtake risks for KPCL's power generation business due to the long-term power purchase agreements (PPAs) with the Karnataka discoms. Further, the tariff risks remain limited because of the two-part cost-plus tariff structure with availability-linked payment of capacity charges and pass-through of fuel cost variations, subject to the adhering of normative operating parameters approved by the Karnataka Electricity Regulatory Commission (KERC).

ICRA continues to take note of the fuel supply agreements with Singareni Coalfields Company Limited (SCCL) and Coal India Limited (CIL) for Raichur Thermal Power Station (RTPS), providing assurance on coal supply. Also, the resumption of supply from the captive coal mines in Maharashtra since March 2021 for Bellary Thermal Power Station (BTPS) unit-1 & unit-2 has ensured coal availability at competitive rates compared to the linkage sources. For unit-3 of BTPS and Yeramarus Thermal Power Station (YTPS), coal is being sourced under the linkage route from SCCL and CIL, which would be replaced with supply from the captive mines in Odisha, post their development. While the cost competitiveness of BTPS unit-3 and the YTPS plant has been adversely affected by the high capital cost owing to time overrun, the cost-plus tariff structure for the sale of power to the discoms with availability-linked payment of capacity charges and availability of coal from domestic sources would mitigate these risks to some extent. In addition, the ratings draw comfort from the well-established regulatory processes in Karnataka because of the approved generation tariff norms and the KERC's regular and timely tariff orders for discoms.

However, the ratings are constrained by the high debt levels of KPCL, constraining its profitability and debt coverage metrics and leading to a stretched liquidity position. The consolidated debt level further increased to Rs. 33,893 crore as of March 2024 from Rs. 30,753.87 crore as of March 2022 owing to the high receivables of ~Rs. 17,513 crore (including interest claimed on delayed payments) as on March 31, 2024 and the large support extended to a JV company - Raichur Power Corporation Limited (RPCL)[1].

The receivables from the state power distribution utilities (discoms) of Karnataka are high due to the overdues in electricity bill payments by Government entities and the receipt of subsidy for free power supply to the agriculture consumers from the Government of Karnataka (GoK) to the discoms, along with the interest booked by KPCL on these dues over the years. ICRA, however, notes that the extent of the increase in the receivable cycle has been reduced over the past two years because of

[1] Joint venture between KPCL and Bharat Heavy Electricals Limited (BHEL) in which KPCL owns 72% stake

improved collection efficiency due to part of past dues being cleared through late payment surcharge (LPS) scheme and the support received from the GoK to the discoms. Under the LPS scheme, the company is expected to receive past dues amounting to ~Rs. 7,300 crore which are being settled over 48 monthly instalments by the discoms. Nonetheless, the overall receivables and the consequent dependence on short-term and medium-term debt continue to be high, exposing the company to refinancing risks. However, the company is expected to receive more than Rs. 3000 crore through a securitisation transaction wherein Power Company of Karnataka Limited (PCKL) will raise the fund for clearing part of the dues from Karnataka ESCOMs. The receipt of the securitisation proceeds is expected to be utilised for reducing the external debt by the company. KPCL has also received approval from KERC for clearance of under-recovered O&M expenses amounting ~Rs. 2356 crore for the prior period of FY2009-FY2019. The amount is being billed over 12 monthly instalments from Jan 2024-Dec 2024.

Further, the operations of the 1,600-MW coal-based plant, YTPS, under RPCL were constrained by the pending auxiliary works and technical issues, resulting in under-recovery of fixed charges from the discoms. As a result, the company depended on KPCL to meet its obligations. The overall support extended by KPCL to RPCL has further increased as of March 2023, which was funded through additional borrowings by KPCL. Moreover, RPCL's plant availability continued to be below the normative level in FY2023.

The operating performance of some of the thermal assets of KPCL related to availability, station heat rate and auxiliary consumption also remained lower than the normative benchmarks in FY2023 and 10M FY2024, impacting the ability of the company to recover fixed charges and fuel costs. There has been a significant increase in the share of renewable (mainly wind and solar) capacity in the installed generation capacity in Karnataka. Given the must-run status of the renewable capacity, the thermal units are likely to face frequent backdowns, affecting their operating efficiencies.

ICRA takes note of the hydrological risks associated with KPCL's hydropower projects, where an adverse variation in water availability could impact the overall generation levels. While the revenue contribution from hydel assets remains relatively low because of the depreciated asset base, lower generation from hydropower projects in the state necessitates procurement from higher cost sources for the discoms.

The ratings further remain tempered by the company's sizeable capital expansion plans, which include implementation of the flue gas desulphurisation (FGD) system to comply with the new environmental norms for coal-based power plants, renovation and modernisation of hydel plants and capex for pumped storage project. The 370 MW gas-based project at Yelahanka is significantly delayed from the scheduled timeline owing to execution related challenges and non-availability of gas. The project is expected to be commissioned by September 2024.

ICRA's Stable outlook on the long-term rating factors in the support from the GoK, enabling KPCL to refinance its debt obligations in a timely manner and manage its liquidity along with the limited demand and tariff risks for its projects.

Key rating drivers and their description

Credit strengths

State-owned power generation company with high strategic importance - KPCL is a GoK-owned power generation utility that supplies electricity to the five discoms of Karnataka under long-term PPAs. KPCL occupies an important role in the state power sector, accounting for 27% of the installed power generation capacity in Karnataka as of March 2024.

Limited demand and tariff risks - The long-term PPAs with the state discoms of Karnataka mitigate the demand risks. The regulated nature of the business with a two-part cost-plus tariff structure allows the company to pass on the variation in the cost to the discoms, subject to adherence to normative operating parameters.

Fuel supply tied up with CIL, SCCL and captive mines - The fuel supply for RTPS is tied up under long-term linkages with SCCL and the subsidiaries of CIL, limiting fuel availability risks. For BTPS unit-1 & unit-2, the resumption of supply from the captive coal mines in Maharashtra since March 2021 has enabled coal availability at a competitive cost compared to the linkage sources. For unit-3 of BTPS and YTPS, coal is being sourced under the linkage route.

Established regulatory processes in Karnataka - KPCL's operations are supported by well-established regulatory processes in Karnataka, with the presence of multi-year tariff regulations for generation utilities. Also, the regulator issues tariff orders for the discoms in a timely manner.

Credit challenges

Large receivable position and consequent dependence on short-term debt - KPCL faces significant counterparty credit risks evident from the large build-up of receivables from the Karnataka discoms, with outstanding dues of ~Rs. 17,513 crore (including interest claimed on delayed payments) as of March 2024. This leads to high dependence on short-term borrowings, which constrain the capital structure, profitability and debt coverage metrics. The gearing ratio for KPCL was 5.25x as of March 2023 and the interest coverage ratio was 0.65x in FY2023. Nonetheless, the late payment surcharge (LPS) scheme is expected to provide relief with dues amounting to ~Rs. 7,300 crore being settled over 48 monthly instalments by the discoms. Moreover, the company is expected to receive more than Rs. 3000 crore through the securitisation transaction swhich will help moderate the receivables and debt. The reconciliation of receivables with the discoms has been completed and going forward, recovery of the same remains a key monitorable.

Continued funding support to RPCL lead to higher reliance on debt - The support extended to JV company, RPCL, has increased dependence on borrowings for KPCL. The operations of the 1,600-MW coal-based plant under RPCL were constrained by pending auxiliary plant works and technical issues, resulting in under-recovery of fixed charges from the discoms. The availability continued to remain below the normative level in FY2023. The overall support given to RPCL increased to more than Rs. 10,000 crore as of March 2023.

Operating metrics below normative level amid rising share of renewables - The operating performance of some of the thermal units related to availability, station heat rate and auxiliary consumption remained lower than the normative benchmarks in FY2023 and 10M FY2024. This has adversely impacted the ability of the company to recovery the fixed charges and pass-through of fuel costs. Further, the increase in the share of renewable capacity (mainly solar and wind) in the power generation mix is leading to frequent backdowns for the thermal units, which may affect the operating efficiencies of KPCL's thermal units.

Hydel power project exposed to risk of water availability - Generation by the hydropower projects is exposed to hydrology risks, where any adverse variation in water availability would lower the generation from these projects as was the case in FY2024. This makes the discoms dependent on relatively high-cost power.

Large capital investment plans for KPCL - KPCL's capital investment expansion plans remain large, including the pumped-storage project and investments to comply with the revised environmental norms for the thermal units. This will entail large debt funding requirement for the company.

Liquidity position: Stretched

The liquidity position of KPCL remains stretched as the cash flow from the operations is expected to remain inadequate to meet the debt servicing obligations owing to the high interest costs, reliance on short-term debt and debt-funded support extended to RPCL. The resolution of the receivable issue and realisation of the dues from discoms remain important to improve the liquidity position of the company.

Rating sensitivities

Positive factors – The ratings can be upgraded in case of a sizeable reduction in the outstanding receivables and a consequent reduction in the short-term debt and improvement in its liquidity position.

Negative factors – The ratings could be revised downwards in case of a further elongation in receivables, leading to increased reliance on debt funding to meet the cash flow requirements. Also, the inability of the generation units to meet the required normative operating efficiency or plant availability adversely impacting KPCL's profitability could lead to a downgrade. Further, the ratings remain sensitive to the credit profile of GoK.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Power - Thermal
Parent/Group support	The assigned rating factors in the systemic importance that KPCL has in the state power sector, which ICRA expects should induce the GoK to extend financial support to the rated entity, should there be a need
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company and its subsidiaries are mentioned in Annexure-II

About the company

KPCL is the state-owned power generation company of the Government of Karnataka (GoK) with an operational power generating capacity of 8,738 MW, comprising hydel power generation capacity of 3,680 MW, thermal capacity of 5,020 MW and renewable capacity of 39 MW. The thermal generation capacity of the company also includes a 1,600-MW thermal power project under a JV with BHEL, namely Raichur Power Corporation Limited (RPCL). The company supplies power generated from its stations to the five-state owned distribution utilities in Karnataka under long-term power purchase agreements (PPAs).

Key financial indicators (audited)

KPCL Consolidated	FY2022	FY2023
Operating income	7,820.9	9420.9
PAT	-86.9	277.1
OPBDIT/OI	27.4%	20.2%
PAT/OI	-1.1%	2.9%
Total outside liabilities/Tangible net worth (times)	4.9	5.3
Total debt/OPBDIT (times)	14.4	17.0
Interest coverage (times)	0.7	0.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: Company data, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 29, 2024 (Rs. crore)	Date & rating	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 25, 2024	Mar 20, 2024	Mar 21, 2023	Dec 27, 2021
1	**Fund based Term Loan**	Long Term	19922.62	19410.27	**[ICRA]BB (Stable)**	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	**Fund based Cash Credit**	Long Term	978.50	-	**[ICRA]BB (Stable)**	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
3	**Non-fund based**	Long Term	194.00	-	**[ICRA]BB (Stable)**	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
4	**Short Term Loans**	Short Term	13407.00	-	**[ICRA]A4**	[ICRA]A4	[ICRA]A4	[ICRA]A4

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Fund based/Cash Credit	Simple
Non-fund based	Very Simple
Short Term Loans	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based TL	FY2018	-	FY2030	9,268.71	[ICRA]BB (Stable)
NA	Long-term fund-based TL	FY2017	-	FY2030	5,438.34	[ICRA]BB (Stable)
NA	Long-term fund-based TL	FY2022	-	FY2027	1,436.66	[ICRA]BB (Stable)
NA	Long Term Fund-based TL	FY2022	-	FY2025	266.56	[ICRA]BB (Stable)
NA	Long Term Fund-based TL	FY2024	-	FY2029	1000.00	[ICRA]BB (Stable)
NA	Long Term Fund-based TL	FY2024	-	FY2027	1500.00	[ICRA]BB (Stable)
NA	Long Term Fund-based TL	FY2024	-	FY2026	250.00	[ICRA]BB (Stable)
NA	Long Term Fund-based TL	FY2024	-	FY2029	250.00	[ICRA]BB (Stable)
NA	Long Term Fund-based TL*	-	-	-	512.35	[ICRA]BB (Stable)
NA	Long Term Fund-based CC	-	-	-	978.50	[ICRA]BB (Stable)
NA	Long term – Non-fund based	-	-	-	194.00	[ICRA]BB (Stable)
NA	Short-term loans	-	-	-	13407.00	[ICRA]A4

*Source: Company; *Proposed*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Raichur Power Corporation Limited	77.86%	Equity Method
KPC Gas Power Corporation Limited	100.00%	Full Consolidation

Source: Company

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About ICRA Limited:

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