May 21, 2024

Haldia Energy Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper programme**	450.00	450.00	[ICRA]A1+; reaffirmed
Total	**450.00**	**450.00**	

**Instrument details are provided in Annexure-I; ** The rating of the aforementioned instrument is based on the condition that total short-term borrowings (including commercial paper, short-term debt and bank borrowings) of the company at any given point of time should not exceed the company's drawing power or the bank sanctioned fund-based limits (whichever is lower)*

Rationale

The ratings reaffirmation continues to factor in the strong parentage of Haldia Energy Limited (HEL) as a part of the RP-Sanjiv Goenka (RP-SG) Group, which lends it a high degree of financial flexibility, and the strategic importance of HEL to its parent CESC Limited (CESC; rated [ICRA]A1+), given that HEL's 600-MW coal-based power plant meets around 35-40% of the annual power demand in CESC's distribution territory in Kolkata. The rating considers HEL's low offtake risks for its coal-based generation unit, with the entire capacity tied up under a regulated cost-plus tariff-based long-term power purchase agreement (PPA) with CESC. The company has limited fuel availability risks as it has a fuel supply agreement (FSA) of 2.57 million tonne per annum (MTPA) with Mahanadi Coalfields Limited (MCL), which is a subsidiary of Coal India Limited (CIL). Over the last few years, HEL has been receiving more than 90% of the annual contracted quantity (ACQ) of coal through the FSA. The remaining requirement of coal is met through e-auction, where the higher cost is a pass-through under the terms of the PPA. The rating reaffirmation also factors in HEL's efficient operations, with the company's actual parameters like station heat rate (SHR), plant availability factor (PAF), auxiliary energy consumption, fuel oil consumption and plant availability factor (PAF) being better than the normative parameters, resulting in sizeable efficiency gains and incentive income.

The rating, however, remains constrained by the company's exposure to regulatory risks associated with timely issuance of tariff order, cost-reflective tariffs, and any large cost disallowances in APR[1] orders. ICRA has noted the build-up of regulatory assets since FY2022, which accumulated to around Rs.409 crore (net of advance against depreciation and deferred taxes) as on March 31, 2023, and this is expected to further increase in FY2024 as well. With the APR orders for the generation station pending since FY2018, and for the transmission line pending since FY2021, there is limited visibility on the recovery of these cost-under-recoveries. ICRA's analysis suggests that basis the latest Multi Year Tariff (MYT) order, even after the levy of monthly fuel cost adjustment (MFCA), the tariff gap between effective billed tariff and normative tariff is expected to be around Rs. 0.40 - 0.45 per unit of power sold for FY2025 and FY2026, which will lead to further build-up of regulatory assets going forward. The ratings also factor in the moderate credit metrics of the company. Notwithstanding the relatively stable earnings stream of the company arising out of its cost-plus based tariff principles, the leverage indicator (Total Debt/OPBDITA) has not shown any meaningful improvement over the last several years on account of sizeable advances made to CESC Limited and Dhariwal Infrastructure Limited (DIL), increased working capital intensity, and build-up of regulatory assets. Moreover, given the sizeable debt repayments going forward, ICRA expects HEL's DSCR[2] to remain constrained over the near term, exposing the company to refinancing risks as well. However, the company's high financial flexibility, access to need-based funding support from the parent, and sizeable on-balance sheet liquidity of around Rs.342 crores as on March end 2024 provides comfort from the liquidity perspective.

[1] Annual Performance Review

[2] Debt Service Coverage Ratio

ICRA also notes that HEL has extended significant advances to its fellow subsidiary, DIL and to its parent, CESC. Despite some recovery in the last few years the outstanding advances remain sizeable, the recovery of which would be a key monitorable. Going forward, ICRA does not expect any significant increase in advances to DIL as its performance has improved over the recent years and is expected to remain self-sustainable in the near term.

Key rating drivers and their description

Credit strengths

Strong parentage of RP-SG Group – HEL is a 100% subsidiary of CESC, which is the flagship company of the RP-SG Group. HEL benefits from high financial flexibility because of its parentage and Group linkages, demonstrated in its ability to access the capital markets and borrow at competitive rates. Moreover, the entire power generated from this 600-MW thermal power plant is procured by CESC, which is the distribution licensee for the Kolkata region. HEL supplies 35-40% of CESC's annual energy requirement and is thus strategically important to the latter.

Limited offtake risks because of 25-year PPA with CESC – HEL has a PPA with CESC for 25 years at a tariff determined on the cost-plus basis. It benefits from the long-term PPA and the assured offtake arrangements by CESC, which has a strong credit profile (rated [ICRA]A1+). Moreover, the power sourced from HEL's plant meets the base load requirement along with the Budge-Budge unit (750 MW), while the ageing Southern (135 MW) unit serves more as a peak load station.

Low fuel availability risks due to FSA with MCL – HEL has an FSA for sourcing 2.57 million tonnes per annum (MTPA) of coal from MCL. The company has been receiving more than 90% of the annual contracted quantity (ACQ) from MCL since FY2017, which is considerably higher than the guaranteed supply volume of 75% of the ACQ. The FSA insulates the company from fuel availability risk to a great extent, while any price fluctuation is passed on under the PPA. In addition to sourcing domestic coal, either through linkage or e-auction, HEL's plant has the flexibility to source imported coal as its location is close to the Haldia port.

Efficient plant operations – HEL reported PAF of 95.8% and PLF of 87% in FY2024 against a PAF of 96.8% and PLF of 80% in FY2023. The operating parameters of HEL's generation unit, including SHR, auxiliary energy consumption, fuel oil consumption, PLF and PAF, remain much better than the norms prescribed by the WBERC. This results in sizeable efficiency gains and incentive income for the company.

Credit challenges

Regulatory risks related to timely issuance of tariff order and disallowances in cost items in the APR order – HEL's tariff is on a cost-plus basis as determined by the WBERC, exposing the company to the regulatory risk associated with the delay in receiving tariff orders and disallowance of costs in the APR order by the state regulatory commission. ICRA notes that in the past, there has been a disallowance in HEL's approved project cost, with the West Bengal Electricity Regulatory Commission (WBERC) allowing Rs. 3,832.6 crore (including additional capitalisation of Rs. 229.7 crore) against Rs. 4,067.2 crore claimed by HEL. ICRA has noted the build-up of regulatory assets since FY2022, which accumulated to around Rs.409 crore (net of advance against depreciation and deferred taxes) as on March 31, 2023, and this is expected to further increase in FY2024 as well. With the APR orders for the generation station pending since FY2018, and for the transmission line pending since FY2021, there is limited visibility on the recovery of these cost-under-recoveries. ICRA's analysis suggests that basis the latest Multi Year Tariff (MYT) order, even after the levy of monthly fuel cost adjustment (MFCA), the tariff gap between effective billed tariff and normative tariff is expected to be around Rs. 0.40 - 0.45 per unit of power sold for FY2025 and FY2026, which will lead to further build-up of regulatory assets going forward.

Moderate credit metrics; sizeable scheduled debt repayments along with cash flow timing mismatch due to delays in cost-recovery is expected to constrain the DSCR – The credit metrics of the company as reflected by Total Debt/OPBIDTA remains moderate at around 4 times in FY2023. Notwithstanding the relatively stable earnings stream of the company arising out of its cost-plus based tariff principles, the leverage indicator (Total Debt/OPBDITA) has not shown any meaningful improvement over the last several years on account of sizeable advances made to CESC Limited and DIL, increased working capital intensity and build-up of regulatory assets. Moreover, given the sizeable debt repayments going forward, ICRA expects HEL's DSCR[3] to remain constrained over the near term, exposing the company to refinancing risks as well. However, the company's high financial flexibility, access to need-based funding support from the parent, and sizeable on-balance sheet liquidity of around Rs.342 crores as on March end 2024 provides comfort from the liquidity perspective.

Substantial exposure to DIL – Given its healthy earnings, HEL has been supporting other entities of the RP-SG Group, mainly DIL, to meet the latter's cash flow deficit in meeting its scheduled debt service commitments. However, DIL's own performance has improved over the recent years. Going forward, ICRA does not envisage any material increase in the advances to DIL. The company has recovered Rs. 70 crore of advances from DIL in FY2024 and the current exposure to DIL is Rs. 740 crore.

Liquidity position: Adequate

HEL's liquidity position has been assessed as **adequate** with free cash/bank balances of around Rs. 342 crore as on March end 2024. Notwithstanding the Rs. 0.40-0.45/kwh tariff gap expected between the normative cost reflective tariff and the effective billed tariff coupled with sizeable repayments obligations going forward, leading to a subdued DSCR, ICRA expects the company to meet any potential cash flows timing mismatches through its on-balance sheet liquidity. Moreover, being a strategically important entity to CESC, HEL's liquidity profile benefits from the parent's high financial flexibility and willingness to support its operations in case the need arises.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on HEL's rating may arise if there is a marked deterioration in the credit profile of CESC, HEL's parent and the sole customer. Further, any large cost disallowance of HEL at the time of true up and/or tightening of normative operating norms by the WBERC, significantly tempering HEL's return indicators and debt coverage metrics may lead to a downgrade. Further, large support to DIL/other Group companies adversely impacting the company's liquidity profile may impact the rating negatively.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Thermal
Parent/Group support	The rating assigned to HEL factors in the high likelihood of its parent, CESC Limited [rated [ICRA]A1+], extending financial support to HEL because of the close business linkages between the entities and out of the need to protect its reputation from the consequences of a Group entity being in distress
Consolidation/Standalone	Standalone financial profile

[3] Debt Service Coverage Ratio

About the company

HEL is a part of the Kolkata-based RP-SG Group. It is a wholly-owned subsidiary of CESC. The company operates a 2X300 MW thermal-based power generation unit in Haldia, West Bengal. The two units were commissioned on January 28, 2015 and February 21, 2015, respectively. The entire capacity has been tied up under a long-term cost-plus PPA with CESC.

Key financial indicators

HEL	FY2022 (Audited)	FY2023 (Audited)
Operating Income (Rs. crore)	2,203.18	2,165.79
PAT (Rs. crore)	333.42	261.03
OPBDIT/OI (%)	44.36%	37.48%
PAT/OI (%)	15.13%	12.05%
Total Outside Liabilities/Tangible Net Worth (times)	1.49	1.31
Total Debt/OPBDITA (times)	3.58	4.00
Interest Coverage (times)	3.47	3.10

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

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 March 31, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 21, 2024	May 31, 2023	May 31, 2022	May 31, 2021
1	**Commercial paper**	Short term	450.00	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	Very 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-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Unplaced	**Commercial paper**	-	-	-	450.00	[ICRA]A1+

Source: Company;

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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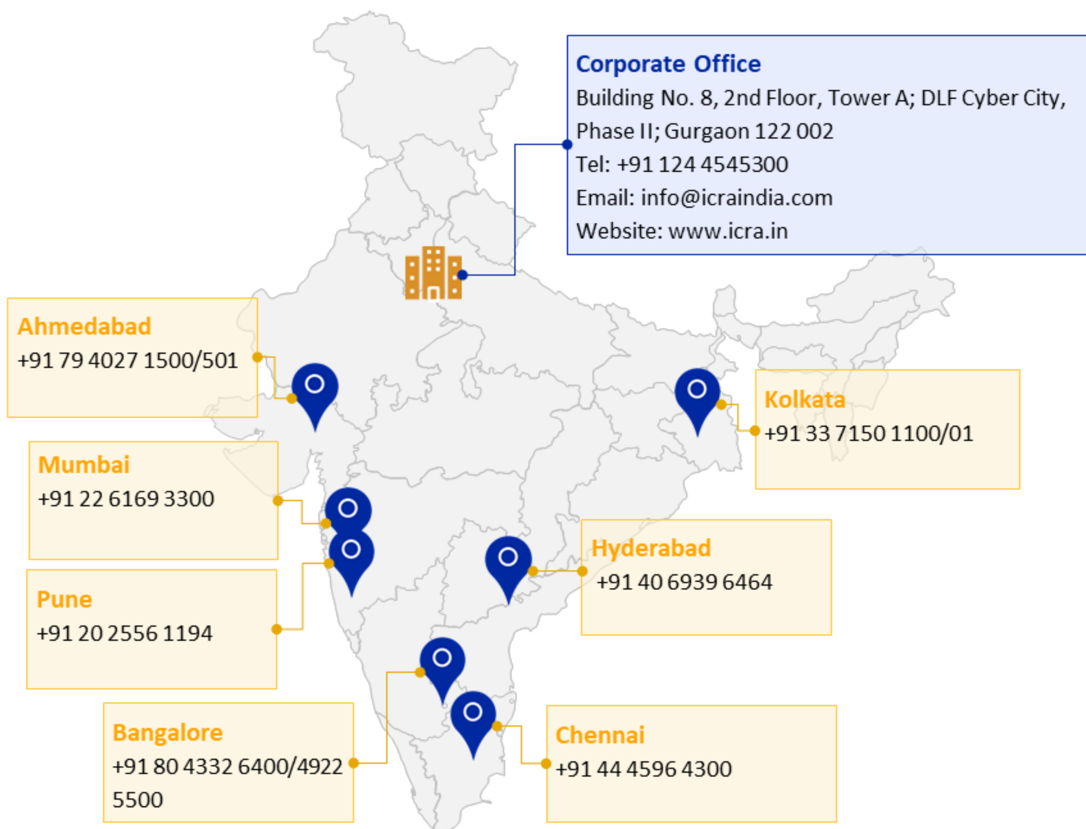

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