



## RATING RATIONALE

31 Aug 2023

### INDIA POWER CORPORATION LIMITED

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities aggregating Rs. 184.44 Crs. of India Power Corporation Limited**

#### Particulars:

Facility**	Amount		Tenure	Ratings*	
	Previous	Present		Previous (28 Dec 2022)	Present
<b>Fund Based</b>	188.85	<b>177.13</b>	Long Term	BWR BBB- Rating Watch with Negative Implications Reaffirmation	<b>BWR BBB- Rating Watch with Negative Implications Reaffirmation</b>
<b>Non-Fund Based</b>	7.31	<b>7.31</b>	Short Term	BWR A3 Rating Watch with Negative Implications Reaffirmation	<b>BWR A3 Rating Watch with Negative Implications Reaffirmation</b>
<b>Total</b>	196.16	<b>184.44</b>	<b>Rupees One Hundred and Eighty Four Crores and Forty Four Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

\*\* Details of the instrument and rated bank loan facilities are provided in Annexure-I

#### RATING ACTION / OUTLOOK

The reaffirmation of bank loan ratings of India Power Corporation Limited (IPCL or the company) continues to reflect the experienced management with a long operational track record in the power distribution business and the varied consumer category mix primarily including Government establishments and industrial houses with balance of domestic consumers in its licensed area. The ratings also draw comfort from the stable financial profile and a satisfactory financial performance in FY23 and Q1FY23 (unaudited) marked by low gearing and adequate liquidity, consistent operational parameters marked by low transmission & distribution (T&D) losses of less than 3%, high collection efficiency and supply reliability. However, the ratings are constrained due to the moderate scale of operations in a competitive environment where the majority of the participants are public sector organisations, exposure to regulatory risk as power distribution is a regulated business with tariffs being determined by West Bengal Electricity Regulatory Commission (WBERC) and susceptibility of margins arising from the power procured from the open market/



exchange. The ratings are further tempered by the ongoing litigation. BWR also takes note of the qualified opinion given by the statutory auditor in its FY23 Independent Auditor's Report.

The ratings were downgraded in July 2022 and were placed on credit watch with negative implications following the announcement made by SREI Infrastructure Finance Ltd that the Administrator of SREI Equipment Finance Ltd (SEFL) received an initial report from the transaction auditor, BDO India LLP (BDO), indicating that there are certain transactions which are fraudulent in nature, as per Section 66 of the Code. Basis the investigation and observations of BDO, the Administrator had filed an application in respect of disbursements made to certain entities, referred to as the Power Trust group of entities, before the Kolkata bench of the National Company Law Tribunal (NCLT) under Section 60(5) and Section 66 of the Code on 10 June 2022. The application was filed against 14 respondents, including India Power Corporation Limited and certain other entities as reported by BDO. As per the report, the concerned transactions occurred during FY2020 to FY2021. With respect to the application filed against 14 respondents, including India Power Corporation Limited before NCLT, the company has filed their responses. The matter is under consideration before NCLT, Kolkata Bench and no final decision has been made. However, BWR notes that, reportedly, there are no claims against the company although its name is mentioned in the list of parties to alleged fraudulent transactions. The ratings continue to be under watch with negative implications as the matter is subjudice and status quo is maintained. BWR shall monitor the developments in this regard and shall take appropriate rating action including resolution of the rating watch as and when it has greater clarity on these aspects.

## KEY RATING DRIVERS

### Credit Strengths:-

- **Experienced management team and demonstrated track record:**  
IPCL has been operational since 1919 with a long-standing track record in the power distribution business. The Company supplies at various voltage levels, including 132kV, 33kV, 11kV and 440V in its licence area of 798 square kilometres in the Asansol-Raniganj region of West Bengal to varied industries and utilities, both government and private sector. It is also involved in power generation in the thermal, as well as wind and solar energy sectors. The company has an experienced management team having knowledge & expertise in varied industries and sectors.
- **High operational efficiency of distribution business:**  
The company's core revenue comes from the power distribution business in the Asansol region. The connected load increased from 258 MVA in FY22 to 266 MVA in FY23 with the addition of 1,037 new consumers in FY23. It sold 910.96 MU of power in FY23 compared to 947.04 million units in FY22. Furthermore, the company has been maintaining high operational efficiencies in the distribution business, with T&D losses at ~3% and a collection efficiency of above 98% over the last few years. The company reported T&D losses at ~2.80% (PY: ~2.89%) and a collection efficiency of ~97% (PY: ~98.83%) in



FY23. T&D losses further reduced to 2.51% in Q1FY24 (Q1FY23: 3.03%). A high proportion of industrial customers (~95%) in its overall customer base also helps the company in maintaining low T&D loss and high collection efficiency. IPCL has implemented the Supervisory Control and Data Acquisition (SCADA) system, which has automated the entire load management process, further optimising transmission losses. The company has also installed advanced metering infrastructure (AMI) systems for nearly all the consumers, with the usage of prepaid meters for all its LT customers. Additionally, BWR notes that the company envisages being the market leader in increasing its green energy mix to ~50% by FY24 and ~75% by FY25. Presently, the company meets ~26% (FY23) of its energy needs through renewables. The average power purchase cost of the company has declined from Rs. 5.81/unit in Q1FY23 to Rs. 5.04/unit in Q1FY24. This is primarily due to renewable power offtake from Solar Energy Corporation of India (SECI) and lower spot market rates compared to Q1FY23.

- **Stable financial risk profile:**

The company's total operating income (adjusting for regulatory income / expenses) increased from Rs. 611.36 Crs. in FY22 to Rs. 667.67 Crs. in FY23. In FY23, the EBITDA and PAT declined from Rs. 60.81 Crs. and Rs. 16.15 Crs., respectively, to Rs. 57.25 Crs. and Rs. 13.61 Crs., respectively, in FY22. The total debt of the company declined from Rs. 323.06 Crs. as on 31 Mar 2022 to Rs. 279.85 Crs. as on 31 Mar 2023. Tangible net worth (TNW) declined from Rs. 946.63 Crs. to Rs. 589.01 Crs. over the same period. The gearing stood at 0.48 time as on 31 Mar 2023 compared to 0.34 time as on 31 Mar 2022. Debt coverage metrics remained average as on 31 Mar 2023 given by ISCR of 1.51 times (PY: 1.84 times) and DSCR of 1.18 times (PY: 1.44 times). As per Q1FY24 unaudited financials, the company's total operating income, EBITDA, and PAT were at Rs. 171.50 Crs., Rs. 14.58 Crs., and Rs. 3.34 Crs., respectively.

#### **Credit Risks:-**

- **Regulatory risks:**

Power distribution is a highly regulated business. The tariff is determined by the WBERC's tariff orders. At the end of the financial year, 'Annual Performance Review' (APR) petition for fixed cost and Fuel and Power Purchase Cost Adjustment (FPPCA) for variable cost is submitted to WBERC by the company. Certain variable cost components are allowed to be recovered on actuals as 'monthly variable cost adjustment' (MVCA). Additionally, the tariff regulation prescribes various normative operational and financial parameters for the company. Any variation thereof may lead to disallowances. The company is also exposed to the regulatory risk to the extent that accruals may be disallowed on assessment by the regulator. The company continuously monitors the regulatory pronouncements and decisions that directly impact its business activities and quantifies the associated risks to the extent possible. Nevertheless, the changes in regulation are likely to impact the business operations of the company and under recovery arising from the pending tariff orders by WBERC impact the company's margins.



- **Moderate scale and competition from incumbents:**

Due to open access regulations, the company faces demand uncertainty and the possibility of existing customers approaching its competitors for direct purchase of power. In its licenced area, the company has a moderate scale of operations and predominantly competes with public sector utilities having larger distribution network and scale. However, due to its efficient distribution and ~99.8% reliability, the company has been able to attract the majority of the new customers under its distribution licence area. The company added over ~1000 new customers in FY23 and ~340 new customers in Q1FY24 taking the total customer base to 9096.

- **Ongoing litigations:**

BWR continues to take note of the company's ongoing litigation with respect to company's Corporate Guarantee in favour of lenders of Meenakshi Energy Limited (MEL). The company had acquired ~95% stake in Meenakshi Energy Limited (MEL) in FY17 and ~92.75% shareholding in MEL stood pledged to its lenders. Post MEL going into financial stress, the pledged shares were transferred to the account of the SBICAP Trustee. An application was filed by the SBI against MEL under section 7 in the NCLT, Hyderabad in FY22. NCLT did not consider that the transfer of the pledged shares constituted a sale and admitted MEL into CIRP in Nov'19. Subsequently in Appeal, NCLAT held that SBICAP Trustee had become the beneficial owners of the pledged shares. However, NCLAT did not hold that as a consequence the loan of the lenders had been discharged. IPCL has filed an appeal before the Hon'ble Supreme Court of India on the question of law whether the debt stood discharged and the same is under consideration. The next hearing is on 22 Sep 2023. Post the initiation of the Corporate Insolvency Resolution Process (CIRP) in respect of MEL, it ceased to be a subsidiary of IPCL. NCLT, Hyderabad Bench vide its order dated 10 Aug 2023 has approved the Resolution Plan in respect of CIRP of MEL.

Additionally, IPCL had given a Corporate Guarantee of Rs. 2844.45 Crs. on 23 Sep 2016 in favour of lenders of MEL for the outstanding loan amount (~Rs. 2800 Crs. as on 31 Mar 2019) subject to WBERC approval. WBERC declined the approval vide their letter dated 10 Nov 2017, which was accordingly intimated to the lenders. Accordingly, the lenders of MEL were informed that the Corporate Guarantee given earlier was void. SBI, one of the lenders of MEL, filed an application before NCLT, Hyderabad against IPCL on 24 Aug 2021 in its capacity as a Corporate Guarantor of MEL u/s 7 read with Section 60(2) of The Insolvency and Bankruptcy Code (IBC), 2016 specifying Rs. 500.48 Crs. as the amount of default. IPCL has placed its response before the NCLT, and the matter is sub-judice. Reportedly, the final hearing was completed on 18 Aug 2023 and the judgement is awaited. The settlement of the litigation is a key rating sensitivity.



### **ANALYTICAL APPROACH - Standalone**

To arrive at the rating, BWR has analysed the operational and financial profile of the company on a standalone basis keeping in view the insignificant revenue contribution from the other entities. FY23 consolidated audited financial statements of the company include the results of the following three subsidiaries and three joint ventures: IPCL Pte. Ltd., Parmeshi Energy Limited, MP Smart Grid Private Limited (three subsidiaries); India Uniper Power Services Private Limited, Arka Energy B.V., Arkeni Solar sh.p.k (three joint ventures). Their aggregate contribution in the FY23 consolidated revenue was less than 5%.

### **RATING SENSITIVITIES**

#### **Upward:**

- A substantial improvement in the company's revenue and profitability on a sustainable basis on account of sustained decline in the average power purchase cost and consistent addition of new customers
- Settlement of ongoing litigations in the company's favour

#### **Downward:**

- Substantial deterioration in the operational performance, a decline in the scale of operations and profitability of the company on a sustainable basis
- Negative impact of ongoing litigations on the financial or business profile.
- Adverse impact of any change in the regulatory regime on the financial or business profile.

### **LIQUIDITY POSITION - Adequate**

The company's liquidity continues to remain adequate reflected by moderate current ratio, cash & cash equivalents, low working capital facilities utilisation and with operating profit and net cash accruals adequately covering the finance cost and the repayment obligations. The company's net cash accruals in FY23 were at ~Rs. 41 Crs. against the debt repayment obligations of ~Rs. 32 Crs. In FY24, net cash accruals are expected to be ~Rs. 81 Crs. against the repayment obligations of ~Rs. 25 Crs. The current ratio is at a moderate level of ~1.31 times as on 31 Mar 2023. Cash & cash equivalents have increased from Rs. 14.62 Crs. as on 31 Mar 2022 to Rs. 24.51 Crs. as on 31 Mar 2023. The company's working capital utilisation in the past 6 months is ~40-50%, with the unused line of credit of the working capital facilities supporting any short-term liquidity requirements.



## ABOUT THE ENTITY

Macro Economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Distribution

India Power Corporation Limited (IPCL), formerly known as DPSC Ltd., was incorporated in 1919 and is one of the oldest power utility companies in India. It is an ISO 9001:2015 entity and an NSE and MSEI-listed company. In 2010, Kanoria Family of Kolkata acquired DPSC Ltd. and subsequently the company's name was changed to IPCL. The company has a power distribution licence in Asansol, West Bengal, over an area under the management of 798 sq. km. In addition, the company operates a 12 MW thermal power plant located at Dishergarh in Asansol, a 2 MW Photo Voltaic solar power plant in Jamuria, West Bengal, and 24.80 MW wind energy plants in Gujarat.

Mr. Raghav Raj Kanoria is the Managing Director of the company.

## KEY FINANCIAL INDICATORS

Key Financial Parameters	Unit	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Revenue from Operations	Rs. Crs.	611.36	667.67	171.50
EBITDA	Rs. Crs.	60.81	57.35	14.58
PAT	Rs. Crs.	16.15	13.61	3.34
Tangible Net Worth	Rs. Crs.	946.63	589.01	NA
Total Debt/TNW	Times	0.34	0.48	NA
Current Ratio	Times	1.38	1.31	NA

**Note:** Revenue from operations is post-adjusting for regulatory income/expenses. TNW is excluding the revaluation reserves. A = Audited. UA = Unaudited.

**KEY COVENANTS OF THE INSTRUMENT RATED:** The terms of sanction include standard covenants normally stipulated for such facilities.

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY:** CARE Ratings vide its press release dated 28 Jul 2023 has continued the bank loan rating of the company under the ISSUER NOT COOPERATING\* category.

\*Issuer did not cooperate; based on best available information

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]:**

Instrument/ Facility	Current Rating (Aug 2023)			Rating History							
	Tenure	Amount (Rs. in Cr.)	Rating	2023		2022		2021		2020	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund Based Facilities	Long Term	177.13	BWR BBB- Rating Watch with Negative Implications Reaffirmation	NA	NA	18 Apr 2022	BWR A-/Stable (Reaffirmation)	05 Mar 2021	BWR A-/Stable (Reaffirmation)	26 Feb 2020	BWR A-/Stable (Downgrade)
				NA	NA	12 Jul 2022	BWR BBB- Rating Watch with Negative Implications	NA	NA	NA	NA
				NA	NA	28 Dec 2022	BWR BBB- Rating Watch with Negative Implications	NA	NA	NA	NA
Non Fund Based Facility	Short Term	7.31	BWR A3 Rating Watch with Negative Implications Reaffirmation	NA	NA	18 Apr 2022	BWR A2	05 Mar 2021	BWR A2 (Reaffirmation)	26 Feb 2020	BWR A2 (Downgrade)
				NA	NA	12 Jul 2022	BWR A3 Rating Watch with Negative Implications	NA	NA	NA	NA
				NA	NA	28 Dec 2022	BWR A3 Rating Watch with Negative Implications	NA	NA	NA	NA
NCD Instrument	Long Term	-	NA	NA	NA	18 Apr 2022	BWR A-/Stable (Reaffirmation)	05 Mar 2021	BWR A-/Stable (Reaffirmation)	26 Feb 2020	BWR A-/Stable (Downgrade)
				NA	NA	12 Jul 2022	BWR BBB- Rating Watch with Negative Implications	NA	NA	NA	NA
				NA	NA	28 Dec 2022	Withdrawal on full redemption	NA	NA	NA	NA
<b>Total</b>		<b>184.44</b>		<b>Rupees One Hundred and Eighty Four Crores and Forty Four Lakhs Only</b>							

**Note:** Initial rating by BWR:

- BWR A+ for Rs. 300 Crs. of NCDs on 18 Feb 2011;
- BWR A/A2+ Rating Watch with Developing Implications for Rs. 341.12 Crs. of bank loan facilities on 04 Feb 2019.

**COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple**

For more information, visit <https://www.brickworkratings.com/download/ComplexityLevels.pdf>

**HYPERLINK/REFERENCE TO APPLICABLE CRITERIA**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Power Generation Utilities](#)
- [Power Distribution Utilities](#)
- [Short Term Debt](#)

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**INDIA POWER CORPORATION LIMITED  
ANNEXURE I: DETAILS OF BANK FACILITIES RATED**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Amount (Rs. Crs.)
1	IDBI Bank	Cash Credit	13.00	-	13.00
2		Term Loan	0.00	-	0.00
3		GECL 2.0	4.54	-	4.54
4	South Indian Bank	Cash Credit	43.00	-	43.00
5		Term Loan	24.87	-	24.87
6		Bank Guarantee/ Letter of Credit	-	7.31	7.31
7	RBL Bank	Cash Credit	40.00	-	40.00
8		GECL 2.0	21.70	-	21.70
9	Axis Bank	Cash Credit	16.00	-	16.00
10		GECL 2.0	3.72	-	3.72
11		Bank Guarantee (sub-limit of Cash Credit)	-	(0.02)	(0.02)
12	Union Bank of India	Term Loan	3.15	-	3.15
13	IREDA	Term Loan	7.15	-	7.15
<b>Total</b>		<b>Rupees One Hundred and Eighty Four Crores and Forty Four Lakhs Only</b>			<b>184.44</b>

**Note:** Term loan and GECL 2.0 amounts outstanding as of 30 Apr 2023.



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