



Rating Rationale

Telangana State Power Generation Corporation Ltd

29 March 2021

Brickwork Ratings reaffirms the ratings at BWR A+ (CE)/Stable for the long-term Bank Loan Facilities of Rs. 50.00 Crs, revises the long-term ratings to BWR A- /Stable for the long-term Bank Loan Facilities of Rs.2250.00 Crs and reaffirms the short-term rating at BWR A2+ for the short-term Bank Loan Facilities of Rs.200.00 Crs of Telangana State Power Generation Corporation Ltd.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (06-Mar-2020)	Present
Fund Based WCDL/CC (Guarantee by State Govt)	50.00	50.00	Long Term	BWR A+ (CE) / Stable	BWR A+ (CE)\$ / Stable Reaffirmation
Fund Based Existing Proposed	1502.53 747.47	1203.96 1046.04	Long Term	BWR A / Stable	BWR A- / Stable Downgradation
Non Fund Based	200.00	200.00	Short Term	BWR A2+	BWR A2+ Reaffirmation
Total	2500.00	2500.00	Rs. Two Thousand and Five Hundred Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

Complete details of bank facilities are provided in Annexure-I

\$ The rating for the WCDL/CC of Rs.50 Crs derives the credit enhancement from the guarantee provided by the Government of Telangana.

Note: Apart from the above mentioned loans, TSGENCO has also availed loans from REC, PFC and financial institutions to an extent of Rs. 20,379.85 Crs (O/s as on 31 March 2020). These loans were not included in the rating amount.

RATING ACTION/OUTLOOK

The rating revision of Telangana State Power Generation Corporation Limited (TSGENCO or the corporation) at the standalone level was on account of the net losses before the comprehensive income in FY20, deterioration in debt protection metrics and delay in the finalisation of the tariff order. The ratings are also constrained by elongated receivables, high debt equity levels and the Covid-19 impact on state finances. However, the assigned rating derives strength from the corporation's strong parentage considering it is wholly owned by the Government of Telangana (GoT), established track record, improvement in operating

profitability margins and successful completion of the capex of the 540MW Bhadradi thermal plant. Additionally, of the rated facilities of Rs.2500.00 Crs, Rs.50.00 Crs have an irrevocable and unconditional guarantee from the GoT for the timely repayment of debt obligations.

The outlook continues to be Stable as BWR believes the credit risk profile of TSGENCO and the GoT will be maintained over the medium term.

Key Rating Drivers

Credit Strengths:

- **Ownership, financial support from GoT and experienced management:** TSGENCO is wholly owned by the GoT and continues adequate state government support due to the strategic importance of the power sector. Mr. D. Prabhakar Rao is the chairman and managing director of the corporation, the board consists of eight other directors. All the board members are qualified and have vast experience in the industry.
- **Credit enhancement:** Ratings for the working capital demand loan of Rs. 50.00 Crs take into account the unconditional and irrevocable guarantee for the timely repayment of principal and interest obligations by the GoT.
- **Improvement in operating profitability margins:** Although the scale of operations declined slightly in FY20, the corporation reported improved profitability margins in FY20 when compared with FY19. The operating profitability improved to 34.31% as of FY20 from 28.89% as of FY19.
- **Operational parameters of corporation:** During FY20, there was a 12.25% improvement in unit generation, when compared with the corresponding previous year. The total generation stood at 25505.63 MU in FY20, as against 22721.30 MU in FY19. The corporation's average thermal PLF levels stood at 79.21% in FY19 and 71% in FY20. As per available information in public sources, TSGENCO has reported a total generation of 16244.60 (GWH), as against the target of 17663 (GWH) upto January 2021. The PLF levels achieved are at 69.74% upto January 2021, as against 71.79% upto January 2020. Decline in PLF levels during FY21 was on account of subdued power demand due to the Covid-19 pandemic.
- **Completion of ongoing capex of BTPS:** During 9MFY21, the corporation successfully commissioned 540MW (two units - 2*270MW) of Bhadradi Thermal Power Plant (BTPS). The additional 540MW of BTPS (2*270MW) is expected to be commissioned by H1FY22, of which 270MW is already synchronised with the grid.

Credit Risks:

- **Net losses before other comprehensive income and deterioration in debt protection metrics:** During FY20, the corporation reported net losses before other comprehensive income of Rs. 108.19 Crs, as compared to net profit before other comprehensive income of Rs. 256.53 Crs. The net losses before other comprehensive income incurred were on account of an increase in the interest and financial charges. However, on account of other comprehensive income of Rs. 229.88 Crs, Corporation has reported net profit after comprehensive income of Rs. 121.69 Crs during FY20. The corporation's debt protection metrics have shown a declining trend in the last three years. As on 31 March 2020, the



ISCR and DSCR were reported at 1.43X and 0.73X, respectively. However, the company has informed that for meeting the shortfall in debt obligations, TSGENCO is availing short-term loans either from banks or from financial institutions. The corporation's major lenders have also confirmed that the conduct of the account is satisfactory.

- **Increasing debt equity levels and high receivable levels:** During the last three years, TSGENCO has reported an increase in debt equity levels. The debt equity level deteriorated from 3.38X as of 31 March 2018 to 4.57X as of 31 March 2020. The increase in debt equity levels was mainly on account of the availment of debt for the ongoing capex and delay in the equity contribution for the ongoing capex. TSGENCO continued to report high outstanding receivables levels in the last three years. The outstanding receivables were reported at Rs. 5568.19 Crs and Rs. 6492.39 Crs as of FY19 and FY20, respectively.
- **Delay in tariff revision:** The corporation is yet to be notified with the latest tariff revision order. The last tariff revision was made during FY19. During FY20, in the absence of the generation tariff order for the generation units of the corporation for the Multi Year Tariff (MYT) period 2019-24 and retail tariff order of TSDISCOMs for the year 2019-20, the monthly claim towards power supply was made based on the generation tariff applicable for the year 2018-19 as per the Generation Tariff order for the MYT order for the control period 2014-19. TSGENCO has informed that they have filed MYT for the FY2019-24 before Hon'ble TSERC on 28.01.2021. The final tariff order from TSERC is awaited.
- **Covid-19 pandemic impact on state finances:** The impact of Covid-19 will be felt on account of disruptions in operations of the state's several revenue generating sectors, with likely reductions in the devolution of central taxes to Telangana, resulting from the long, nationwide lockdown implemented to curb the spread of the virus in the country. However, the expected moderation of the state budgeted revenues from tax collections, coupled with the requirement of additional spending, would pose a challenge for the state in adhering to fiscal consolidation norms.

Covid-19 Moratorium Facility: The corporation has informed that it has not opted for moratorium facilities during the Covid-19 pandemic pertaining to the term loans from banks. However, the moratorium facilities have been opted for the term loans from financial institutions.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, Brickwork Ratings (BWR) has considered the company's standalone financials with support from the state government. Additionally, BWR has assessed the GoT state financials for determining the CE. BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES:

Going forward, the timely realisation of receivables from DISCOMs and implementation of ongoing projects without any cost overrun and the timely finalisation of the generation tariff orders will remain the key rating sensitivities for TSGENCO.



Upward: The ratings can move upward if there is an upward revision in the state rating, improvement in the thermal PLF levels that leads to improved revenues and profits, adequate cash flow generation from operations for meeting its debt obligations, a reduction in the debt equity level (i.e. <2.5X), the timely realisation of outstanding dues from Andhra Pradesh and Telangana DISCOMs and support from the GoAP in the form of grants/capital infusion.

Downward: The rating can move downward if there is a downward revision in the state rating, the PLF levels decline and thereby result in a substantial reduction in net revenues and profits, there is further deterioration in the debt equity levels (i.e.. >5X) and a delay in recovery of the outstanding receivables from Andhra Pradesh and Telangana DISCOMs.

LIQUIDITY: Adequate

TSGENCO has not generated adequate cash flows from operations during FY20. However, the corporation has informed that it is availing short- to medium-term loans to meet the mismatch in cash flows. The corporation’s average working capital utilisations are in the 70-75% range for the January 2020-December 2020 period. As on 31 March 2020, the corporation has reported cash and bank balances at Rs. 239.72 Crs. The Corporation has implicit support from the state government of Telangana .

About the Corporation

Telangana State Power Generation Corporation Limited (TSGENCO), wholly owned by the GoT, was incorporated on 19 May 2014 under the Companies Act, 2013, and started functioning from 2 June 2014 as per the AP Reorganization Act, 2014. Based on the geographical location, the power projects located in the state of Telangana were transferred to TSGENCO, and those in the residual AP remained with APGENCO, with effect from 2 June 2014.

The total installed capacities of TSGENCO as of December 2020 stood at 5945.26 MW, comprising 3502.50MW of thermal, 2441.76MW of hydro and 1MW of solar. The ongoing capex as of December 2020 stood at 4540MW of thermal power and 20MW of solar power.

Sri D Prabhakar Rao is the present managing director and chairman of TSGENCO. The board of directors also comprises eight other directors who are nominees of the state government.

KEY FINANCIAL INDICATORS

Key Parameters	Units	2020	2019
Result Type		Audited	Audited
Operating Revenue	Rs. Crs	10640.09	10888.90
EBITDA	Rs.Crs	3650.56	3146.07
Net profit after other comprehensive income	Rs. Crs	121.69	106.10
Tangible Net worth	Rs. Crs	5513.34	5385.23
Total Debt/Tangible Net worth	In Times	4.57	4.08
Current Ratio	In Times	0.97	1.09

STATE FINANCES

The Gross State Domestic Product of Telangana (GSDP) for 2020-21 (at current prices) is estimated to be close to Rs 11,05,136 crore. This is 14% higher than the revised estimate for 2019-20. Telangana's capital outlay budget estimates for 2020-21 is at Rs 22,061 crs, which is 67.6% higher than the revised estimates of 2019-20. The increase in capital outlay in 2020-21 (B.E.) is primarily due to an increase in the capital outlay towards Water Supply, Sanitation, Housing, and Urban Development, as compared to that in the previous year. The budget estimates of revenue surplus to GSDP and fiscal deficit to GSDP for 2020-21 stood at 0.41% and 3.0% respectively. The fiscal deficit to GSDP budgeted for 2020-21 is close to the 3% limit as per the FRBM Act. The impact of COVID-19 pandemic will be felt on account of disruptions in the operations of the state's several revenue generating sectors, with likely reductions in the devolution of central taxes to Telangana resulting from the long, nationwide lockdown implemented to curb the spread of the virus in the country.

State Financials	Units	2019	2020	2021
		Actuals	R.E.	B.E.
Revenue Receipts	Rs. Crs	1,01,420	1,10,928	1,43,152
Revenue Expenditure	Rs. Crs	97,083	1,10,825	1,38,670
Capital Receipts	Rs. Crs	51,028	31,845	35,550
Capital Expenditure	Rs. Crs	60,062	31,328	44,245
Revenue Surplus/GSDP	%	0.50	0.01	0.41
Fiscal Deficit/GSDP	%	(3.11)	(2.26)	(3.00)
Debt+Guarantees/GSDP	%	29.18	29.79	28.85

R.E. Revenue Estimates B.E. Budget Estimates

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: Out of the rated amount, Rs.50.00 Crores have an irrevocable and unconditional guarantee from the GoAP for the timely repayment of debt obligations

NON COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: NIL

Rating History for the previous three years (Including withdrawal and suspended)

S.No	Instrument /Facility	Current Rating			Chronology of Rating History for the past 3 years (Rating assigned and press release date) along with outlook/watch, if applicable		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	Date(s) & Rating(s) assigned in 2020	Date(s) & Rating(s) assigned in 2019	Date(s) & Rating(s) assigned in 2018
1	Fund Based	Long Term	50.00	BWR A+ (CE)/ Stable	BWR A+ (CE)/ Stable (06-Mar-2020)	BWR A+ (SO)/ Stable (26-Feb-2019)	BWR A+ (SO)/ Stable (08-Feb-2018)
2	Fund Based	Long Term	2250.00	BWR A- / Stable	BWR A / Stable (06-Mar-2020)	BWR A / Stable (26-Feb-2019)	BWR A / Stable (08-Feb-2018)
3	Non Fund Based	Short Term	200.00	BWR A2+	BWR A2+ (06-Mar-2020)	BWR A2+ (26-Feb-2019)	BWR A2+ (08-Feb-2018)
Total			2500.00	Rs. Two Thousand and Five Hundred Crores Only			

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short Term Debt](#)
- [Credit Enhancement](#)

For any other criteria obtain [hyperlinks](#) from website

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Telangana State Power Generation Corporation Limited

Annexure

Details of Bank Loan Facilities rated by BWR

S.No	Name of the Bank	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	Union Bank of India (erstwhile Andhra Bank)	Cash Credit/WCDL	300.00	--	300.00
2	Union Bank of India (erstwhile Andhra Bank)	Term Loans	342.45	--	342.25
3	State Bank of India	Cash Credit/WCDL (Guaranteed by Govt. of Telangana)	50.00*	--	50.00*
4	State Bank of India	Cash Credit/WCDL	100.00	--	100.00
5	State Bank of India	Term Loans	2.66	--	2.66
6	State Bank of India	Bank Guarantee	--	200.00	200.00
7	Bank of Baroda (erstwhile Vijaya Bank)	Cash Credit/WCDL	100.00	--	100.00
8	Bank of Baroda (erstwhile Vijaya Bank)	Term Loans	43.89	--	43.89
9	Canara Bank (erstwhile Syndicate Bank)	Cash Credit/WCDL	150.00	--	150.00
10	Canara Bank	Term Loans	14.96	--	14.96
11	Indian Bank	Cash Credit/WCDL	150.00	--	150.00
12	Un-tied Portion	Cash Credit/WCDL	346.04	--	346.04
13	Un-tied Portion	Term Loans	700.00	--	700.00
	Total		2300.00	200.00	2500.00

- *WCDL/CC of Rs.50 crs derives credit enhancement from the guarantee provided by the Government of Telangana..
- Total borrowing of the Corporation for FY20 was at Rs.25180.77 Crores. However, the Corporation has requested to exclude PFC and REC loans for rating purposes. Hence, BWR rated working capital and term loans from Banks respectively



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