



## Rating Rationale

06 February 2023

### GRIDCO Limited

Brickwork Ratings reaffirms the ratings for the outstanding bonds issue of Rs. 31.875 Crs of GRIDCO Limited.

#### Particulars

Facilities/ Instrument**	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous (25-Jan-2022)	Present
NCDs/Bonds	63.75	<b>31.875</b>	<b>Long Term</b>	BWR A- (CE)/ Stable (Reaffirmation)	<b>BWR A- (CE)/ Stable (Reaffirmation)</b>
<b>Total</b>	63.75	<b>31.875</b>	<b>Rupees Thirty One Crores eighty seven lakhs and fifty thousand only.</b>		

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

\*\* Details of NCDs/Bonds are provided in Annexure-I

- Supported rating is after factoring in the explicit credit enhancement, based on Unconditional & Irrevocable guarantee from Government of Odisha (GoO) with structured repayment mechanism in the form of escrow arrangement to ensure timely servicing of principal and interest.
- GRIDCO's existing unsupported rating without factoring in the explicit credit enhancement is reaffirmed at BWR BBB- Stable.

#### RATING ACTION/OUTLOOK

Brickwork Ratings reaffirms the ratings of the GRIDCO Limited (GRIDCO or the company), considering factors such as the company being owned by the Government of Odisha (GoO), its strategic importance to the state, the rated bonds being backed by the explicit credit enhancement based on unconditional and irrevocable guarantee from the GoO for the timely repayment of obligations with an escrow mechanism and a structured payment mechanism, improvement in the realisation of the debtors post the privatisation of DISCOMs in Odisha during FY21 and FY22 and the state's fiscal position. However, the ratings are constrained by the operating losses resulting in weak debt protection metrics. Furthermore, the company's ratings are constrained by high debt levels and the erosion of the networth in view of the accumulated losses.

The outlook for the ratings is Stable

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:** The bonds are backed by the explicit credit enhancement by an unconditional and irrevocable corporate guarantee from the GoO for timely debt servicing. There is a tripartite agreement between the GoO, GRIDCO and the trustee to fund the designated account on T-15 days, i.e., 15 days before the due date of the principal/coupon payment. In the case of a shortfall, the trustee shall enforce the escrow



arrangement to transfer the bond obligation amount from the escrow account to the designated account. If the shortfall persists, the GoO will fund the designated account on T-3 days to facilitate the meeting of debt obligations.

## KEY RATING DRIVERS

### Credit Strengths:-

- **Promotion by GoO, strategic importance to state and support from government:** GRIDCO is a wholly owned undertaking of the GoO, engaged in the bulk supply of electricity and other related activities under an exclusive license issued by the Odisha Electricity Regulatory Commission (OERC). It sells power to DISCOMs in the state and trades surplus power through traders, power exchanges. The company is being strategically important to Odisha, the state government provides it operational and financial support as and when required. The company, in addition to issuing bonds and availing bank loans, also borrows from the state government and state government institutions to manage its liquidity.
- **Credit enhancement:** The outstanding rated bonds of Rs. 31.87 Crs have an unconditional and irrevocable guarantee from the GoO with T minus structure for meeting the repayment obligations.
- **Reduction in the receivables position:** Post the privatisation of the DISCOMs in the state of Odisha during FY21 and FY22, there is an improvement in the realisation of the receivables from DISCOMs. Trade Receivable days has come down to 82 days from 113 days during FY 2021-22. BWR expects that the timely realisation of the receivables will improve the cash flows of the company and reduce the term debt of the company in the medium term.

### Credit Risks:-

- **Weak Financial profile:** GRIDCOs total revenue in FY 22 was Rs 10165 cr which is 18% more than previous year against 4% increase in the cost of power. As a result EBIT turned positive in FY 22. The net loss reduced significantly from Rs 1382 cr in FY 21 to Rs 440 Cr in FY 22. During FY21, the revenues of the company stood at Rs. 8602.86 Crs as against the Rs. 7400.91 Crs in the corresponding previous year. Due to the accumulated losses, the company is continuously reporting negative tangible net worth. Loan including interest payable to government of Odisha amounting to Rs 2039.69 Cr converted to equity. The company is currently reporting weak debt protection metrics due to the accumulated losses.
- **Covid-19 impact on the state financials:** The impact of COVID-19 will be felt on the state's financial profile, on account of disruptions in the operations of several of the state's revenue generating sectors, with likely reductions in the devolution of central taxes to Odisha, resulting from the prolonged nationwide lockdown implemented to curb the spread of the virus in the country. However, the expected moderation in the state's



budgeted revenues from tax collections, coupled with the requirement of additional spending, would pose a challenge for the state in adhering to the fiscal consolidation norms.

### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

To arrive at its ratings, BWR has considered the standalone financials of the company. Furthermore, BWR has assessed the Odisha State financials for determining the credit enhancement. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

**RATING SENSITIVITIES:** Going forward, the company's ability to generate adequate cash accruals to meet its debt obligations and timely realisation from its debtors would be key rating sensitivities. The ability of the state to maintain the socio demographic indicator levels, ensure fiscal discipline and economic stability, improve its financial risk profile and improve the state revenue surplus, would also be key rating sensitivities.

- **Upward:** The ratings can move upward if the company reports a recovery from its operating and net losses, the generation of sufficient cash accruals to meet its debt obligations, a substantial reduction in the receivables level, and any upward revision in the credit rating of the guarantor (GoO).
- **Downward:** The ratings can move downward if there is a continuous deterioration in financial performance, leading to it incurring huge losses, from the current levels; a delay in the realisation of its debtors or a substantial increase in the receivables level and any downward revision in the credit rating of the guarantor. (GoO)

### **LIQUIDITY PROFILE: STRETCHED**

The company is not able to generate adequate cash accruals to meet its debt obligations. However, the company is meeting the debt obligations timely from its debtors realisation. In addition, the support from GoO is extended for the rated bonds in case of any mismatch/short falls in the cash flows of the company as the loans are guaranteed by the Government of Odisha with T Minus structure. At the end of FY22 and H1FY23, the cash and cash equivalents of GRIDCO was at Rs. 209.94 Crs and Rs. 51.21 Crs. Furthermore, the Outstanding receivables (DISCOM) and payables at the end of H1FY23 stood at Rs. 2776.41 Crs and Rs. 1698.43 Crs, respectively. Current ratio stands at 0.58 FY 22 and 0.46 H1FY23.

### **ABOUT THE COMPANY**

Grid Corporation of Odisha Ltd. (GRIDCO) was incorporated on 20 April 1995 under the Companies Act, 1956, as a wholly owned undertaking of the GoO. Initially, it was in the business of the transmission and bulk supply of electricity under an exclusive licence issued by the OERC. Consequent to the enactment of the Electricity Act, 2003, the company's transmission-related activities were transferred and vested with Odisha Power Transmission Corporation Ltd.(OPTCL), a wholly owned undertaking of the state government through Odisha Electricity Reforms (Transfer of Transmission and Related Activities) Scheme, 2005, with effect from 9 June 2005.

GRIDCO bulk purchases power from generating companies (both public and private), bulk supplies power to DISCOMs and trades surplus power through exchanges, with traders and neighbouring states.

#### KEY FINANCIAL INDICATORS

Key Parameters	Units	H1FY23	FY 21-22	FY20-21
Result Type				Audited
Operating Revenue	Rs. Crs	5927.32	10161.58	8602.86
EBITDA	Rs.Crs	(9.72)	241.15	(913.17)
Net profit	Rs. Crs	(246.68)	(440.18)	(1382.35)
Tangible Net worth	Rs. Crs	(5341.64)	(5094.96)	(6869.29)
Total Debt/Tangible Net worth	In Times	(1.26)	(1.29)	(1.18)
Current Ratio	In Times	0.54	0.58	0.57

#### KEY FINANCIAL INDICATORS – CREDIT ENHANCEMENT PROVIDER GoO

State Financials	Units	2021	2022	2023
Result Type		Actuals	R.E	B.E
Revenue Receipts	Rs. Crs	104387	141396	163967
Revenue Expenditure	Rs. Crs	21002	16509	25033
Capital Receipts	Rs. Crs	95311	120365	144349
Capital Expenditure	Rs. Crs	28798	44635	55651
Revenue Surplus/GSDP	%	1.67	3.26	2.75
Fiscal Deficit/GSDP	%	(1.80)	(0.38)	(3.02)
Debt+Guarantees/GSDP	%	30.18	26.98	28.96

R.E. Revised Estimates B.E. Budget Estimates

**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 (2023)			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 (Rs. Crs)	Rating	Date(s) & Rating(s) assigned in 2022	Date(s) & Rating(s) assigned in 2021	Date(s) & Rating(s) assigned in 2020
1	NCDs/Bonds	Long Term	31.875	BWR A- (CE) / Stable Reaffirmation	BWR A- (CE) / Stable Reaffirmation (25-Jan-2022)	BWR A- (CE) / Stable Reaffirmation (19-Jan-2021)	BWR A- (CE) / Stable Reaffirmation (14-Jan-2020)
<b>Total</b>			<b>31.875</b>	<b>Rupees Thirty One Crores eighty seven lakhs and fifty thousand only.</b>			

**COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple**

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com / download / ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf). Investors' queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Ratings based on Government Support](#)
- [Ratings based on Credit Enhancement](#)
- [Infrastructure Sector](#)

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

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**GRIDCO Limited**  
**Annexure-I**  
**Instrument Details**

<b>Instrument</b>	<b>Issue Date</b>	<b>Issue Amount (Rs. Crs)</b>	<b>O/s Amount (Rs. Crs)</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>ISIN Particulars</b>
Bonds	29 Aug 2013	127.50	31.875	8.79% (Half Yearly)	29 Aug 2023	INE610F08020

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