

India Ratings Upgrades GMR Warora Energy's NCDs to 'IND B'/Stable

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By Divya Charen C

India Ratings and Research (Ind-Ra) has upgraded GMR Warora Energy Limited's (GWEL) non-convertible debentures' (NCDs) rating to 'IND B' from 'IND D'. The Outlook is Stable. The detailed rating action is as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating	Rating Action
NCDs*	-	-	-	INR750	IND B/Stable	Upgraded

*Details given in Annexure

KEY RATING DRIVERS

Regular Debt Servicing and Deferment in Put Option Date: The upgrade reflects timely debt service of senior debt from December 2019 and the amendment of the debenture trust deed (DTD) to defer the put option date to 25 September 2020 from 25 September 2019. The rated bonds have semi-annual coupon payments on 25 March and 25 September until the maturity of the bonds in 25 November 2023. GWEL has not delayed interest payments on NCDs till date, except a one day delay in

September 2019 in meeting additional interest, which changes based on the credit rating. As per the DTD, a delay of 30 days from the due date is allowed for NCDs before being recognised as a default.

In August 2019, the bondholders exercised the put option, post which GWEL requested for a waiver in the put option date and the same was agreed by the bondholder. Consequently, an amendment to the DTD was signed on 10 October 2019, changing the put option date to 25 September 2020. In the amendment, the stipulation of additional security for NCDs include GMR Energy Limited's revised corporate guarantee and pledge of 37.5 million equity shares of GMR Bajoli Holi Hydropower Private Limited. GWEL has also agreed to prepay up to 20% of NCDs depending on the ratio of total outstanding loan to total networth of GMR Energy in each financial year.

Liquidity Indicator– Poor: As of 28 May 2020, GWEL faced liquidity concerns as its working capital debt limits of INR6,200 million were inadequate for its working capital requirements and it was yet to create its debt service reserve. The lead lender has allowed GWEL time till 30 September 2020 to create debt service reserve. GWEL's receivable days decreased to around 128 in FYE20 (FYE19: 152) due to improvement in payments from power purchase agreement (PPA) counterparties and establishment of letter of credit under PPAs. GWEL expects higher cashflows from counterparties in 2QFY21, as COVID-19 related lockdown eases and the liquidity scheme of lending INR900 billion from Power Finance Corporation Limited and REC Limited ('IND AAA'/Stable) to distribution utilities helps counterparties clear their overdues. As of 28 May 2020, GWEL's cash balance and investments were around INR150 million and it had INR6,200 million working capital facility, INR4,050 million of which is the common sub-limit for cash credit and the letter of credit. The project's working capital utilisation as of FYE20 was 80%.

GWEL has already availed moratorium for its term loan and working capital loan till May 2020 and has requested lenders to allow moratorium till 31 August 2020 under the Reserve Bank of India's COVID-19 regulatory package. Payments from PPA counterparties have slowed down during the lockdown, weighing on GWEL's liquidity profile. GWEL is using usance letter of credit of six-month tenor to purchase coal, unlike the previous requirement of making payments in advance.

Increase in Revenue Risk: GWEL's PPA with Dadra and Nagar Haveli (DNH) for 200MW will expire by June 2020 and as of 28 May 2020, it was yet to tie-up any new PPA. GWEL has informed the agency that merchant sale at INR3.5/kWh is possible in the interim, while GWEL is trying to extend PPA with DNH for a few quarters. Alternately, GWEL is exploring group captive tie-up.

In FY20, GWEL declared above 85% plant availability under all three PPAs; GWEL has long-term take-or-pay PPA for 100% net capacity with DNH, Maharashtra State Electricity Distribution Limited (200MW; valid until March 2039) and Tamil Nadu Generation and Distribution Corporation Limited ('IND BBB'/Negative; 150MW; valid until September 2028). The agreements have a two-part tariff mechanism, comprising capacity and variable charges, linked to the Central Electricity Regulatory Commission's inflation index (updated every six months). The compensatory tariff orders are in place, thus providing revenue visibility under the PPAs. GWEL has no concerns over coal supply and inventory currently. In FY20, the plant load factor was 79% (FY19: 74%).

High Debt Level Concerning: GWEL's total outstanding term loan and NCDs stood at INR28,590 million, as of 31 March 2020. The NCDs amortise in three tranches of INR250 million each on 25 September 2022, 25 September 2023 and 25 November 2023. Coupon payments on the NCDs are semi-annual. Financial covenants under the DTD include minimum fixed asset coverage ratio of 1.0x, minimum asset coverage ratio of 1.0x and for trailing 12 months, debt service coverage ratio of not below 1.0x. The project's debt service coverage in FY19 was 1.35x but adverse receivable position affected its debt servicing.

The term loan amortises over 16 years in an even manner. Ind-Ra has considered the entire senior debt in its analysis. With respect to the delay in term loan, all overdues were cleared in December 2019 from improved revenue realisation from counterparties.

RATING SENSITIVITIES

Positive: Firm PPA tie-up for 200MW post June 2020, receivable days reducing below 60 days and liquidity availability/visibility for one year will be positive for the rating.

Negative: Exercising of the put option by bondholder, continued working capital utilisation above 95% and absence of clarity in cashflows to meet debt service including the put option payment, if exercised, in September 2020 will be negative for the rating.

COMPANY PROFILE

GWEL is a special purpose vehicle incorporated to build, maintain and operate a 600MW (two units of 300MW each) coal-fired, subcritical technology-based thermal power plant in Warora, Maharashtra. GMR Energy Limited is the primary sponsor of the project, with 100% equity investment. GMR Energy is held by GMR Infrastructure Limited (52%), Tenaga Nasional Berhad (30%) and private equity investors (18%).

Coal supply is secured through a fuel supply agreement with state-owned South Eastern Coal Fields, a Coal India Limited subsidiary, for an annual contracted quantity of 2.60 million tonnes.

FINANCIAL SUMMARY

Particulars	9MFY20	FY19	FY18
Revenue (INR million)	13,898	19,231	17,887
EBITDA (INR million)	4,425	6,180	7,339
EBITDA interest coverage	1.44	1.50	1.75
Source: GWEL			

RATING HISTORY

Instrument Type	Current Rating			Historical Rating/Outlook			
	Rating Type	Rated Limits (million)	Rating	30 September 2019	28 May 2019	30 November 2018	25 October 2017

NCDs	Long-term	INR750	IND B/Stable	IND D	IND C	IND BB/Stable	IND BB-/Stable
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ANNEXURE

ISIN	Date of Issue	Coupon Rate (%)	Maturity	Size of Issue (million)	Rating/Outlook
INE124L07014	24 September 2014	12.15	25 September 2022	INR250	IND B/Stable
INE124L07022	24 September 2014	12.15	25 September 2023	INR250	IND B/Stable
INE124L07030	24 September 2014	12.15	25 November 2023	INR250	IND B/Stable
Total				INR750	

COMPLEXITY LEVEL OF INSTRUMENTS

For details on complexity level of the instrument, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Applicable Criteria

Rating Criteria for Infrastructure and Project Finance

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