March 03, 2021

NLC India Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Borrowing Programme	2000.00	1000.00	[ICRA]AAA reaffirmed; Outlook revised to Negative from Stable
Long-term Non-Convertible Debentures	2000.00	2000.00	[ICRA]AAA reaffirmed; Outlook revised to Negative from Stable
Total	**4000.00**	**3000.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of NLC India Limited (NLCIL), along with its subsidiaries—NLC Tamilnadu Power Limited (rated [ICRA]AA+ (CE) (Stable)/[ICRA]AA (Stable)), which operates a 1,000-megawatt (MW) power project at Tuticorin, and Neyveli Uttar Pradesh Power Limited (rated [ICRA] BBB+ (Stable)), which is setting up a 1,980-MW power project in Uttar Pradesh—for the reaffirmation of the ratings.

The revision in outlook to Negative reflects the continued high receivable levels due to NLCIL's high exposure to financially weak DISCOMs[1], despite some receipt of dues from the funds released to DISCOMs under the Atmanirbhar Package by the Government of India (the GoI). The precarious receivable situation was further exacerbated by the Covid-19 pandemic in the current fiscal. The stretched receivables have also elevated the working capital borrowing levels. On a consolidated basis, the receivables outstanding, which stood at Rs.6,123 crore as on March 31, 2019, increased to Rs.8,410 crore as on March 31, 2020 and further to Rs.11,581 crore (including receivable share from NTPL) as on January 31, 2021. While, ICRA takes notes of the steps being taken by the Company along with other stakeholders to reduce the receivables, the timeliness and the quantum of reduction remains to be seen and the developments will be monitored.

The ratings, however, continue to draw comfort from NLCIL Group's strong business risk profile with respect to both lignite mining operations and power generation, along with its strategic importance to the GoI. While access to captive lignite mines reduces the fuel risks, operation of pit-head power stations linked to these mines enables NLCIL to procure energy at competitive costs. These coupled with the cost-plus tariffs provide some stability to profits. The rating considers the commissioning of renewable energy units (operates ~1,350-MW solar and 51-MW wind power units) in the recent past, which will provide some diversification benefits. The rating also continues to be supported by the dominant GoI ownership. ICRA, however, notes that the stretch in working capital cycle, debt availed for capex, large cash outflows in the recent years for share buyback and dividends have impacted its liquidity profile and credit metrics, although they remain adequate. Further, the rating considers NLCIL's large expansion plans with sizeable projects under execution, which exposes the company to risks of cost overruns.

ICRA also takes note of the adverse impact on the company's financial performance in 9MFY2021 caused by the pandemic and two fire accidents at TPS-II Stage 2 (840 MW capacity) in May 2020 and July 2020. While there has been some demand recovery in recent months and the power production has improved with several units of TPS-II coming back online after the fire accident. Further, unit-2 of the NNTPS project has also been commissioned in Feb 2021, which should result in improved performance in Q4FY2021; however, the full year performance is expected to be weaker compared to FY2020. Further, the pandemic also

[1] Distribution Companies

delayed the commissioning of some of the projects (under NLC as well as its subsidiaries), resulting in additional cost overrun. However, ICRA expects NLCIL's liquidity profile to remain adequate, despite the pressure, supported by expected cash accruals, availability of unutilised working capital limits and its strong financial flexibility with lenders, by virtue of its strong parentage and strategic importance to the GoI. Being a Navaratna company, it enjoys access to funds at fine rates.

Key rating drivers and their description

Credit strengths

Long operational track record and strong financial flexibility; benefits arising from being a 'Navratna' PSU – The GoI holds a dominant share (~79% as on December 31, 2020) in NLCIL, which has been operational for more than 50 years in the lignite mining and power generation segments. NLC was conferred the Navratna status in 2011, which enables the management to take faster investment decisions. The company's parentage and strategic importance to the GoI grants healthy financial flexibility with lenders and allows it to raise funds at competitive rates.

Integrated mining/power player with very low fuel supply risks – NLCIL is the Ministry of Coal designated nodal agency for lignite mining in India and at present operates mines with a total capacity of 30.6 MTPA across Tamil Nadu and Rajasthan. Most of its thermal stations are pithead power plants and hence the fuel supply risks are very low considering the captive nature of the mines and large reserves. While the fuel requirement for the coal-based power plant (NTPL) in Tuticorin is mainly secured with long-term fuel supply agreement with Mahanadi Coalfields Limited (MCL) and Eastern Coalfields Limited (ECL), the requirements were partly met through high-cost imports during shortage. However, with the recent commissioning of the 20-MTPA Talabira Coal mines, NTPL's fuels requirements are expected to be primarily met by captive means until its Talabira pithead thermal power plant is commissioned.

Cost plus tariff structure for both mining and power generation – NLCIL uses lignite mined from its captive mines to generate power and sells it to various beneficiaries. The lignite transfer pricing is determined by the Ministry of Coal and it is based on the cost-plus principles, which ensures healthy profitability from the mining segment. The tariffs for the thermal power plants are determined by the Central Electricity Regulatory Commission (CERC) as per the classic two-part tariff methodology, whereas the fixed and energy charges are calculated and approved separately. The fixed charges, such as the stable return on equity, and the operation of the plants at desired parameters would result in a healthy profitability at the company level.

Risk profile diversified through renewable energy generation – NLCIL has been focused on thermal power generation since inception, exposing the company to risks specific to the sector. However, it has ventured into renewable power generation and commissioned 1,340 MW of solar power projects in TN in FY2019 and FY2020, in addition to the 61-MW renewable capacity that is already operational. The return indicators of a few of its recently commissioned solar units are impacted by the approved tariff rates that are lower than the bid tariff rates. Nevertheless, these projects provide diversification benefits, as they are mostly not affected by the risks inherent in the mining and thermal businesses including labour strikes, wage increases and technical issues.

Credit challenges

Exposure to high counterparty credit risks due to weak financial profiles of discoms – ICRA notes the receivable built-up over the last few years due to stretched payment from the state distribution utilities with weak financial profile, leading to high working capital requirements. While collections improved after the introduction of payment security mechanism by the Ministry of Power in August 2019, the receivable level remained elevated owing to the large pending ones. Additionally, post Covid-19 pandemic, the receivable level increased as on January 31, 2021, despite some receipt of past dues from the funds released to DISCOMs under the Atmanirbhar Package by the GoI. While ICRA takes note of the steps taken by the company to reduce receivables and the support it receives from the fund release of additional tranches of the GOI's Atmanirbhar Package for DISCOMS, the timeliness and quantum of moderation remains to be seen and will be monitored.

Low power tariff scenario increases risks of power surrender by discoms; partly mitigated by power trading through exchanges – While, in the past, NLCIL's plants have been at the top of the Merit Order Position of its customers because of the lower fixed and energy charges. However, the tariff levels have subsequently increased, following the rise in lignite transfer prices and the higher capital costs for the recently commissioned plants. Concurrently, the overall demand-supply position has changed in the power sector in the recent years, with the improvement in transmission network and the availability of cheap renewable power. This has resulted in the discoms increasingly surrendering high-cost thermal power, which has impacted the PLF levels of the thermal plants. However, the risk of power surrender is partly mitigated as the company started selling its un-requisitioned surplus (URS) power over the exchanges from FY2019. During FY2020, the company has sold 3,277 MU of power in the exchange amounting to Rs. 1,131 Crore. Similarly, for the 9M FY2021, power traded in the exchange is 1,223 MU amounting to Rs. 351 Crore.

Project execution delays and operational issues with some power plants impacting return metrics – NLCIL's older power plants (TPS I, TPS I Expansion and TPS II) continue to operate above the normative parameters despite their vintage. However, with regards to the relatively new plants—Barsingsar and TPS II expansion power plants—the company has faced technical issues and hence the overall PLF levels have remained lower than the normative PLF since FY2016. This, in addition to the fixed cost under recovery arising from CERC disallowing some portion of the cost overruns incurred for the Barsingsar, TPS II Expansion and Tuticorin NTPL projects, resulted in lower returns from these projects. Further, the return indicators of the 500-MW solar project in Tamil Nadu were impacted as the approved tariff rates for a major portion of the capacity (400 MW) were lower than the bid tariff due to delay in commissioning post the control period.

Moreover, the company has recently commissioned a 500-MW thermal power plant in December 2019 (Neyveli New Thermal Power Station: NNTPS unit-1). The NNTPS unit-2 (500 MW), which was expected to be commissioned before September 2020, was delayed by the Covid-19 pandemic related disruption and was commissioned in February, 2021. Due to the delay in commissioning of NNTPS (initial expected COD unit 1- April 2019 and unit 2- March 2020), the actual capital cost incurred is likely to be higher than the approved capital cost, which might affect the return of the project, if the cost overrun is disallowed by CERC at the time of the final tariff order. The outcome of the final tariff order, along with the quantum of incremental project cost considered by CERC, remains a sensitivity factor for the project returns and will be monitored.

Project risks associated with significant expansion plans in mining and thermal power segments: – NLCIL has sizeable expansion plans with planned capex ~Rs. 20,000 crore in the next three years. The key ongoing projects are NUPPL 1,980-MW power plant and 2,400-MW Talabira pithead TPS and mine. There is funding risk associated with the large pending equity contribution for the projects. Timely contribution, in line with the construction stage, will be critical for commensurate release of bank funding and successful commission of the under-construction projects.

Credit metrics to witness pressure – In the recent years, there has been some moderation in the capital structure due to increase in capex debt, stretch in receivables and high dividends and share buyback. Going forward, owing to the large-debt funded capex planned in the near to medium term, the company's capital structure and coverage metrics are expected to witness some pressure.

Liquidity position: Adequate

NLCIL has traditionally maintained healthy cash balances owing to the sizeable operational cash generation. However, in FY2019 and FY2020, the company had declared large dividends and completed share buyback at a substantial premium, resulting in large cash outflows. These outflows have decreased the overall liquid surplus available with NLCIL. In addition, its working capital intensity increased with elevated receivables, which remained high as of January 2021 (including large arrears from discoms related to older payments), further exacerbated by the pandemic.

In FY2021, the cash flows are expected to be adversely impacted by reduced demand owing to the Covid-19 pandemic and fire accidents during the year. The company has a large capex plan for the year (revised down in the wake of Covid-19) and has repayment obligations of Rs. 2,385 crore. Further, the working capital intensity has remained elevated during the year. Going forward, the company has a large capex plan for FY2022 and repayment obligation of ~Rs. 1999 crore, although cash accruals are expected to witness improvement during the year. NLCIL's liquidity is expected to be adequate, supported by cash accruals, modest cash in hand, availability of unutilised working capital limits, and ability to refinance at fine rates because of strong financial flexibility with lenders and ability to access the capital market at a short notice.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Negative pressure on NLCIL's rating may arise if delay in payments of current/past dues increases the working capital intensity and receivables, thereby impacting the liquidity position. Moreover, reduction in the GoI's stake to below 51.0% or moderation in PLF levels on sustained basis may trigger a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for thermal power producers
Parent/Group Support	Rating derives comfort from the sovereign ownership of the company, which affords it considerable financial flexibility
Consolidation/Standalone	Consolidated – Including the subsidiaries / JVs – NTPL and NUPPL

About the company

NLC India Limited (NLC; erstwhile Neyveli Lignite Corporation Limited), a public sector undertaking incorporated in November 1956, is involved in the activities of lignite mining and power generation. The company, at present, has lignite mining capacity of 30.6 million tonnes per annum (MTPA) and installed power generation capacity of over 6,060 MW as on date. Its power stations cater to the five southern states of Tamil Nadu, Andhra Pradesh, Kerala, Karnataka and Puducherry, as well as Rajasthan through its thermal plant in Barsingsar. The GoI holds ~79% stake in the company. It works under the administrative control of the Ministry of Coal, the GoI. In April 2011, the GoI declared the company as a 'Navratna' enterprise.

Key financial indicators (audited)

NLCIL Consolidated	FY2019	FY2020	9MFY2021*
Operating Income (Rs. crore)	10,477.0	11,388.8	7,006.5
PAT (Rs. crore)	1537.4	1452.2	588.6
OPBDIT/OI (%)	27.7%	39.7%	27.9%
PAT/OI (%)	14.6%	12.7%	7.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.78	2.10	-
Total Debt/OPBDIT (times)	7.10	6.06	-
Interest Coverage (times)	4.14	3.85	1.94

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)			Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	
					Mar 03, 2021	Aug 17, 2020	May 15, 2019	Apr 16, 2019	Feb 28, 2019	Nov 15, 2017	Sep 25, 2017
1	Non Convertible Debentures	Long term	**600.0**	-		-	-		[ICRA]AAA (Stable); Withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Non Convertible Debentures	Long Term	**2,000.0**	2,000.0	[ICRA]AAA (Negative)	[ICRA]AAA (stable)	[ICRA]AAA (stable)				
3	Term Loans	Long Term	**1,400.0**	-	-	[ICRA]AAA (Stable); Withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Borrowing Programme	Long term	**1,000.0**	1,000.0	[ICRA]AAA (Negative)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Borrowing Programme	Dec 2017	7.00%	June 2022	1,000.0	[ICRA]AAA (Negative)
INE589A07037	NCD	May 2019	8.09%	May 2029	1475.0	[ICRA]AAA (Negative)
INE589A07045	NCD	Jan 2020	7.36%	January 2030	525.0	[ICRA]AAA (Negative)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	NLCIL Ownership	Consolidation Approach
NLC Tamil Nadu power Limited	89%	Full consolidation
Neyveli Uttar Pradesh Power Private Limited	51%	Full consolidation
MNH Shakthi Limited	15%	Equity Method

Source: *NLCIL annual report FY2020*

Note: *ICRA has taken a consolidated view of the parent (NLCIL), its subsidiaries and associates while assigning the ratings.*

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