August 17, 2020

NLC India Limited: Rating reaffirmed; rating withdrawn for term loan facilities

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term, Term Loans	1,400.0	-	[ICRA]AAA (Stable); withdrawn
Long Term, Borrowing Programme	2,000.0	2,000.0	[ICRA]AAA (Stable); reaffirmed
Long Term, Non-Convertible Debentures	2,000.0	2,000.0	[ICRA]AAA (Stable); reaffirmed
Total	**5,400.0**	**4,000.0**	

Rationale

ICRA has withdrawn the rating assigned to the Rs. 1,400-crore term loans of NLC India Limited (NLCIL) as the company has fully repaid the bank facilities. The rating has been withdrawn in accordance with ICRA's policy on withdrawal and suspension of credit ratings, since the facility has been fully repaid and on receipt of no-objection certificate provided by the lenders.

ICRA has reaffirmed the rating outstanding on other facilities. For arriving at the rating, ICRA has taken a consolidated view of 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.

The rating continues to reflect the NLCIL Group's strong business risk profile with respect to both lignite mining operations and power generation, along with its strategic importance to the Government of India (GoI). While access to captive lignite mines reduces the fuel risks, operation of pit-head power stations linked to these mines enables NLCIL to have competitive energy costs. These coupled with the cost-plus nature of 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.

These strengths are, to some extent, offset by the company's stretched receivables and the elevated working capital borrowings associated with its exposure to financially weak discoms. While the implementation of payment security mechanism by Ministry of Power since August 2019 had resulted in some improvement in collection during the year, the receivables remained elevated and have increased further as on March 31, 2020 due to large pending receivables for earlier period and delay in receipt of current bills from DISCOMs on account of Covid-19 pandemic situation. However, the receivables are expected to moderate gradually aided by the announcement of the Government's Aatmanirbhar Bharat Discom support package of Rs. 90,000 crore to the power sector. However, the timeliness and quantum of moderation are yet to be seen and will be monitored. 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 to some extent, 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 impact of Covid-19 pandemic, which had adversely affected power demand in Q1 FY2021. While there has been some recovery subsequently, the financial performance is expected to be adversely impacted for FY2021 on account of the pandemic. Further, ICRA notes the two fire accidents at TPS-II Stage 2 (840 MW capacity) in May 2020 and July 2020, which will have some negative impact on its operational and financial performance during the year. The pandemic will also result in delay in commissioning of some of the projects (under NLC as well as its subsidiaries), which will result 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, aided by 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 of ~79% in NLCIL as on June 30, 2020, 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, aids in 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 in the past in the event of shortage. However, with the recent commissioning of Talabira Coal mines of 20 MTPA, 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 cost plus principles ensuring 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 include a stable return on equity and 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 and this has exposed the company to risks specific to the sector. However, it has ventured into renewable power generation and has commissioned 1,421 MW of solar power projects in TN in FY2019 and FY2020, in addition to the 51-MW renewable capacity that is already operational. The return indicators of a few of its recently commissioned solar units are impacted due to lower approved tariff rates compared to 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

Exposed to high counterparty credit risks due to weak financial profiles of discoms – ICRA notes that there has been build-up of receivables 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 there was some improvement in collections post introduction of payment security mechanism by the Ministry of Power in August 2019, the receivables remained elevated owing to large pending receivables for the earlier period. Additionally, post Covid-19 pandemic, the receivable levels increased as on March 31, 2020. However, the receivables are expected to moderate gradually, aided by the announcement of the Government's Aatmanirbhar Bharat Discom support package of Rs. 90,000 crore to the power sector. However, the timeliness and quantum of moderation are yet to be seen and will be monitored.

Low power tariff scenario increasing risks of power surrender by discoms; partly mitigated by power trading through exchanges – NLCIL's plants have traditionally been in the top of the Merit Order Position of its beneficiaries due to the lower fixed and energy charges. However, the tariff levels have 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 thw 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 (Rs. 1,129 crore generated in FY2020 through sale of URS power), which has aided in recovering the energy charge to an extent.

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 newer plants - Barsingsar and TPS II 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 is 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). It is expected to commission the remaining 500 MW (NNTPS unit-2) before September 2020. Due to delay in commissioning of NNTPS (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 are disallowed by CERC at the time of the final tariff order. The timeliness of commissioning of NNTPS unit-2 and the outcome of the final tariff order, along with the quantum of incremental project cost considered by CERC, remain a sensitivity factor for the project returns and will be monitored.

Project risks associated with significant expansion plans in the mining and thermal power segments: – NLCIL has sizeable expansion plans with planned capex close ~Rs. 20,000 crore during the next three years. The key ongoing projects are the 500-MW NNTPS – unit 2, 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 capital structure due to increase in debt for capex, stretch in receivables and impact on its net worth due to 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 sizeable operational cash generation. However, during 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 as of March 2020 (including large arrears from discoms related to older payments) due to the impact of the Covid-19 pandemic.

In FY2021, the cash flows are expected to be adversely impacted by reduced demand owing to the Covid-19 pandemic and the recent fire accidents. The company plans to incur large capex during the year (revised down in the wake of Covid-19) and has repayment obligations of Rs. 2,385 crore. Further, the working capital intensity might remain elevated for a part of the year. Nonetheless, its liquidity is likely to be adequate supported by cash accruals, modest cash in hand, availability of unutilised working capital limits (buffer of ~Rs. 1,300 crore as of March 2020) and ability to refinance at fine rates on account of strong financial flexibility with lenders and ability to access the capital market at a short notice.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Negative pressure on NLCIL's rating may arise if the working capital intensity remains elevated, on account of delay in payments for the current/past dues resulting in build-up of receivables, thereby impacting the liquidity position or if there is significant moderation in PLF levels on sustained basis. Moreover, reduction in sovereign ownership of the company 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 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 5,900 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, GoI. In April 2011, the GoI declared the company as a 'Navratna' enterprise.

Key financial indicators (audited) – NLC - Consolidated

	FY2019	FY2020
Operating Income (Rs. crore)	10,477.0	11,388.8
PAT (Rs. crore)	1537.4	1451.9
OPBDIT/OI (%)	27.7%	39.7%
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
DSCR	1.40	1.39

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
	Instrument	Type			17 August 2020	15 May 2019	28 Feb 2019	15 Nov 2017	25 Sep 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	**2000.0**	-	**[ICRA]AAA (stable); reaffirmed**	[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)
4	Borrowing Programme	Long term	**2,000.0**	1,000.0	**[ICRA]AAA (Stable); reaffirmed**	[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 www.icra.in

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	Term Loans	Dec 2015	8.45%	August 2019	1,400.0	[ICRA]AAA (Stable); withdrawn
NA	Borrowing Programme	Dec 2017	7.00%	June 2022	2,000.0	[ICRA]AAA (Stable); reaffirmed
NA	NCD - INE589A07037	May 2019	8.09%	May 2029	1475.0	[ICRA]AAA (Stable); reaffirmed
NA	NCD - INE589A07045	Jan 2020	7.36%	January 2030	525.0	[ICRA]AAA (Stable); reaffirmed

Source: NLC

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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