March 16, 2021

Bhartiya Rail Bijlee Company Limited: Ratings upgraded; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loan	5248.21	3864.01	[ICRA]AA-, upgraded from [ICRA]A, outlook revised to Stable from Positive
Long-term Fund-based Cash Credit	300.00	200.00	[ICRA]AA-, upgraded from [ICRA]A, outlook revised to Stable from Positive
Short-term Fund-based	0.00	1500.00	[ICRA]A1+, upgraded from [ICRA]A1
Short-term Non-fund Based Interchangeable	(100.00)	(100.00)	[ICRA]A1+, upgraded from [ICRA]A1
Long-term Unallocated	1451.79	1435.99	[ICRA]AA-, upgraded from [ICRA]A, outlook revised to Stable from Positive
Total	**7000.00**	**7000.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade takes into account the healthy operating track record by Bhartiya Rail Bijlee Company Limited (BRBCL or the company), as evident from the higher-than-normative plant availability of 85% in FY2020 (87.89%) and 11MFY2021 (85.30%), at the three operational units (each of 250 MW). The rating upgrade also factors the advanced progress of the last unit (250 MW capacity), which is expected to commercialise by April 2021.

The ratings continue to draw comfort from the company's strong parentage with NTPC Limited (rated ICRA AAA/Stable), which owns 74% stake, and the Ministry of Railways with 26% stake. The ratings also consider the presence of long-term (25 years from the commercial operations date) power purchase agreements (PPA) for 100% project capacity, which mitigates the offtake risk. 90% of the plant capacity is tied up with the Indian Railways, which is also a minority shareholder (26%) in the company, while the remaining 10% is tied up with the Bihar state discoms viz. North Bihar Power Distribution Company Limited (NBPDCL) and South Bihar Power Distribution Company Limited (SBPDCL). The PPAs are based on the 'cost-plus tariff principle' outlined by the Central Electricity Regulatory Commission (CERC), which ensures stable cash flows for the company and a complete recovery of fixed costs. Moreover, a fixed 15.5% return on equity is ensured upon achievement of normative plant availability of 85%, and complete pass-through of fuel cost at the normative operating efficiency level. The ratings also favourably factor the superior financial flexibility as well as the comfortable debt coverage metrics of the company, aided by cost-plus tariff based on long-term PPA and healthy operational performance.

The revision in outlook to Stable reflects ICRA's expectation that BRBCL will be able to maintain the plant availability at or above the normative level of 85%, while meeting the other normative efficiency parameters. Also, ICRA assumes that the payments from the Indian Railways would continue to be timely.

The ratings, however, are constrained by the residual execution risk associated with the implementation of the Flue Gas Desulfurization (FGD) system within the regulatory timeline and budgeted cost. The project has witnessed significant cost and time overrun due to land acquisition, Naxalite disruptions, and law and order issues in the past. Hence, securing pass-through of the cost overrun in a timely manner from the CERC in the final tariff determination process, without any major disallowance, remains a monitorable. The final tariff order for Unit 1, Unit 2 and Unit 3 is yet to be issued by the CERC. While the fuel supply agreement (FSA) is pending for the fourth unit, the presence of a Letter of Assurance (LOA) from the Central Coalfields Limited (CCL) for supply of 5 Million Metric Tonnes Per Annum (MMTPA) for the entire capacity mitigates the fuel supply risk. The rating also factors the counterparty credit risk pertaining to the offtakers, the Indian Railways, and the Bihar state discoms, NBPDCL and SBPDCL. While the credit quality of NBPDCL and SBPDCL is weak, the discoms' combined offtake is limited to 10% of the plant capacity, which mitigates the risk to some extent. Further, timely payments by the Indian Railway so far and the presence of payment security mechanisms in PPAs provide comfort.

Key rating drivers and their description

Credit strengths

Strong sponsor profile – The sponsors of the project are NTPC Limited ([ICRA]AAA/A1+), with 74% shareholding and the Indian Railways holding the remaining 26% shareholding as on March 31, 2020. NTPC Limited is also responsible for operation and maintenance of the project, thereby mitigating the operating risk to some extent.

Long-term PPA with Indian Railways (90% capacity) and Bihar state discoms (10% capacity) mitigates off-take risk – BRBCL has signed long-term PPAs for 90% of the installed capacity with the Indian Railways and 10% of installed capacity with BSEB for 25 years from COD at tariff determined as per the CERC norms with pass-through of fuel cost. Presence of long-term PPA on cost-plus basis mitigates the off-take risk. The levellised tariff over the PPA tenure based on the estimated project cost and the availability of domestic coal through FSA route is expected to be competitive compared to the Indian Railways' average power purchase cost in recent years.

Cost-plus PPA allows normative return on equity, mitigates fuel price risk – The PPAs have been signed on cost-plus basis as per CERC norms, which allow normative return on equity, subject to approval of capital cost by CERC and ability to maintain costs and efficiency norms including the plant availability at normative level. Moreover, the PPAs allow pass-through of any increase in fuel cost subject to the plant meeting operational norms, thereby mitigating fuel price risk.

Healthy performance of three operational units, fourth unit nearing completion – BRBCL overcame past issues related to plant stabilisation, inadequate coal handling system and lower-than-required coal availability and significantly improved the plant availability to 87.89% in FY2020 from 66.72% in FY2019 and 69.59% in FY2018. The plant availability remained healthy at 85.30% (higher-than-normative level of 85%) in 11MFY2021, ensuring full recovery of fixed costs. Further, the under-construction unit (Unit 4) of 250MW capacity, which faced execution delays, because of the Covid-19 lockdown restrictions, is now nearing completion. The management expects the trial run and subsequent commercial operations of Unit 4 to happen by April-2021. This reduces the implementation risk pertaining to Unit 4 and provides visibility to incremental revenues, going forward.

Low funding risk – The total debt funding required for the project is Rs. 7396.43 crore (70% of total project cost). The company already had sanctioned term loans of Rs. 5598.60 crore. The pending debt tie-up for the remaining Rs. 1797.83 crore has been secured recently. It is also in the process of refinancing ~ Rs. 2900 crore of its existing high-cost debt with a cheaper debt, which would result in interest cost savings. Further, Rs. 2397.46 crore of the required equity of Rs. 3169.90 crore was infused as on December 31,2020. The balance equity is expected to be funded by internal accruals over the progress of the project. The company thus benefits from its superior financial flexibility as reflected from its demonstrated ability to tie-up debt at a cost competitive rate.

Credit challenges

Significant cost and time overrun, approval of same by CERC without any major disallowances remains critical - The project has witnessed significant delays in the past because of issued related to land acquisition, Naxalite disruptions, and breakdown in law and order situation in the region. The delay has resulted in higher land cost and interest during construction. Consequently, the initially approved (in January 2008) project cost of Rs. 5352.51 crore was doubled at Rs. 10,566.33 crore (inclusive of additional scope related to installation of FGD system). Any further cost increase or major disallowances by the CERC in the project cost will increase the tariff and reduce the attractiveness of the generated power, thereby lowering the return on equity for the company.

Exposure to counterparty credit risk, though payments have been timely so far - BRBCL is exposed to counterparty credit risks pertaining to the offtakers, especially Bihar state discoms, whose credit quality remains weak. The risk is partly mitigated as their exposure is limited to only 10% of the plant capacity. While 90% of the company's revenues are concentrated towards the Indian Railways, there have not been any delays in receiving the payments, so far. The payment security mechanisms in PPAs, such as Letter of Credit equal to 105% of monthly billing at normative availability, escrow arrangement (only in case of Bihar discom PPA) and third-party sale in case of default by the procurers, also act as mitigant against the counter-party credit risk.

Execution risk from residual project work, especially pertaining to FGD capex – As on December 30,2020, the company had incurred Rs. 8801.20 crore of the project cost. Of the remaining Rs. 1765.13 crore cost, Rs. 797.66 crore was spent on the installation of FGD system, while the remaining pertained to the construction of a township, payments to be made to equipment suppliers and erection vendors after evaluation of performance and guarantee tests etc. The company is also required to install the FGD system by December 2022. While the debt funding required for FGD capex has been secured, its timely completion within the budgeted cost remains to be seen and will be a key monitorable.

Liquidity position: Adequate

BRBCL's liquidity position is **adequate,** supported by healthy cash balance and undrawn cash credit limits. As on December 31,2020, the company had free cash of Rs. 556.01 crore, restricted cash (margin money) of Rs. 7.65 crore and undrawn cash credit limit of Rs. 132.59 crore. The company's collection efficiency over the last three fiscals has remained strong, over ~95% of the monthly billed amount, which has supported its liquidity. The cash credit limit has remained unutilised in the last 21 months, ensuring adequate liquidity cushion. The company's cash accruals are expected to be sufficient to meet its annual debt repayments. The company has already tied up the entire debt funding for the project. The balance equity requirement is expected to be met through the internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade BWDPL's rating if the company demonstrates a) sustained improvement in the operating performance of all four units along with timely collections from counterparties, b) timely implementation of the FGD system within the budgeted cost.

Negative factors – Negative pressure on the rating could emerge if a) any significant and sustained deterioration in key operating parameters like plant availability, heat rate or stretched payments from counterparties impact the liquidity, b) there is material delays in receiving tariff order from CERC or major disallowance in project cost approval by CERC, c) adverse changes in support philosophy / linkages with sponsors.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	NTPC Limited/ Indian Railways The ratings are based on the implicit support from parent companies as evident from the equity contributions in the past. ICRA expects the sponsors to support the company in case of any further funding requirements.
Consolidation/Standalone	Standalone

About the company

BRBCL is a joint venture between NTPC Limited (74%) and Ministry of Railways (26%). BRBCL is constructing a 1,000-MW (4*250 MW) coal-based thermal power project at Nabinagar, Bihar to meet the power requirements of the Indian Railways. Unit 1, Unit 2 and Unit 3 of the project were commissioned in January 2017, September 2017 and February 2019 respectively. The

Unit 4 is expected to be commissioned by April 2021. The project has witnessed significant cost and time overruns in the past. The current estimated cost of the project is Rs. 10566.33 crore, which shall be funded through debt and equity in the ratio of 70:30. FSA has been signed for Unit 1, Unit 2 and Unit 3 (3.75 MTPA in total) of the project with Central Coalfields Limited while FSA for Unit 4 (1.25 MTPA) is pending. A long-term PPA has been signed with the Indian Railways (90% of installed capacity) and Bihar State discoms (10%) at cost-plus tariff based on CERC norms.

Key financial indicators

Particulars	FY2019 (Audited)	FY2020 (Audited)	9M FY2021* (Provisional)
Operating Income (Rs. crore)	1169.73	2293.61	1569.76
PAT (Rs. crore)	8.89	258.46	235.02
OPBDIT/OI (%)	42.04%	44.05%	48.92%
PAT/OI (%)	0.76%	11.27%	14.97%
Total Outside Liabilities/Tangible Net Worth (times)	2.69	2.31	2.26
Total Debt/OPBDIT (times)	10.93	5.39	5.48
Interest Coverage (times)	1.55	2.23	2.67

Source: Company, ICRA Research; All ratios as per ICRA calculations; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S N	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		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Mar 16,2021	Sep 07,2020	Jul 22,2019	-	Jan 29,2018
1	Term Loans	Long-term	3864.01	3864.01	[ICRA]AA- (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	-	[ICRA]A (Stable)
2	Unallocated	Long-term	1435.99		[ICRA]AA- (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	-	[ICRA]A (Stable)
3	Cash credit	Long term	200.00		[ICRA]AA- (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	-	[ICRA]A (Stable)
4	Bank Guarantee	Short-term	-	-	-	-	[ICRA]A1	-	[ICRA]A1
5	Interchangeable (Bank Guarantee/Letter of Credit)	Short-term	(100.00)		[ICRA]A1+	[ICRA]A1	-	-	-
6	Unallocated	Short-term	-	-	-	-	[ICRA]A1	-	[ICRA]A1
7	Fund based-General Purpose Loan	Short-term	1500.00		[ICRA]A1+	-	-	-	-

** as on February 18,2021*

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 Loan 1	FY2010/2016		FY2036	1618.68	[ICRA]AA- (Stable)
NA	Term Loan 2	FY2019		FY2035	1345.63	[ICRA]AA- (Stable)
NA	Term Loan 3	FY2019		FY2035	899.70	[ICRA]AA- (Stable)
NA	Unallocated				1435.99	[ICRA]AA- (Stable)
NA	Short-term Fund-based - General-Purpose Loan	FY2021		FY2022	1500.00	[ICRA]A1+
NA	Cash Credit				200.00	[ICRA]AA- (Stable)
NA	Interchangeable (Bank Guarantee/ Letter of Credit)				(100.00)	[ICRA]A1+

Source: *Company; NA: Not Applicable*

Annexure-2: List of entities considered for consolidated analysis

Company Name	BRBCL's Ownership	Consolidation Approach
Not Applicable	Not Applicable	Not Applicable

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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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