March 18, 2022

NLC Tamilnadu Power Limited: Ratings reaffirmed for existing bank facilities and commercial paper; rating reaffirmed and withdrawn for unallocated limits and provisional rating assigned for Rs. 500-crore working capital facility

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term – Term Loans	1,516.95	1,516.95	[ICRA]AA+(CE) (Stable); reaffirmed
Long-Term - Fund-Based Working Capital Limits	1,500.00	1,500.00	[ICRA]AA+(CE) (Stable); reaffirmed
Long-Term - Fund-Based Working Capital Limits	-	500.00	Provisional [ICRA]AA+(CE) (Stable); assigned
Commercial Paper	2,000.00	2,000.00	[ICRA]A1+; reaffirmed
Long Term – Unallocated	1,740.52	-	[ICRA]AA (Stable); reaffirmed and withdrawn
Total	**6,757.47**	**5,516.95**	

**Instrument details are provided in Annexure-1*

Rating Without Explicit Credit Enhancement	**[ICRA]AA**
Rating in the absence of the pending actions/ documents for the provisional rating^	**[ICRA]AA**

^In case of absence of letter of comfort from NLC India Limited

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]AA+(CE) (Stable) / Provisional [ICRA]AA+(CE) (Stable) rating

The reaffirmation of the [ICRA]AA+ (CE) (Stable) rating for the long-term working capital and the term loan facilities of NLC Tamilnadu Power Limited (NTPL) is based on the letter of comfort (LOC) provided by NLC India Limited (NLCIL; rated [ICRA]AAA (Stable)), which holds an 89% stake in NTPL. The ratings reflect the improvement in the receivable position of NLCIL and NTPL owing to the bill discounting arrangement and better collection efficiency in 9M FY2022, driven by the funds released to distribution companies (discoms) through loans from Power Finance Corporation (PFC) and REC Limited (REC) under the Atmanirbhar package. While ICRA takes note of the steps taken by NLCIL to improve its receivable position, the timely honouring of the liabilities under the bill discounting mechanism by the discoms remains a monitorable as recourse remains with the company in case of non-payment of dues to the lenders by the discoms.

Further, ICRA has assigned a provisional rating of Provisional [ICRA]AA+ (CE) (Stable) for the newly sanctioned working capital limits of Rs. 500 crore. The facility would be supported by a LOC from NLCIL, with its terms and conditions being in line with the LOC provided for the existing term loan and working capital facilities.

The Stable outlook on NTPL's rating reflects the outlook of the support provider – NLCIL, which is supported by the recent improved receivable position at the Group level.

Adequacy of credit enhancement

To assign the ratings, ICRA has assessed the attributes of the LOC provided by NLCIL in favour of the said facilities. Taking cognisance of the above credit enhancement, ICRA has assigned a rating of [ICRA]AA+(CE)(Stable) to the said facilities against the unsupported rating of [ICRA]AA. In case the ratings of the support provider or the unsupported rating of NTPL were to undergo a change in the future, the same would have a bearing on the ratings of the aforesaid facilities as well. The ratings may also undergo a change if in ICRA's assessment there is a change in the strength of the business linkages between the LOC provider and the rated entity, or there is a change in the reputation sensitivity or change in the strategic importance of the rated entity for the LOC provider.

Salient covenants related to the credit enhancement, as specified in the LOC

» *LOC provider shall undertake to follow very closely the financial situation of NTPL from time to time and NLCIL shall ensure that NTPL complies and meets the obligations, including the repayment of interest along with other interest and amounts that are due.*

» *LOC provider exercises administrative and management control through its nominee directors on NTPL's board of directors.*

» *The LOC provider will not dilute its shareholding (89%) in the borrowing company without the specific approval of the bank/consortium of bankers/financial corporation/financial institutions.*

For the [ICRA]A1+ rating

The reaffirmation of the rating reflects the benefits derived by NTPL from its parent, NLCIL, a Navratna entity rated [ICRA]AAA (Stable), with an established track record of more than 50 years in lignite mining and power generation. NLCIL holds an 89% stake in NTPL. ICRA takes note of the shared management, operational and financial linkages and the track record of financial support provided by the parent. Further, the rating considers the reduction in its receivable position owing to the bill discounting arrangement and better collection efficiency in 9M FY2022. As a result, the company's receivables have reduced to Rs. 698.86 crore as on January 24, 2022 from Rs. 1,942.40 crore as of March 2021. Nonetheless, the timely honouring of the liabilities by the discoms under the bill discounting mechanism remains a monitorable as recourse remains with the company in case of non-payment of dues to the lenders by the discoms.

The rating also positively factors in the long-term power purchase agreement (PPA) for the entire thermal power capacity of the company under the cost-plus tariff structure based on the Central Electricity Regulatory Commission's (CERC) tariff regulations, which limit the demand and tariff risks for the company. ICRA also considers the long-term fuel supply agreement (FSA) that ensures the availability of domestic coal for the project. However, at present, the company is facing fuel supply shortage with the Ministry of Coal (MoC) directing the company to source its entire requirement from NLCIL's Talabira mine. This has lowered the plant's availability to 70.3% in 9M FY2022 against 90.9% in FY2021, below the normative availability of 85.0%, leading to under-recovery of fixed charges. The company is working with the MoC to improve the supplies through a swapping arrangement with Mahanadi Coalfields Limited (MCL)/Eastern Coalfields Limited (ECL), in lieu of coal from the Talabira mine and is importing high gross calorific value (GCV) coal to blend with domestic coal to meet the technical requirements of the plant.

The rating is, however, constrained by NTPL's exposure to financially modest discoms such as Tamil Nadu Generation and Distribution Corporation Ltd (TANGEDCO) and the discoms in Telangana, Andhra Pradesh, Karnataka and Kerala, leading to payment delays. Further, the rating considers the operating inefficiencies because of the higher-than-normative station heat rate (SHR) and auxiliary consumption, leading to under-recovery of variable charges. These factors, combined with the relatively high landed cost of fuel, have also impacted NTPL's position in the merit order list of the offtaking discoms. These parameters would continue to remain key monitorables for the company.

The rating also factors in the company's moderate return indicators because the approved capital cost of Rs. 5,233.77 crore as per the latest CERC tariff order is lower than the actual incurred capital cost of Rs. 7,293.49 crore owing to the disallowance of interest during construction and other overheads arising from the delays in execution. ICRA notes that the company has filed an appeal with the Appellate Tribunal for Electricity (APTEL) for the disallowed portion to be considered in the tariff. Besides this, from the date of commissioning till March 31, 2018, NTPL has incurred a capital expenditure of Rs. 774.38 crore, which has been included for consideration by the company in the tariff petition filed before the CERC for the 2019-2024 period. The outcome of the tariff order and the quantum of the incremental project cost considered by the CERC and APTEL remain a sensitivity factor for the project returns.

Further, ICRA is withdrawing the long-term rating of [ICRA]AA (Stable) assigned to the unallocated limits at the request of the company, and in accordance with ICRA's policy on withdrawal and suspension.

Key rating drivers and their description

Credit strengths

Strong parentage with NLCIL holding 89% stake - NTPL benefits from its strong parentage with NLCIL {rated [ICRA]AAA (Stable)} holding an 89% stake in the company. NLCIL is a Navratna PSU with sovereign ownership and is strategically important to the Government of India (GoI) in the lignite mining and power sectors, with an installed capacity of 6,061 MW. NLCIL has extended a letter of comfort for the project debt and working capital facilities availed by NTPL, demonstrating its support. The parent also provides other operational support along with providing coal supply from its captive mine in Odisha. NLCIL and NTPL are led by a common Chairman, and other senior officials of NLCIL are part of the board of directors/management team of NTPL.

Long-term PPA with cost-plus tariff limits demand and tariff risks - NTPL has signed long-term PPAs for its entire capacity with the distribution utilities of the five southern states and the Union Territory of Puducherry under the cost-plus tariff regulations of the CERC. This mitigates the offtake risks for the company. The two-part tariff structure enables the company to recover fixed charges, including fixed return on equity based on plant availability and pass-through of fuel costs, subject to meeting the normative operating efficiency parameters, supporting the profitability and debt coverage metrics.

Fuel supply arrangements in place - NTPL has signed a long-term FSA with MCL, a wholly-owned subsidiary of CIL, to procure 3 MMTPA of coal. NTPL has also signed a long-term FSA with ECL to procure 1.3 MMTPA of coal. In addition to this, NLCIL has an allotted block at Talabira, Odisha, which is used to meet NTPL's fuel requirement. At present, the company is facing fuel supply shortage with the Ministry of Coal directing it to source its entire requirement from the Talabira mines. The company is working with the Ministry to improve the supplies through a swapping arrangement with MCL/ECL in lieu of coal from the Talabira mine and is importing high GCV coal to blend with the domestic coal to meet the technical requirements of the plant.

Credit challenges

Counterparty credit risks from exposure to state discoms with modest financial profile; nonetheless, receivable position reduced in FY2022 - The company's counterparty credits risks remain high owing to the exposure to discoms with modest financial profiles, including TANGEDCO and the Telangana and Andhra Pradesh discoms. ICRA notes that there has been a build-up of receivables over the last few years due to delayed payments by the state distribution utilities and the pandemic's impact on their finances. Nonetheless, the company has achieved a significant improvement in the receivable position, with debtors reducing to Rs. 698.86 crore as on January 24, 2022 from Rs. 1,942.40 crore as on March 31, 2021 (excluding unbilled revenues) with the realisation of dues under the Atmanirbhar package and use of the bill discounting mechanism. However, ICRA notes that the recourse remains with the company in case of non-payment of dues to the lenders by the discoms under the bill-discounting mechanism.

Disallowance in capital costs by regulator have moderated return indicators; however, project returns likely to improve during true-up - The regulatory framework allows for the recovery of only the approved capital costs although the tariff is of a cost-plus nature. For NTPL, as per the tariff order of July 11, 2017, the CERC had allowed Rs. 5,233.77 crore, against the total project cost of Rs. 7,293.49 crore, disallowing the interest during construction and other overheads from delays in execution. The undischarged liability position as on the date of commissioning was Rs. 1,069 crore. This has moderated the return indicators. NTPL has filed an appeal with APTEL for the disallowed portion to be considered in the tariff. Besides this, from the date of commissioning till March 31, 2018, NTPL has incurred a capital expenditure of Rs. 774.38 crore, which has been included for consideration by the company in the tariff petition filed before the CERC for the 2019-2024 period. The outcome of the tariff order and the quantum of the incremental project cost to be considered by the CERC and APTEL remain a sensitivity factor for the project returns.

Operating inefficiencies leading to under-recovery of fixed and variable charges – The company is facing under-recovery of fixed charges in FY2022 owing to the shortfall in plant availability due to coal-supply issues. Also, there is under-recovery of energy charges because of higher-than-normative SHR and auxiliary consumption. Further, the relatively high landed cost of fuel and higher-than-normative SHR has led to relatively high cost of generation, impacting the plant's merit order position. The company expects to improve the plant availability in FY2023, enabling full recovery of capacity charges, besides improving SHR and auxiliary consumption. These parameters would continue to remain key rating monitorables for the company.

Liquidity position

For the [ICRA]AA+(CE) rating: Adequate

The liquidity profile of the support provider - NLCIL - is backed by the healthy cash flow from operations, which are expected to be sufficient to meet the debt servicing obligations in FY2022 and FY2023. The funding for the capex programme is expected to be met through a mix of internal accruals and debt funding. The company had large undrawn working capital lines of Rs. 3,285 crore in December 2021.

For the [ICRA]AA / [ICRA]A1+ rating: Adequate

The liquidity profile of NTPL is supported by the healthy cash flow from operations, which are expected to be sufficient to meet the debt servicing obligations in FY2022 and FY2023. The capex to install the flue gas desulphurisation (FGD) system is expected to be met through a mix of internal accruals and debt funding. The company had large undrawn working capital lines of Rs. 1,093.62 crore in December 2021.

Rating sensitivities

Positive factors – ICRA could upgrade NTPL's rating if the regulator approves the incremental capital cost during truing-up, which will lead to a significant improvement in the return indicators. Also, a sustained improvement in the receivable position and operating efficiency along with a reduction in the leverage level could lead to a rating upgrade.

Negative factors - NTPL's ratings may be downgraded if there is deterioration in the credit profile of the parent – NLC India Limited – or, if the linkages between NLCIL and NTPL weaken. Further, NTPL's ratings can be downgraded if the receivable position increases significantly, adversely impacting its liquidity profile. Continued underperformance on normative parameters adversely impacting the debt coverage metrics would be another trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers Explicit third-party support Policy on Withdrawal of Credit Ratings
Parent/Group Support	Parent/Group Company: NLC India Limited The rating for the Rs. 1,516.95-crore term loans and Rs. 1,500-crore working capital facilities is based on the LoC extended by NLC India Limited. The [ICRA]AA (Stable) rating considers the implicit benefits of being a subsidiary of NLC India Limited and the managerial, financial and operational linkages between the two entities.
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating on the Rs. 500-crore fund-based working capital limit is provisional and would be converted into final upon execution of:

1. Letter of Comfort from NLCIL

Validity of the provisional rating

In case the debt instrument/ borrowing facility to which a provisional rating has been assigned is subsequently issued, the provisional rating will have to be converted into a final rating within 90 days (validity period) from the date of issuance of the debt instrument/ date of availing the borrowing facilities. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final, in circumstances where the rated entity expressly indicates its intention to complete the pending actions/documents over the near term. In no circumstance shall the validity period be extended beyond 180 days from the date of issuance. For further details refer to ICRA's Policy on Provisional Ratings available at www.icra.in.

If neither the pending actions/documents nor the issuance is completed after one year of assignment of the provisional rating, ICRA will withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at www.icra.in.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/ documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon a review of the required actions/ documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/ documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at www.icra.in.

About the company

NLC Tamil Nadu Power Limited (NTPL) is a joint venture (JV) between NLCIL and the Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO), operating a 1,000-MW coal-based power generation project at Tuticorin, Tamil Nadu. NLC has an 89% equity stake, along with management control of the company, while TANGEDCO holds the balance 11%. The JV was incorporated on November 18, 2005 and the project was conceived by NLC as part of its expansion strategy. The total cost of setting up the project is Rs. 7,293 crore, funded through a mix of debt and equity in the ratio of 70:30. The power plant commenced its operation on June 18, 2015 and August 29, 2015 for Unit I (500 MW) and Unit II (500 MW), respectively.

Key financial indicators (audited)

NTPL Standalone	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	2,583.0	2,779.6	1,782.0
PAT (Rs. crore)	143.2	363.0	182.0
OPBDIT/OI (%)	32.0%	36.1%	34.9%
PAT/OI (%)	5.5%	13.1%	10.2%
Total Outside Liabilities/Tangible Net Worth (times)	2.47	2.12	1.92
Total Debt/OPBDIT (times)	6.37	4.96	5.13
Interest Coverage (times)	1.83	2.73	3.83

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Jan 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					18-Mar-2022	02-Mar-2022	02-Jun-2021	30-Mar-2021	20-Mar-2020	13-Feb-2020	-
1	Term Loans	Long Term	1516.95	1516.95	[ICRA]AA+(CE) (Stable)	[ICRA]AA+(CE) (Stable)	[ICRA]AA+(CE) (Negative)	[ICRA]AA+(CE) (Negative)	[ICRA]AA+(CE) (Stable)	[ICRA]AA+(CE) (Stable)	-
2	Fund-Based Working Capital Limits	Long Term	1500.00	-	[ICRA]AA+(CE) (Stable)	[ICRA]AA+(CE) (Stable)	[ICRA]AA+(CE) (Negative)	[ICRA]AA+(CE) (Negative)	[ICRA]AA+(CE) (Stable)	[ICRA]AA+(CE) (Stable)	-
3	Fund-Based Working Capital Limits	Long Term	500.00	-	Provisional [ICRA]AA+(CE) (Stable)	-	-	-	-	-	-
4	Commercial Paper	Short Term	2000.00	1150.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	-	-
5	Long Term / Short Term - Fund Based	Long / Short Term	-	-	-	-	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Negative)/ [ICRA]A1+	[ICRA]AA (Stable)	-	-

6	Unallocated	Long Term	1740.52	-	**[ICRA]AA (Stable); withdrawn**	**[ICRA]AA (Stable)**	**[ICRA]AA (Negative)**	**[ICRA]AA (Negative)**	**[ICRA]AA (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Fund-Based Working Capital Limits	Simple
Commercial Paper	Very Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's 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-I	FY2016	-	FY2026	1302.44	[ICRA]AA+(CE) (Stable)
NA	Term Loan-II	FY2019	-	FY2027	214.51	[ICRA]AA+(CE) (Stable)
NA	Fund-based Working capital facilities	-	-	-	1500.00	[ICRA]AA+(CE) (Stable)
NA	Fund-based Working capital facilities	-	-	-	500.00	Provisional [ICRA]AA+(CE) (Stable)
INE05C614147	Commercial paper - 1	Nov 2021	3.99%	Feb 2022	500.00	[ICRA]A1+
INE05C614154	Commercial paper - 2	Dec 2021	4.00%	Mar-2022	400.00	[ICRA]A1+
INE05C614162	Commercial paper - 3	Jan 2022	3.99%	Apr-2022	250.00	[ICRA]A1+
NA	Commercial paper*	-	-	-	850.00	[ICRA]A1+
NA	Long-term, Unallocated	-	-	-	1740.52	[ICRA]AA (Stable); withdrawn

*Source: Company, *Unplaced*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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