

September 27, 2023

## Neyveli Uttar Pradesh Power Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based - Term loan	12,067.00	12,067.00	[ICRA]BBB+ (Stable); reaffirmed
<b>Total</b>	<b>12,067.00</b>	<b>12,067.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation factors in the strong sponsor profile of Neyveli Uttar Pradesh Power Limited (NUPPL) — a joint venture (JV) between NLC India Limited {NLCIL; rated [ICRA]AAA (Stable)} and Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL), which is Uttar Pradesh’s (UP) state-owned power generation company (genco). The rating considers the low permit risks for the project, as the required approvals and majority of the land are in place, along with the completion of auxiliary infrastructure like transmission lines, water intake system and one portion of the railway siding. The power purchase agreements (PPA) for the entire plant capacity are tied-up with Uttar Pradesh Power Corporation Limited (UPPCL) (75%) and Assam Power Distribution Company Limited (APDCL) (25%) based on the cost-plus tariff principles, which will safeguard the profitability against fuel price volatility and provide for regulated returns, subject to achieving normative operating efficiency and the approval of capital cost by the regulator. In addition, the company has tied up the initially budgeted debt funding and the JV partners are infusing equity as per their shareholding and based on the progress of the project. ICRA also takes note of the extension in the project debt moratorium to January 2026<sup>1</sup> from July 2024 by the lenders.

The rating is, however constrained by the implementation risks associated with the under-construction status, with the project witnessing delays in execution and cost escalation. The commissioning timeline (CoD) for Unit-1 has been extended to December 2023, from March 2023 expected during the last rating exercise, owing to issues with the balance of plant (BoP) contractor. The other units are expected to be completed subsequently in June 2024 and December 2024. The company has incurred over 80% of the budgeted project cost as of June 2023. The delay in execution along with the increase in certain equipment costs and addition of the flue-gas desulphurisation (FGD) plant has resulted in cost overruns for the project.

The rating is also constrained by the risk associated with tying up an additional debt of ~Rs. 1,500 crore as the project cost has been revised to Rs. 19,406.12 crore from Rs. 17,237.80 crore. Herein, comfort is drawn from the presence of a strong sponsor, NLCIL, having superior financial flexibility. The company’s ability to complete the project without further delays and fund the cost escalations in a timely manner would be the key monitorable.

Further, the rating considers the counterparty risks arising from the modest financial profiles of the distribution utilities (discoms), especially UP discoms, post commissioning. While the project’s fuel supply risks are expected to be low as a captive coal block has been allotted for the company’s coal requirements, the risk of delays in commencement of mining operations in the allocated Pachwara south coal block remains. As a result, the company has requested for bridge coal linkage from Northern Coalfields Limited (NCL), wherein partial approval has been received. Alternately, the company plans to procure coal from NLCIL’s captive coal mine at Talabira, Odisha, in case of any shortfall.

<sup>1</sup> approved by two out of the three lenders and the pending approval from third lender is under process

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that NUPPL's credit profile will remain stable, given the execution pace of the project, the track record of the sponsor in executing projects of this scale and the availability of project debt moratorium till January 2026.

## Key rating drivers and their description

### Credit strengths

**Strong sponsor profile** – The project was conceived by NLCIL as a part of the company's expansion plans, and NUPPL was incorporated as a joint venture with a 51% stake held by NLC and the remaining 49% shareholding with UP-state genco, UPRVUNL. The Government of India holds a dominant share of ~79% in NLC India Limited as of June 2022, which has a strong operational track record of more than 50 years in the lignite mining and power generation segments. ICRA notes that following the regulatory approval of the PPA signed with APDCL, a proportionate shareholding would be transferred to the Assam government from UPRVUNL.

**Low permit risks** – The project has secured the required approvals and has acquired majority of the land required for project construction. Also, the transmission line, water pipeline and one side of railway siding are ready for use. The company has awarded project development contracts through packages to various contractors – boiler package to L&T MHPS Boilers Pvt Ltd, turbine generator package to GE Power India (Alstom Bharat Forge Ltd), balance of plant package to BGR Energy Systems Ltd and FGD package to L&T.

**Cost-plus PPA for entire project capacity** – NUPPL signed a PPA for 75% of the project capacity of 1,980 MW with UPPCL with the ultimate beneficiaries being the UP state discoms, and 25% of the project capacity with APDCL. The PPAs follow the cost-plus principles with pass-through of fuel cost and thereby the project's profitability is expected to be safeguarded from volatility in coal prices, subject to achieving the normative operating efficiency and the approval of the capital cost by the regulator.

### Credit challenges

**Execution risk of under-construction project** – The project execution is in the advanced stages with over 80% of the revised project cost of Rs. 19,406.12 crore incurred till June 2023. The delays in execution, along with the increase in certain equipment costs, GST, retendering of FGD package are the major reasons for the increase in the project capital cost. The project's CoD timeline has been extended for Unit-1 to December 2023 from March 2023 expected during the last rating exercise owing to the issues with the BoP contractor. The balance two units are expected to be commissioned by June 2024 and December 2024. The ability of the company to complete the project without further delays and fund the cost escalations in a timely manner would be a key monitorable. Post commissioning, the extent of the capital cost allowed by the Central Electricity Regulation Commission (CERC) remains another key monitorable.

**Exposed to counterparty credit risks due to the modest financial profile of state discoms** – The PPAs for the project has been signed with the state discoms of UP and Assam. As a result, the counterparty credit risks are high, considering the modest financial profiles of the state discoms, especially UP discoms.

**Delayed commencement of coal mining at allotted captive block by NLC** – With the pre-development activities at the Pachwara coal block delayed, mining of coal from the block is expected to be delayed too. Production is expected to start in FY2024, while procurement from the mine to the plant is expected to commence in FY2027-FY2028. Meanwhile, for the interim period, the company has requested for bridge coal linkage from Northern Coalfields Limited (NCL), wherein partial approval has been received. Alternately, the company plans to procure coal from NLCIL's captive coal mine at Talabira, Odisha, in case of any shortfall.

## Liquidity position: Adequate

As the project is under construction (~80% of project cost incurred till June 2023), the liquidity is supported by a sanctioned term loan and equity tie-up from the sponsors. However, the funding for the estimated cost overrun is pending. Herein, the presence of a strong sponsor and NLCIL's ability to provide financial support, if required (NLCIL holds a 51% stake in the entity), provides comfort. The JV partners – NLCIL and UPRVUNL - have already infused ~75% of the equity requirement till June 2023, and the balance is expected to be infused in a timely manner. The medium to long-term liquidity profile will be dependent on the project's completion within the revised timelines and the allowance of capital cost by the CERC, thus enabling the recovery of fixed costs and repayment of project debt.

## Rating sensitivities

**Positive factors** – ICRA could upgrade NUPPL's rating if there is advance progress in the implementation/commissioning of the project without a significant cost overrun.

**Negative factors** – Pressure on NUPPL's rating could arise if there are significant delays or cost overruns in the project, without commensurate approval from the lenders for CoD revision and for funding the cost overruns. Deterioration in the credit profile of NLCIL, which holds a 51% stake in the entity, may also trigger a downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Thermal Power Producers</a>
Parent/Group support	NLC India Limited (rated [ICRA]AAA(Stable)) holds 51% in the entity and the NUPPL project is part of the expansion projects of NLC.
Consolidation/Standalone	The rating is based on the standalone financial profile of the rated company

## About the company

Neyveli Uttar Pradesh Power Limited (NUPPL) is a joint venture company promoted by NLC India Limited and Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) with a shareholding ratio of 51:49. The JV was incorporated in 2012 and Ghatampur, UP, was chosen as the site for a 1,980-MW (3x660 MW) supercritical power project. The total project cost was estimated to be Rs. 17,238 crore, which was subsequently revised and approved at Rs. 19,406.12 crore in April 2023, and is to be funded through a mix of debt and equity in the ratio of 70:30.

## Key financial indicators

Not applicable/meaningful since the project is under construction

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Sep 27, 2023	Jul 22, 2022	Apr 06, 2021	Apr 07, 2020
1	Term loan	12,067.00	9,627.73	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple

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: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	<b>Term Loan – 1</b>	Feb 2018	-	Jun 2035	5,588.84	[ICRA]BBB+ (Stable)
NA	<b>Term Loan – 2</b>	Feb 2018	-	Jan 2034	5,478.16	[ICRA]BBB+ (Stable)
NA	<b>Term Loan – 3</b>	Nov 2021	-	Dec 2035	1,000.00	[ICRA]BBB+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Not Applicable

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