July 26, 2024

Bhartiya Rail Bijlee Company Limited: Long-term rating upgraded to [ICRA]AA+ (Stable); Short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based term loan	6,296.26	5,700.00	[ICRA]AA+(Stable); upgraded from [ICRA]AA-(Stable)
Fund-based working capital facilities	500.00	500.00	[ICRA]AA+(Stable); upgraded from [ICRA]AA-(Stable)
Non-fund-based working capital facilities^	(100.00)	(75.00)	[ICRA]A1+; reaffirmed
Fund-based unallocated limits	203.74	0.00	-
Total	**7,000.00**	**6,200.00**	

**Instrument details are provided in Annexure-1*

^ sub-limit of fund based working capital limit

Rationale

The rating upgrade takes into account the approval of capital cost (incurred upto March 2019) with minor disallowance (8%) along with the continued healthy operating and collection performance of the 1,000-MW thermal power project developed by Bhartiya Rail Bijlee Company Limited (BRBCL) at Nabinagar, Bihar.

The ratings factor in the company's strong parentage with NTPC Limited (rated [ICRA] AAA/Stable/[ICRA]A1+) holding a 74% stake, resulting in access to superior financial flexibility and operational expertise. The thermal project's performance has been better than the normative parameters in the last three years. Further, the ratings take comfort from the limited offtake and fuel supply risks with the presence of long-term power purchase agreements (LT PPAs) and fuel supply agreements (FSAs). The PPAs are based on the cost-plus-tariff principle outlined by the Central Electricity Regulatory Commission (CERC), with pass-through of fixed and fuel costs and a fixed return on equity (RoE), leading to comfortable debt coverage metrics for the company, subject to achieving the normative operating performance levels.

The ratings, however, are constrained by the pending approval of the balance capital costs by the regulator and the uncertainty over the final approved tariff for the project, which has witnessed significant cost and time overruns in the past due to land acquisition, Naxalite disruptions and law and order issues. ICRA takes comfort from only minor disallowances in the capital cost approved till March 2019 wherein most of the time overrun in project commissioning (till Unit 3 commercial operation date) has been adjudged by the regulator to be beyond the control of the developer. While the counterparty credit risk pertaining to the Bihar dicoms remains, it is limited to only 10% of the project capacity and there too the collection has improved with the implementation of the Late Payment Surcharge (LPS) scheme in 2022. Timely payments by the Indian Railways (PPA for 90% of project capacity) so far and the payment security mechanisms in the PPAs provide comfort. Additionally, the execution risks over the implementation of the flue gas desulphurisation (FGD) systems have eased with the Ministry of Environment, Forest and Climate Change (MoEFCC) deferring the deadline to December 2026.

The Stable outlook reflects ICRA's expectation that BRBCL will be able to maintain plant availability at or above the normative level of 85%, while meeting other normative efficiency parameters, which along with the timely payments from the Indian Railways, would lead to healthy cash flows for the company.

Key rating drivers and their description

Credit strengths

Strong sponsor profile – The sponsors of the project are NTPC Limited ([ICRA]AAA/Stable/[ICRA]A1+) with a 74% shareholding and the Indian Railways owning the remaining 26% stake. ICRA takes comfort from NTPC's strong financial profile and demonstrated track record of providing timely support to its subsidiaries. Additionally, BRBCL benefits from the strong executional, operational and managerial capabilities of NTPC, which has a commercial capacity of over 76 gigawatt (GW) at present, comprising coal, gas, solar, wind and hydro power generation assets.

Cost-plus PPAs allow normative return on equity, mitigate fuel price risk – The PPAs have been signed on a cost-plus basis as per the CERC norms, which allow normative return on equity, and recovery of fixed capacity charge and energy charge, subject to maintaining costs and operational efficiencies, including plant availability at normative level.

Healthy performance of all operational units – BRBCL overcame past issues related to plant stabilisation and has achieved plant availability at 91.58% in FY2024 and 88.88% in FY2023 (higher-than-normative level of 85%), ensuring full recovery of the eligible fixed costs. The company's performance has remained within the operational norms specified by the CERC with respect to the auxiliary consumption as well as station heat rate. Moreover, given the relatively new units, the operating expense too has remained below the normative levels for the company.

Credit challenges

Significant cost and time overruns; approval by CERC without any major disallowances remains critical – The project has witnessed significant delays in the past because of issues related to land acquisition, Naxalite disruptions, and breakdown of law and order in the region. The delay has resulted in higher land cost and interest during construction, among others. Consequently, the initially approved (in January 2008) project cost of Rs. 5,352.51 crore doubled to Rs. 10,566.33 crore (inclusive of additional scope related to installation of the FGD system). Any major disallowances by the CERC in the project cost could adversely impact the return on equity for the company. ICRA takes comfort from only minor disallowances in the capital cost approved till March 2019 wherein most of the time overrun in project commissioning (till Unit 3 commercial operation date) has been adjudged by the regulator to be beyond the control of the developer.

Exposure to counterparty credit risk, though payments have so far been on time – BRBCL is exposed to counterparty credit risks pertaining to the offtakers, especially the Bihar state discoms, whose credit quality is 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 the PPAs, such as LOC equal to 105% of monthly billing at normative availability, escrow arrangement (only in case of the Bihar discom PPAs) and third-party sale upon default by the procurers, also mitigate the counterparty credit risks. The collection efficiency stood at 107% in FY2023 and 102% in FY2024.

Liquidity position: Adequate

BRBCL's liquidity position is adequate, supported by healthy cash flow from operations and undrawn cash credit limits. As on March 31, 2024, the company had free cash of Rs. 13.4 crore and undrawn cash credit limit of Rs. 469.4 crore. The company's collection efficiency in the last four fiscals has remained strong, which has supported its liquidity. The company's cash flows are expected to be sufficient to meet its annual debt repayments. Further, the company has already tied up of the required debt funding for the project. Also, the funding support from its sponsor should be forthcoming in case of any exigency.

Rating sensitivities

Positive factors – Approval of the pending capital costs without any major disallowances by the regulator, leading to a further improvement in the debt coverage and return indicators, amid a healthy operating performance and timely collections from the counterparties would be a key trigger for an upgrade.

Negative factors – The ratings could be downgraded in the event of any significant and sustained deterioration in the key operating parameters like plant availability and heat rate, or if the payments from the counterparties are stretched, impacting its liquidity. Any major disallowance in the project cost approval for the pending costs by the CERC, adversely impacting the debt service coverage metrics will also affect the ratings. Further, adverse change in the support philosophy/linkages with the sponsors or weakening in their credit profiles will weigh on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers
Parent/Group Support	Parent: NTPC Limited The ratings are based on the implicit support from parent. ICRA expects the sponsor to support the company in case of any funding requirements
Consolidation/Standalone	Standalone

About the company

Bhartiya Rail Bijlee Company Limited (BRBCL) is a joint venture between NTPC Limited (74%) and the Ministry of Railways (26%). BRBCL has developed 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 of the project was commissioned in January 2017, Unit 2 in September 2017, Unit 3 in February 2019 and Unit 4 in December 2021. The budgeted cost of the project is Rs. 10,566 crore. An FSA has been signed for all the units (5 MTPA in total) of the project with Central Coalfields Limited. A long-term PPA has been signed with the Ministry of Railways (90% of installed capacity) and Bihar State Electricity Board (10%) at a cost-plus tariff based on CERC norms.

Key financial indicators (Audited)

BRBCL Standalone	FY2023	FY2024
Operating income (Rs. crore)	3431.7	3711.0
PAT (Rs. crore)	244.0	517.0
OPBDITA/OI (%)	32.6%	38.3%
PAT/OI (%)	7.1%	13.9%
Total outside liabilities/Tangible net worth (times)	2.1	1.9
Total debt/OPBDITA (times)	4.6	3.3
Interest coverage (times)	2.8	3.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 26, 2024	May 26, 2023	-	Feb 15, 2022
1	Fund-based term loan	Long term	5,700.00	[ICRA]AA+(Stable)	[ICRA]AA-(Stable)	-	[ICRA]AA-(Stable)
2	Fund-based working capital facilities	Long term	500.00	[ICRA]AA+(Stable)	[ICRA]AA-(Stable)	-	[ICRA]AA-(Stable)
3	Non-fund-based working capital facilities^	Short term	(75.00)	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+
4	Fund-based unallocated limits	Long term	-	-	[ICRA]AA-(Stable)	-	[ICRA]AA-(Stable)

^sub-limit of fund based working capital limit

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based term loans	Simple
Fund-based working capital facilities	Simple
Non-fund-based working capital facilities	Very 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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate (%)	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan 1**	May 2018	-	Sep 2034	998.48	[ICRA]AA+ (Stable)
NA	**Term loan 2**	May 2019	-	Sep 2034	666.67	[ICRA]AA+ (Stable)
NA	**Term loan 3**	Aug 2021	-	Mar 2035	1,172.71	[ICRA]AA+ (Stable)
NA	**Term loan 4**	Aug 2021	-	Mar 2036	300.00	[ICRA]AA+ (Stable)
NA	**Term loan 5**	Aug 2021	-	Mar 2035	158.57	[ICRA]AA+ (Stable)
NA	**Term loan 6**	Nov 2021	-	Mar 2035	199.07	[ICRA]AA+ (Stable)
NA	**Term loan 7**	Nov 2021	-	Mar 2035	199.07	[ICRA]AA+ (Stable)
NA	**Term loan 8**	Nov 2021	-	Mar 2035	811.34	[ICRA]AA+ (Stable)
NA	**Term loan 9**	Dec 2022	-	Dec 2037	904.00	[ICRA]AA+ (Stable)
NA	**Term loan unallocated**	-	-	-	290.09	[ICRA]AA+ (Stable)
NA	**Fund-based working capital facilities**	-	-	-	500.00	[ICRA]AA+ (Stable)
NA	**Non-fund based working capital facilities^**	-	-	-	(75.00)	[ICRA]A1+

Source: *Company*
^ sub-limit of fund based working capital limit

Annexure-2: List of entities considered for consolidated analysis: 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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