August 02, 2024

Neyveli Uttar Pradesh Power Limited: Rating reaffirmed and assigned for enhanced amount

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	13,067.00	[ICRA]BBB+ (Stable); reaffirmed and assigned for enhanced amount
Long term – Fund-based – Others	-	2,000.00	[ICRA]BBB+ (Stable); assigned
Long term unallocated limits		1,000.00	[ICRA]BBB+ (Stable); assigned
Total	**12,067.00**	**16,067.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the rating 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 land are in place. Auxiliary infrastructure like transmission lines, water intake system and one portion of the railway siding has also been completed. 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 receiving 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 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 July 2024 from December 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 November 2024 and March 2025. This is against the lender's scheduled CoD of January 2025. The company has incurred over 78% of the revised budgeted project cost as of May 2024. 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 additional debt as the project cost has been further revised to Rs. 21,780.94 crore from Rs. 19,406.12 crore, which was earlier revised 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. This apart, the company has to tie up funding for the captive mine, wherein a capital investment of Rs. 2,242.90 crore is required.

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 the commencement of mining operations in the allocated Pachwara south coal block remains. As a result, the company has requested for bridge coal linkage from the Northern Coalfields Limited (NCL), wherein partial approval has been received. Alternatively, the company plans to procure coal from NLCIL's captive coal mine at Talabira, Odisha, in case of any shortfall.

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 72.2% in NLC India Limited as of March 2024, 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 permitting risks – The project has secured the required approvals and has acquired the land required for project construction. Also, the transmission line, water pipeline and one section of the 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 has 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 the volatility in coal prices, subject to achieving the normative operating efficiency and receiving 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 78% of the revised project cost of Rs. 21,780.94 crore incurred till May 2024. The delays in execution, along with the increase in certain equipment costs, GST, and retendering of the 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 July 2024 from December 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 November 2024 and March 2025. 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 – 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 – The delays in pre-development activities at the Pachwara coal block is likely to push back coal mining from the block. While the company expects to commence production from the mine in Q4 FY2025 with peak production by FY2028, its ability to secure the required approvals such as forest clearance and funding tie-up remains important to meet these timelines. Meanwhile, for the interim period, the company has requested for bridge coal linkage from Northern Coalfields Limited (NCL), wherein partial approval has been received. Alternatively, 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 (78% of project cost incurred till May 2024), the liquidity is supported by a sanctioned term loan and equity tie-up from the sponsors. However, the funding for the 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 ~79% of the equity requirement, 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 significant progress towards the commissioning of the project.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Power - Thermal Corporate Credit Rating Methodology
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 initially estimated to be Rs 17,238 crore and funded through a mix of debt and equity in the ratio of 70:30. However this cost has been revised to Rs. 19,406.12 crore by Ministry of Coal on April 24, 2023 in response to the proposal submitted by NUPPL. The project cost is proposed to revise to Rs. 21,780.94 crore as a consequence of further delay, which is pending now for the board and GoI approval.

Key financial indicators (audited)

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	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
				Aug 02, 2024	Sep 27, 2023	Jul 22, 2022	Apr 06, 2021
1	**Term loans**	Long term	13,067.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	**Fund-based - Others**	Long term	2,000.00	[ICRA]BBB+ (Stable)	-	-	-
3	**Unallocated limits**	Long term	1,000.00	[ICRA]BBB+ (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based – Term loan	Simple
Long term – Fund-based – Others	Simple
Long term unallocated	Not Applicable

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan – 1**	Feb 2018	-	Jun 2035	5,588.84	**[ICRA]BBB+ (Stable)**
NA	**Term loan – 2**	Feb 2018	-	Jan 2034	5,478.16	**[ICRA]BBB+ (Stable)**
NA	**Term loan – 3**	Nov 2021	-	Dec 2035	1,000.00	**[ICRA]BBB+ (Stable)**
NA	**Term loan – 4**	Feb 2024	-	Jan 2036	1,000.00	**[ICRA]BBB+ (Stable)**
NA	**Long term – Fund-based – Others**	-	-	-	2,000.00	**[ICRA]BBB+ (Stable)**
NA	**Long term – Unallocated limits**	-	-	-	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

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 6939 6410
vikram.v@icraindia.com

Siddhartha Kaushik
+91 124 4545 323
siddhartha.kaushik@icraindia.com

Dhruv Consul
+91 124 4545 347
dhruv.consul@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches