December 31, 2024

NLC Tamilnadu Power Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Term loans	769.01	395.04	[ICRA]AA reaffirmed; outlook revised to Positive from Stable
Long term – Fund-based - CC	2,000.00	1,800.00	[ICRA]AA reaffirmed; outlook revised to Positive from Stable
Short term – Non-fund-based - LC	0.00	200.00	[ICRA]A1+; assigned
Commercial paper	2,000.00	2,000.00	[ICRA]A1+; reaffirmed
Total	**4,769.01**	**4,395.04**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook on the long-term rating for NLC Tamilnadu Power Limited (NTPL) to Positive from Stable factors in the regulatory clarity that has emerged following the favourable tariff orders from the CERC for the 2019-24 and 2014-19 control periods, resulting in an arrear income (including interest) of ~Rs. 850 crore for 2014-19 and ~Rs. 1,030 crore for 2019-24. This is expected to lead to an all-time high operating profit in the current fiscal and significantly bring down the leverage levels as the arrears get recovered over a period of six months. ICRA notes that the company is on course to bring down its total debt/OPBITDA to 2-3 times between FY2025 and FY2027, which is a significant improvement from 4.5-7.0 times witnessed in the period prior to FY2025.

The rating reaffirmation reflects the benefits derived by NLC Tamilnadu Power Limited (NTPL) from its parent, NLC India Limited {NLCIL; rated [ICRA]AAA (Stable)}, a Navratna entity, 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.

The ratings also positively factor in the long-term power purchase agreements (PPAs) for the company's entire thermal power capacity of 1,000 MW 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 NTPL. ICRA also considers the long-term fuel supply agreements (FSAs) that ensure the availability of domestic coal for the project at a competitive rate. The company also continues to import coal with high gross calorific value (GCV) for blending with domestic coal to meet the technical requirements of the plant.

On the operational side, the planned overhaul and shortfall in high GCV imported coal availability reduced the plant availability to 69.3% in FY2024, resulting in under-recovery of fixed charges. However, the plant availability rose to 87.8% in H1 FY2025 on account of completion of the planned overhaul and improved imported coal availability.

On the receivable front, while the one-time arrear income (including interest) of ~Rs. 850 crore for 2014-19 booked in H1 FY2025 has increased the receivable position with debtors increasing to Rs. 1,496 crore as on September 30, 2024 from Rs. 530 crore as on March 31, 2024 (excluding unbilled revenues), it is likely to gradually come down over the next 6-9 months as the recoveries have started to flow in from Q3 FY2025. The bill discounting liabilities stood at Rs. 1,357.6 crore as on September 30, 2024, and these liabilities are being honoured by the discoms regularly. 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 the event of non-payment of dues to the lenders by the discoms.

The ratings are, however, constrained by NTPL's exposure to financially weak discoms such as Tamil Nadu Generation and Distribution Corporation Ltd (TANGEDCO) and the discoms in Telangana, Andhra Pradesh, Karnataka and Kerala, evident from the payment delays in the past. Further, the ratings consider the operating inefficiencies because of the higher-than-normative station heat rate (SHR) and auxiliary consumption, leading to under-recovery of variable charges. The relatively high landed cost of fuel has also impacted NTPL's position in the merit order list of the offtaking discoms. In addition, the company has witnessed periods where the actual plant availability has been less than the normative level of 85%, resulting in under-recovery of fixed charges as well. The company's ability to improve the operating parameters would continue to be a key monitorable from a credit perspective.

The ratings also factor in the company's moderate return indicators because the approved capital cost of Rs. 6,004.35 crore as per the latest CERC tariff order is lower than the actual incurred capital cost of ~Rs. 7,212 crore. NTPL has filed an appeal with APTEL for the disallowed portion (~Rs.897 crore including towards IDC and incidental expense during construction) to be considered in the tariff. The disallowance of capital cost has moderated the return indicators. The outcome of the quantum of the incremental project cost approved by APTEL has the potential to increase the regulated asset base, which can uplift the regulated returns from prevailing levels.

Key rating drivers and their description

Credit strengths

Favourable tariff order in FY2025, which is expected to lead to all-time high profits and marked improvement in leverage metrics – NTPL has received favourable tariff orders from the CERC in the current fiscal for the 2019-24 period and 2014-19 control periods, resulting in an arrear income (including interest) of ~Rs. 850 crore for 2014-19 and ~Rs. 1,030 crore for 2019-24. This is expected to lead to an all-time high operating profit in the current fiscal and significantly bring down the leverage levels as the arrears get recovered over a period of six months. Further, with no major capex planned in the near term, except pertaining to FGD, the leverage levels are expected to come down. The total debt/ OPBITDA is likely to be in the range of 2-3 times between FY2025 and FY2027, which is a significant improvement from the 4.5-7.0 times witnessed in the period prior to FY2025

Strong parentage of NLCIL, which owns 89% stake in the project - NTPL benefits from its strong parentage with NLCIL 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 financial support to NTPL in the past. The parent also provides other operational support along with providing coal supply from its captive Talabira mine in Odisha. NLCIL and NTPL have common directors, and other senior officials of NLCIL are part of the board of directors/management team of NTPL.

Long-term PPAs 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 the 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 had earlier signed a long-term FSA with Mahanadi Coalfields Ltd (MCL) and Eastern Coalfiel Limited (ECL), wholly-owned subsidiaries of CIL, to procure 3 million metric tonnes per annum (MMTPA) and 1.3 MMTPA of coal, respectively. At present, NLCIL has signed an MoU with NLC's Talabira coal mine for 5.0 MMTPA to meet its coal requirement. From June 2024, the company is sourcing domestic coal entirely from Talabira, and is importing some high GCV coal for blending with domestic coal to meet the technical requirements of the plant.

Credit challenges

Counterparty credit risks from exposure to state distribution utilities with modest financial profiles – 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 (till FY2021) due to delayed payments by the state distribution utilities and the pandemic's impact on their finances. Nonetheless, the company's receivable position has significantly improved with the realisation of dues under the earlier Atmanirbhar package, LPS scheme and the use of the bill discounting mechanism.

On the receivable front, while the one-time arrear income (including interest) of ~Rs. 850 crore pertaining to 2014-19 booked in H1 FY2025 has increased the receivable position with the debtors increasing to Rs. 1,496 crore as on September 30, 2024 from Rs. 530 crore as on March 31, 2024 (excluding unbilled revenues), the same is likely to gradually come down over the next 6-9 months as the recoveries have started to flow in from Q3 FY2025. The bill discounting liabilities stood at Rs. 1,357.6 crore as on September 30, 2024, and these liabilities are being honoured by the discoms regularly. 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 the event of non-payment of dues to the lenders by the discoms.

Sizeable disallowances in capital costs by the regulator, leading to moderate return indicators – Although the tariff is of a cost-plus nature, the regulatory framework allows for the recovery of only the approved capital costs. For NTPL, as per the latest tariff order, the CERC had allowed Rs. 6,004.35 crore against a total project cost of ~Rs. 7,212 crore. NTPL has filed an appeal with APTEL for the disallowed portion (~Rs.897 crore including towards IDC and incidental expense during construction) to be considered in the tariff. The disallowance of capital cost has moderated the return indicators. The outcome of the quantum of the incremental project cost approved by APTEL has the potential to increase the regulated asset base, which can uplift the regulated returns from prevailing levels

Operating inefficiencies leading to under-recovery in fixed and variable charges– In four of the last five years**,** the company's plant availability has been lower than the normative levels, which impacted its ability to recover the entire capacity charge. While the plant availability improved in H1 FY2025, it was lower in FY2024 owing to a planned overhaul at the plant and imported coal availability issues for which the company has faced under-recovery in fixed charges of ~Rs. 200 crore in FY2024. The PAF improved to 87.8% in H1 FY2025, leading to no under-recovery in fixed charges in the current fiscal so far. However, there is continued under-recovery in energy charges due to higher-than-normative SHR (Actual– 2630 kcal/kwh in H1FY2025 higher by 12% than normative level) and auxiliary consumption (Actual – 7.3% in H1FY2025, higher by 17% than normative levels). Further, the relatively high landed cost of fuel and a higher-than-normative SHR have increased the cost of generation, impacting the plant's merit order position. However, the company expects the SHR and auxiliary consumption to improve in the following years. These parameters would continue to be the key rating monitorables for the company.

Liquidity position: Adequate

The liquidity profile of NTPL is supported by the company's track record of positive free cash flow (FCF) generation between FY2021 and FY2024. This, along with its undrawn working capital lines and financial flexibility to raise capital at competitive rates, has supported the liquidity position. In FY2025, while the FCF is expected to temporarily slip to negative due to a build-up of receivables, the FCF is likely to increase to Rs. 1,200-1,300 crore in FY2026, supported by the liquidation of arrear bills raised in FY2025. 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. 1,393 crore as on November 30, 2024, which provides an additional liquidity buffer.

Rating sensitivities

Positive factors – ICRA could upgrade NTPL's ratings if the company is able to demonstrate a timely recovery of the regular and arrear receivables and ensure efficient plant operations, which will support the business return indicators and the debt protection metrics. The rating could also be revised upwards in case of a favourable ruling on the disallowed capital cost, which can lift the capacity charges and support a higher earnings stream in the future.

Negative factors – NTPL's ratings could be under pressure if the credit profile of the parent – NLC India Limited – deteriorates, or if the linkages between NLCIL and NTPL weaken. Further, the 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 for a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Thermal
Parent/Group support	Parent/Group Company: 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. ICRA also expects NLC India Limited to be willing to extend financial support to NTPL out of the need to protect its reputation from the consequences of a Group entity's distress
Consolidation/Standalone	The ratings are based on the standalone financial profile of the rated entity

About the company

NLC Tamil Nadu Power Limited (NTPL) is a joint venture (JV) between NLCIL and 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. 7,212 crore[1], funded through a mix of debt and equity in a ratio of 70:30. Unit I (500 MW) of the power plant commenced its operation on June 18, 2015, and Unit II (500 MW) on August 29, 2015.

Key financial indicators (audited)

NTPL Standalone	FY2023	FY2024	H1 FY2025*
Operating income	3,620.4	2,861.0	2,571.8
PAT	278.6	129.2	715.0
OPBDIT/OI	27.6%	21.4%	38.0%
PAT/OI	7.7%	4.5%	27.8%
Total outside liabilities/Tangible net worth (times)	2.11	2.04	1.69
Total debt/OPBDIT (times)	4.64	6.88	2.17
Interest coverage (times)	4.30	2.92	10.16

*Source: Company, ICRA Research; * Unaudited numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

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

[1] Excluding Rs. 81 crore LD charges recovered from contractor

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		
				Dec 31, 2024	Dec 29, 2023	Dec 23, 2022	Mar 18, 2022	Mar 02, 2022	Jun 02, 2021
1	**Term loans**	Long term	395.04	**[ICRA]AA (Positive)**	[ICRA]AA (Stable)	[ICRA]AA+ (CE) (Stable) withdrawn; [ICRA]AA (Stable) assigned simultaneously	[ICRA]AA+ (CE) (Stable)	[ICRA]AA+ (CE) (Stable)	[ICRA]AA+ (CE) (Negative)
2	**Fund-based - CC**	Long term	1,800.00	**[ICRA]AA (Positive)**	[ICRA]AA (Stable)	[ICRA]AA+ (CE) (Stable) withdrawn; [ICRA]AA (Stable) assigned simultaneously	[ICRA]AA+ (CE) (Stable)	[ICRA]AA+ (CE) (Stable)	[ICRA]AA+ (CE) (Negative)
3	**Non-fund based - LC**	Short term	200.00	**[ICRA]A1+**					
3	**Fund-based working capital limits**	Long term	-	-	-	Provisional [ICRA]AA+ (CE) (Stable) withdrawn	Provisional [ICRA]AA+ (CE) (Stable)	-	-
4	**Commercial paper**	Short term	2000.00	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	**Long term/Short term – Fund based**	Long term/ Short term	-	-	-	-	-	-	[ICRA]AA (Negative) / [ICRA]A1+
6	**Unallocated**	Long term	-	-	-	-	[ICRA]AA (Stable); withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Negative)

&: Rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Fund-based - CC	Simple
Non-Fund-based - LC	Very Simple
Commercial paper	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan – I	FY2016	-	FY2026	325.61	[ICRA]AA (Positive)
NA	Term loan – II	FY2019	-	FY2027	69.43	[ICRA]AA (Positive)
NA	Fund-based - CC	-	-	-	1,800.00	[ICRA]AA (Positive)
NA	Non-fund based - LC	NA	NA	NA	200.00	[ICRA]A1+
INE05C614469	Commercial paper – 1	Oct 2024	7.27%	Dec 2024	500.00	[ICRA]A1+
INE05C614477	Commercial paper – 2	Oct 2024	7.33%	Jan 2025	500.00	[ICRA]A1+
NA	Commercial paper*	-	-	-	1000.00	[ICRA]A1+

*Source: Company; *Unplaced as on December 02, 2024*

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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