January 03, 2025

IL&FS Tamil Nadu Power Company Limited: Rating upgraded and removed from Issuer Non-Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	500.00	0.00	[ICRA]BB (Stable); upgraded from [ICRA]D; ISSUER NOT COOPERATING and removed from Issuer Not-Cooperating category; rating withdrawn
Long term - Cash credit - Fund based	0.00	814.45	[ICRA]BB (Stable); upgraded from [ICRA]D; ISSUER NOT COOPERATING and removed from Issuer Not-Cooperating category
Long term - Term loan - Fund based	6,080.00	2,468.93	[ICRA]BB (Stable); upgraded from [ICRA]D; ISSUER NOT COOPERATING and removed from Issuer Not-Cooperating category
Total	**6,580.00**	**3,283.38**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade factors in the implementation of the restructuring scheme for IL&FS Tamil Nadu Power Company Limited (ITPCL), which has led to a rightsizing of the debt burden (into sustainable and unsustainable) and favourable repayment terms of the restructured debt, thereby lowering the annual debt service burden and supporting the overall liquidity profile. ICRA notes that of the Rs. 9,587 crore of the company's overall debt stock as of end-March 2023, 64.66% has been classified as sustainable debt which has a long residual repayment tenure extending up to FY2038. The residual debt has been classified as unsustainable debt, which carries a nominal coupon rate of 0.001% and scheduled annual amortisation of 0.01%, with the balance amount to be retired in lumpsum equally in FY2039 and FY2040.

The rating upgrade also factors in the company's predictable earnings stream over the medium term from the long-term power sales to TANGEDCO from Unit-I of its 1,200 MW (2 x 600 MW) thermal power plant, and the company's sizeable on-balance sheet liquidity of Rs. 2,118 crore as on November 12, 2024. This on-balance sheet liquidity has accumulated due to a combination of factors, including the loan moratorium for the period between H2 FY2019 and FY2023, a steady recovery of Rs. 540 crore/annum of past receivables from TANGEDCO from August 2022 under the LPS scheme, the benefit accruing from Section 11 for sale to TANGEDCO lower fuel cost under-recoveries and a pick-up in the short-term power market in FY2024 and H1 FY2025, which supported a jump in the operating profits.

The rating reflects the possibility of a gradual run-down of the liquidity position over the medium term if the earnings stream from the core operations remains tepid, and the surplus gets deployed to prepay the unsustainable debt. The rating is further tempered by the company's high energy cost (~Rs. 5.38/unit in FY2024 and Rs. 5.09/unit in H1 FY2025), arising out of 100% dependence on costlier imported coal and high inland logistics costs, adversely impacting the cost competitiveness and ranking in the merit order dispatch. ICRA understands that the company is in the process of completing a captive jetty adjacent to its plant, which can help save on railway freight for coal transport from the Karaikal port located 130 km away and bring in cost savings of Rs. 0.15-0.30/unit.

Given its position at the higher end of the generation cost curve, the rating is also constrained by the company's exposure to offtake risks as ~50% of the installed capacity does not have long-term power purchase agreements (PPA). In periods of subdued spot tariffs, one unit is sparsely utilised (average PLF of ~44-45% between FY2017 and H1 FY2025). While the rally in short-term tariffs last fiscal has led to the PLF of the second unit increase to 63.7% and 70.4% in FY2024 and H1 FY2025, the moderation in spot power tariffs to a four-year low in in recent months gives limited visibility of the durability of the healthy earnings stream from short-term power sales over the medium term, especially given the company's high cost base. This is expected to adversely impact the capital return indicators across business cycles.

The rating also reflects the renewal risks associated with the TANGEDCO PPA following its scheduled expiry in September 2028, which gives limited visibility of the steady earnings stream from one unit beyond H1 FY2029. The rating also reflects the company's exposure to non-pass through of energy charges in the TANGEDCO PPA, leading to fuel cost under-recovery of ~Rs. 0.8/unit in H1 FY2025. This eats into the capacity charges and depresses the overall earnings generated from one unit, especially in year where TANGEDCO draws down the full allocated capacity of 540 MW. ICRA notes that the company is currently enjoying the benefit of Section 11 for sale to TANGEDCO, which allows for recovery of a higher energy charge rate (ECR) from TANGEDCO compared to the energy charges indicated in the PPA. Notwithstanding, the 4-5% reduction in blended cost of coal being expected in FY2026, with limited visibility on the renewal of the Section 11 benefit after Feb 2025, the fuel cost under-recovery is likely to remain at around Rs 0.6/unit in the next fiscal. The company has a sizeable on-balance sheet liquidity and maintenance of a healthy liquidity buffer, at all times, to tide over periods of weak spot power tariffs and/or payment delays from TANGEDCO, will remain critical from a credit perspective.

The Stable outlook on ITPCL's rating reflects ICRA's opinion that the company's debt servicing ability will be supported by a combination of steady earnings stream from sale to TANGEDCO, opportunistic sale in the short-term markets, expected inflow of LPS receivables and sizeable current on-balance sheet liquidity.

ITPCL has benefitted from the favorable regulatory actions arising out of the implementation of late payment surcharge scheme, along with additional fuel cost recovery from TANGEDCO under Section 11 of the Electricity Act. Both these factors have played an important role in the sizeable build-up of free cash & liquid investments. This, coupled with the change in management at the IL&FS Group, has led to a significant improvement in the fundamental credit quality of the rated entity. In lieu of these reasons, ICRA has taken an exception to the 90-day curing period after the last date of delay in NCDs (INE433M08437, INE433M08445, INE433M08445) while assigning the ratings.

Key rating drivers and their description

Credit strengths

Relatively predictable earnings stream from 540-MW long-term power sale arrangement with TANGEDCO; limited visibility on power offtake from H2 FY2029 - ITPCL has a long term PPA with TANGEDCO under competitive bidding for 540 MW of capacity which is valid till September 2028, providing revenue visibility till H1 FY2029. If the PPA with TANGEDCO is not re-newed at a cost-reflective tariff, the company can potentially be dependent on merchant sales from H2 FY2029. This exposes the company to a greater degree of earnings volatility over the long term and exposes the company to the risk of cash flow timing mismatches, given the fixed debt service obligations.

Sizeable on-balance sheet liquidity provides cushion to tide over periods of weak core earnings; liquidity could be affected if earnings stream from core operations remains tepid and surpluses get deployed to prepay unsustainable debt - ITPCL has been generating healthy cash flows over the last 2-3 years, driven by regulatory actions such as the implementation of Section 11 under Electricity Act for a greater pass-through of fuel cost escalations since May 2022 and recovery of old stuck receivables post the implementation of the Late Payment Surcharge scheme (LPSC) since August 2022. This, along with the rally in merchant tariffs in FY2024 and H1 FY2025, has generated healthy cash flow for the company, and supported the build-up of sizeable on-balance sheet liquidity of ~Rs. 2,100 crores as of November 2024, which provides cushion to tide over any shortfall in cash flows from the core business operations.

However, the surplus liquidity on the balance sheet, over and above the levels required to meet the threshold cash-adjusted DSCR benchmark as per the restructuring plan, can potentially be deployed towards the prepayment of the unsustainable debt, which could lower the liquidity cushion from the prevailing levels. ICRA believes that given the sizeable debt service obligations and the uncertainties associated with power offtake which is placed in the higher end of the merit order list, a track record of maintaining a sizeable liquidity to tide over periods of weak earnings remains essential from a credit perspective.

Timely recovery of old receivables from TANGEDCO amid risk of a cyclical build-up of receivables over the medium term - ITPCL has a long term PPA with TANGEDCO valid till September 2028. As per the long-term PPA, TANGEDCO was to pay the bills within 30 days of receipt of the bill. However, the discom had significantly delayed in making the payments to ITPCL in the past, leading to a large build-up of receivables of around Rs. 2,100 crore on its books as on March 31, 2022. However, after the launch of the Late Payment Surcharge scheme in June 2022, TANGEDCO has been paying the past dues through 48 installments of Rs. 45 crore every month, starting from August 2022. This is leading to an additional inflow of Rs 540 crores per annum being available in FY2025 and FY2026 and around Rs 171 crore in FY2027.
Although ITPCL has been recovering past overdue in a timely manner under the LPS scheme, TANGEDCO has a weak financial profile due to losses owing to the inadequate tariff revisions, subdued utilization of its generation assets and the high cost of power purchase, leading to suboptimal cost coverage, sizeable cash losses and a significant reliance on external borrowings. This has stretched the liquidity for TANGEDCO, which opens up the possibility of a cyclical build-up of receivables for ITPCL when the utility struggles to arrange funding to meet the cash flow shortfalls. Such risks get accentuated for high-cost generators like ITPCL.

Long residual tenure of restructured debt lowers annual debt service burden and supports overall liquidity position – After the restructuring, the debt had been classified into sustainable and unsustainable. Of the Rs. 9587 crore of the company's overall debt as of March 2023, 64.66% has been classified as sustainable debt, which has a long residual repayment tenure extending up to FY2038, thereby lowering the annual repayment obligations for the company. In addition, the residual debt has been classified as unsustainable debt, which carries a nominal coupon rate of 0.001% and scheduled annual amortization of 0.01%, with the balance amount to be retired in lumpsum equally in FY2039 and FY2040.

Credit challenges

High energy cost due to dependence on imported coal - The company is importing 100% of the coal from Indonesia through spot purchases and does not have any long-term fuel supply agreement. The company's earnings are therefore exposed to coal cost fluctuation which may impact the overall cost of generation. Moreover, given that coal cost escalations are not pass-through even in the PPA with TANGEDCO, such cost escalations can adversely impact the overall earnings in years when coal price remain elevated. ICRA notes that the increase in coal prices in the international market and the depreciation of the INR against USD has raised the landed cost of coal to ~Rs. 8,000/MT in H1 FY2025 from Rs. 5,800/MT in FY2020, impacting the overall cost of generation and profitability. However, the company is constructing a jetty for the transportation of coal with a total outlay of Rs. 200 crore, which will decrease the logistics cost and save around Rs 0.15-0.30/unit of net generation leading to an attractive payback period of 1-2 years. This jetty is expected to be completed and become operational in the next 2 years. A timely completion of the same and the benefits arising out of it remains a key monitorable from a profitability perspective.

Exposure to offtake risks as ~50% of the installed capacity do not have long-term PPA; risks may get accentuated by ITPCL's adverse cost structure - ITPCL does not have a long-term PPA for Unit 2, which has a capacity of 600 MW and is wholly dependent on merchant tariffs/bilateral sales. Given the high-cost base, the unit will be supplying power only during periods of peak demand, typically from 6pm to 8 am for taking the benefit of higher tariffs. Merchant/bilateral tariffs are volatile in nature which exposes the company to the risk of suboptimal PLFs and unpredictable earnings from Unit 2. While the tariffs in the merchant market have remained buoyant over the past couple of years amid healthy domestic power demand growth, the spot tariff rates have moderated in recent months.

ICRA notes that the merchant tariffs had remained in the range of Rs 2.5-3.5/unit till FY2021 and increased significantly to Rs. 6.19/unit in FY2023. However, given the moderation in demand, the spot tariffs have come back to levels of Rs. 3.9/unit in H2

FY2025, and therefore, the benefits of high merchant tariffs enjoyed by company in the previous two years may not be available for a prolonged period, which can adversely impact the earnings level. Also, given the high cost of generation, the company's generation from Unit 2 has been sub-optimal with an average PLF of 36% from FY2019 to FY2023. The PLF increased to 64% in FY2024 and 70% in H1 FY2025 due to higher tariffs which may not continue when the tariff declines and reaches long-term median levels.

Under-recovery in fuel cost in the absence of pass-through mechanism with TANGEDCO – For Unit 1, for which ITPCL has a long-term PPA with TANGEDCO, the company generates revenue in the form of capacity charges linked to a normative availability of more than 85% and energy charges based on the power sold as per the PPA terms. As the thermal plant depends on imported coal, the cost of generation remains high for the company (~Rs. 5.38/unit in FY2024 and Rs. 5.09/unit in H1 FY2025), which is not a pass-through in the PPA, and hence there has been an under-recovery of fuel charges.

A notification was issued by the Government of India under Section 11 of the Electricity Act of 2003, which gives the GoI the right to direct generating companies to operate and maintain power stations at full load, as per the dispatch schedule from the discoms, with fuel cost as a pass-through. The discoms are required to pay the power generating companies as per the energy charge benchmark rates (ECR), notified by the committee appointed by the Government on a fortnightly basis. Since the roll out of Section 11 of the Electricity Act from May 2022, the company is receiving energy charges from TANGEDCO under ECR benchmarks rates. This mechanism has been extended multiple times, with the current extension available till February 2025. However, notwithstanding the Section 11 benefit, the under-recovery in fuel cost remains at ~Rs. 0.8 per unit in H1 FY2025.

ICRA also estimates that with average coal prices moderating by about 4-5% in FY2026 over FY2025, if the Section 11 benefit is not extended further, the company's fuel cost under-recovery could remain at around Rs 0.6/unit in the next fiscal. Such fuel cost under-recoveries can increase in a scenario where there is a high drawl rate from TANGEDCO in periods of high demand. However, as the company has been consistently reporting availability above 85%, the capacity charge recovery has been around Rs 700 crore per annum which supports the overall earnings generated from Unit 1.

Liquidity position: Adequate

ITPCL's liquidity position is supported by expected free cash flows of ~Rs. 894 crore in FY2025 and ~Rs. 1066 crore in FY2026 against annual repayment obligations of Rs. 344-541crore during this period. Further, the company had cash and bank balances of ~Rs. 2,100 crore as of November 2024, which provides an additional debt servicing cushion. However, as per the resolution terms, the surplus funds (on lenders' discretion) can be used to prepay the unsustainable debt, subject to meeting a minimum level of cash-adjusted DSCR cover. This provision can adversely impact the liquidity profile in periods when the core earnings from power sales remain weak due to high coal costs and subdued merchant tariffs.

Rating sensitivities

Positive factors – The rating could be revised upwards if there is better visibility on the long/medium term power offtake arrangement of the entire generation capacity at a cost-reflective tariff, which supports a more predictable earnings stream across business cycles. Specific credit metrics for upgrade include DSCR (excluding cash balance) of more than 1.20 times on a sustained basis.

Negative factors – The rating could come under pressure if the company's earnings from spot power sales decline from the prevailing levels, putting pressure on the overall cash flow and liquidity. The rating could also come under pressure if the liquidity position deteriorates due to various reasons, including a built-up of receivables and/or deployment of the surplus for retiring the unsustainable debt.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Thermal
Parent/Group support	NA
Consolidation/Standalone	The rating has considered the standalone financials of ITPCL as the operations outside of the standalone balance sheet are negligible

About the company

IL&FS Tamil Nadu Power Company Ltd. (ITPCL) is a special purpose vehicle (SPV), incorporated on June 26, 2006, to set up a 3,840-MW imported coal-based thermal power project at Cuddalore in Tamil Nadu. It is promoted by IL&FS Energy Development Corporation Ltd. (IEDCL), the energy vertical of the IL&FS Group.

The project was proposed to be implemented in phases. In the first phase, the company set up a 1,200-MW (2x600 MW) power plant based on imported coal with sub-critical technology. Phase I of the power plant has commenced its operations, with Unit I of 600 MW commissioned on September 29, 2015 and Unit II of 600 MW on April 30, 2016. Coal for the project is being imported from Indonesia. ITPCL has a long-term PPA for the sale of 540 MW from Unit I to Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO). For Unit II, there is no long-term PPA and ITPCL is dependent on short-term power sale agreements or sale through the power exchange.

The total project cost in the first phase initially estimated at Rs. 6,371 crore, has been revised upwards to Rs. 11,835 crore because of execution delays and increase in the project scope. The project was financed by Rs. 6,080-crore term loans and the balance through equity and promoter loans.

Key financial indicators

	FY2023	FY2024
Operating income	**2345**	**4840**
PAT	**420**	**2438**
OPBDIT/OI (%)	**22.2%**	**21.1%**
PAT/OI (%)	**17.9%**	**50.4%**
Total outside liabilities/Tangible net worth (times)	**5.1**	**1.4**
Total debt/OPBDIT (times)	**15.7**	**4.5**
Interest coverage (times)	**39.0**	**2.2**

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. Crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)					Chronology of rating history for the past 3 years					
Instrument	Type	Amount rated (Rs. crore)	Jan 03, 2025	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Non-convertible debentures	Long term	500.00	[ICRA]BB (Stable); Withdrawn	22-MAY-2024	[ICRA]D ISSUER NOT COOPERATING	25-MAY-2023	[ICRA]D ISSUER NOT COOPERATING	27-MAY-2022	[ICRA]D ISSUER NOT COOPERATING	31-MAY-2021	[ICRA]D ISSUER NOT COOPERATING
Long term - Cash credit - Fund based	Long term	814.45	[ICRA]BB (Stable)	-	-	-	-	-	-	-	-
Long term - Term loan - Fund based	Long term	2468.93	[ICRA]BB (Stable)	22-MAY-2024	[ICRA]D ISSUER NOT COOPERATING	25-MAY-2023	[ICRA]D ISSUER NOT COOPERATING	27-MAY-2022	[ICRA]D ISSUER NOT COOPERATING	31-MAY-2021	[ICRA]D ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	Simple
Term loan	Simple
Working capital – Cash credit	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 Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE433M07041	**Non-convertible debentures**	15-Mar-2017	0.098%	14-Mar-2021	250.00	[ICRA]BB (Stable); Withdrawn
INE433M07033	**Non-convertible debentures**	15-Mar-2017	0.098%	16-Mar-2020	250.00	[ICRA]BB (Stable); Withdrawn
NA	**Cash credit**	-	-	-	814.45	[ICRA]BB (Stable)
NA	**Term loan**	2018	-	March 2038	2,468.93	[ICRA]BB (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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