

September 07, 2020

## Bhartiya Rail Bijlee Company 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	5699.85	5248.21	[ICRA]A reaffirmed; outlook revised to positive from stable
Long-term Unallocated	500.00	1451.79	[ICRA]A reaffirmed; outlook revised to positive from stable
Long-term Cash Credit	300.00	300.00	[ICRA]A reaffirmed; outlook revised to positive from stable
Short-term Bank Guarantee	100.00	0.00	-
Short-term Interchangeable	0.00	(100.00)	[ICRA]A1; reaffirmed
Short-term Unallocated	400.15	0.00	-
<b>Total</b>	<b>7000.00</b>	<b>7000.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in the rating outlook takes into account the demonstrated operating track record of Bhartiya Rail Bijlee Company Limited (BRBCL or the company) as also reflected in improvement of the operating performance for its three units (each of 250 MW) during FY 2020, which is likely to be sustained. The company reported 88% plant availability in FY 2020 as against 66% in FY2019, and the same has continued to remain healthy at 90% in the first five-month period of the current fiscal. Further, the outlook revision also reflects the expected commissioning of the last unit (with 250 MW capacity) over the next 4/5-month period.

The rating reaffirmation continues to favourably factor the strong parentage of the company with NTPC Limited (rated ICRA AAA/Stable) owning 74% stake and the Ministry of Railways owning 26% stake. BRBCL owns a 1000-MW coal-based thermal power plant (250MW x 4 units) in Nabinagar, Bihar. The rating also considers the presence of long-term (25 years from the commercial operations date) power purchase agreements (PPA) for 100% project capacity, which mitigates the offtake risk. 90% of the plant capacity is tied up with the Indian Railways, which is also a minority shareholder in the company with 26% stake, while the remaining 10% is tied up with the Bihar state discoms viz. North Bihar Power Distribution Company Limited (NBPDC) and South Bihar Power Distribution Company Limited (SBPDCL). The long term PPAs with the offtakers are based on the 'cost-plus tariff principle' at normative norms, which involves the recovery of fixed capacity charges (comprising allowed post tax return on equity at 15.5%, based on the prevailing CERC norms) at 85% plant availability and pass-through of fuel cost at normative operating efficiency level.

The rating, however, is constrained by the residual execution risk associated with the commissioning of the unit 4 of 250 MW capacity. The project has witnessed significant cost and time overrun due to land acquisition, Naxalite disruptions, and law and order issues in the past. Hence, securing pass-through of the cost overrun in a timely manner from the Central Electricity Regulatory Commission (CERC) in the tariff-determination process remains important. The final tariff order for Unit 1, Unit 2 and Unit 3 is yet to be issued by CERC. The revised project cost is estimated at Rs 10566.33 crore, which is being funded in a debt-to-equity mix of 70:30. While the company is required to raise Rs 1798 crore of debt and

Rs 773 crore of equity towards the remaining project cost, it has received a sanction for Rs 592 crore of debt from one of its existing lender (yet to be availed), and the equity requirement is expected to be met through internal accruals from ongoing operations. Timely tie-up of pending debt and infusion of equity would be important for completing the project within the timelines. While the fuel supply agreement (FSA) is pending for the fourth unit, the presence of Letter of Assurance (LOA) from Central Coalfields Limited (CCL) for supply of 5 Million Metric Tonnes Per Annum (MMTPA) for entire capacity mitigates the fuel supply risk. The rating also factors the counterparty credit risk pertaining to the offtakers, the Indian Railways, and the Bihar state discoms, NBPDC and SBPDCL. While the credit quality of NBPDC and SBPDCL is weak, the discoms' combined offtake is limited to 10% of the plant capacity, which mitigates the risk to some extent. Further, the payments from the Indian Railways have been timely so far. Nonetheless, the sustenance of timely collections remains important as the dip in demand amid lockdown restrictions triggered by the Covid-19 outbreak has affected the cash collections and the revenue profile of the Indian Railways and the Bihar state discoms. Further, the presence of payment security mechanisms in PPAs, in the form of letter of credit, escrow arrangement (only in case of Bihar state discoms) and third-party sale, in case of default by the procurers provides comfort.

Going forward, timely completion of the project, approval of cost and time overrun by CERC, achievement of normative parameters on sustained basis, and timely payment of bills by the Indian Railways and Bihar state discoms will remain the key rating sensitivities.

### Key rating drivers:

#### Credit strengths

**Strong sponsor profile** – The sponsors of the project are NTPC Limited ([ICRA]AAA/A1+), with 74% shareholding and the IR holding the remaining 26% shareholding as on March 31, 2020. NTPC Limited is also responsible for operation and maintenance of the project, thereby mitigating the operating risk to some extent.

**Long-term PPA with Indian Railways (90% capacity) and Bihar state discoms (10% capacity) mitigates off-take risk** – BRBCL has signed long-term PPAs for 90% of the installed capacity with the Indian Railways and 10% of installed capacity with BSEB for 25 years from COD at tariff determined as per CERC norms with pass-through of fuel cost. Presence of long-term PPA on cost-plus basis mitigates the off-take risk. The levelled tariff over the PPA tenure based on the estimated project cost and the availability of domestic coal through FSA route is expected to be competitive compared to the Indian Railways' average power purchase cost in recent years.

**Cost-plus PPA allows normative return on equity, mitigates fuel price risk** – The PPAs have been signed on cost-plus basis as per CERC norms, which allow normative return on equity, subject to approval of capital cost by CERC, and ability to maintain costs and efficiency norms including the plant availability at normative level. Moreover, the PPAs allow pass-through of any increase in fuel cost subject to the plant meeting operational norms, thereby mitigating fuel price risk. However, any increase in fuel price by Central Coalfields Limited (CCL) may impact the merit order position of the project.

**Healthy operating performance of plant in FY2020 and current fiscal, though sustenance of same remains critical** – BRBCL reported significantly improved plant performance in FY2020 compared to previous two fiscals. The plant availability in the previous two fiscals was much below the normative level of 85% because of initial stabilisation issues faced by the three operational units, inadequate coal handling system in time, and lower-than-required coal availability. These challenges were overcome in FY2020. Consequently, the company reported improved plant availability of 88% in FY2020 compared to 66% in FY2019. The PLF levels also increased to 74% in FY2020 from 60% in FY2019, supported by healthy demand from the Indian Railways. The healthy operating performance has continued in the current fiscal with plant availability remaining at 90% in the first five months period ended August 31, 2020. Nonetheless, sustenance of the

healthy operating performance remains critical given that the repayments for project loans have already commenced and the entire balance equity requirement of Rs 773 crore for the project is required to be met through the internal accruals.

## Credit challenges

**Execution risk for remaining portion of project** – The project comprises four units of 250 MW capacity each. Unit 1, Unit 2 and Unit 3 were commissioned in April 2017, September 2017 and February 2019. The fourth unit is under construction and is expected to be commissioned by December 2020, as against the earlier expectation of March 2020. The company is also required to install Flue Gas Desulfurization (FGD) system by December 2022. The project has witnessed significant delays in the past, leading to time and cost overruns. The revised project cost stands at Rs 10566.33 crore, which will be funded in a debt-to-equity mix of 70:30. As on March 31, 2020, the company had incurred a project cost of Rs 8709.13 crore. With significant cost yet to be incurred, the company remains exposed to execution risks with respect to completing the project within the budgeted time and cost. The total revised debt requirement of the project is Rs 7396.43 crore, of which Rs 5598.60 crore has been sanctioned. The company is required to raise additional debt of Rs 1798 crore. While the company has received a sanction for Rs 591.59 crore new debt for FGD system, it is yet to avail the same. In terms of equity funding, Rs 2397.46 crore has been infused till March 31, 2020 and the remaining equity requirement of Rs 773 crore is expected to be met from internal accruals. Timely tie-up of pending debt and infusion of equity would be crucial for completing the project within timelines.

**Significant cost and time overrun, approval of same by CERC without any major disallowances remains critical** - The project has witnessed significant delays in the past because of issues related to the land acquisition, Naxalite disruptions, and breakdown in law and order situation in the region. This has resulted in higher land cost and interest during construction. Consequently, the project cost, which was initially approved at Rs 5352.51 crore, by BRBCL's board in January 2008, stands doubled. The current revised, approved project cost estimate for the project, including the additional scope related to installation of FGD system, is Rs 10566.33 crore (Rs 10.57/MW), higher than the last estimate of Rs 9600 crore. Any further increase and/or major disallowances by CERC in the project cost will result in increased tariff / reduced attractiveness of the generated power, and lower return on equity for the company.

**Exposure to counterparty credit risk, though payments have been timely so far** - BRBCL is exposed to counterparty credit risks pertaining to the offtakers, especially Bihar state discoms, whose credit quality remains weak. The risk is partly mitigated as their exposure is limited to only 10% of the plant capacity. The payments from the Indian railways have been timely so far. Nonetheless, the sustenance of timely collections remains a key rating sensitivity as the dip in demand amid lockdown restrictions triggered by the Covid-19 outbreak has affected the cash collections and the revenue profile of the Indian Railways and the Bihar state discoms. The payment security mechanisms in PPAs, such as Letter of Credit equal to 105% of monthly billing at normative availability, escrow arrangement (only in case of BSEB PPA) and third-party sale in case of default by the procurers, also act as mitigants against the counter-party credit risk.

## Liquidity position: Adequate

BRBCL's liquidity position is adequate, supported by healthy cash balance and undrawn cash credit limits. As on August 31, 2020, the company had free cash balance of Rs 303.83 crore and undrawn cash credit limit of Rs 242.22 crore. The company's collection efficiency over the last two and half fiscals has remained strong, over ~95% of the monthly billed amount, which has supported its liquidity. The cash credit limit has remained unutilised in the last 15 months offering adequate liquidity cushion. The company's debt repayments in the next three years are expected to be met through internal accruals. The company has sizeable capex towards completion of the pending work of the power project, for

which it will be required to raise additional debt of Rs 1798 crore of which sanction for Rs 591.59 crore is already in place. The equity requirement for this capex of Rs 773 crore is expected to be met through the internal accruals.

### Rating Sensitivities:

#### Positive triggers –

Completion of unit 4 within the budgeted cost and time, sustained improvement in operating performance along with timely collections from counterparties, timely implementation of FGD system and approval of project cost by CERC without any major disallowances would be positive triggers.

**Negative triggers–** Any deterioration in operating efficiency parameters like heat rate, and material delays in payments from counterparties would be key negative triggers. Moreover, any further cost and time overrun in commissioning of project, along with any major disallowance in project cost approval by CERC, and/or change in support philosophy / linkages with sponsors may also result in a rating downgrade.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Thermal Power Producers</a>
Parent/Group Support	NTPC Limited/ Indian Railways The ratings are based on implicit support from parent companies as evident from the equity contributions in the past. ICRA expects the sponsors to support the company in case of any further funding requirements
Consolidation / Standalone	The ratings are based on standalone financial statements of the company

### About the company:

BRBCL is a joint venture between NTPC Limited (74%) and Ministry of Railways (26%). BRBCL is constructing 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, Unit 2 and Unit 3 of the project were commissioned in January 2017, September 2017 and February 2019 respectively. The Unit 4 is expected to be commissioned by November 2020. The project has witnessed significant cost and time overruns in the past. The current estimated cost of the project is Rs. 10566.33 crore, which shall be funded through debt and equity in the ratio of 70:30. FSA has been signed for Unit 1, Unit 2 and Unit 3 (3.75 MTPA in total) of the project with Central Coalfields Limited while FSA for Unit 4 (1.25 MTPA) is pending. A long-term PPA has been signed with the Indian Railways (90% of installed capacity) and Bihar State Electricity Board (10%) at cost-plus tariff based on CERC norms.

In FY2020, the company reported a profit after tax of Rs 258.46 crore on an operating income of Rs. 2293.61 crore as against a profit after tax of Rs 8.89 crore on an operating income of Rs 1169.73 crore in FY2019. Further, the company has reported a profit after tax of Rs 118.24 crore on an operating income of Rs 533.93 crore in Q1FY2021.

## Key financial indicators

	<b>FY2019</b> <b>(Audited)</b>	<b>FY2020</b> <b>(Audited)</b>	<b>Q1FY2021</b> <b>(Unaudited)</b>
Operating Income (Rs. crore)	1169.73	2293.61	533.93
PAT (Rs. crore)	8.89	258.46	118.24
OPBDIT/OI (%)	42.04%	44.05%	54.26%
PAT/OI (%)	0.76%	11.27%	22.15%
Total Outside Liabilities/Tangible Net Worth (times)	2.69	2.31	2.19
Total Debt/OPBDIT (times)	10.93	5.39	4.57
Interest Coverage (times)	1.55	2.23	2.86

**Status of non-cooperation with previous CRA: None**

**Any other information: None**

## Rating history for last three years

SN	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding	Month & year	FY2020	FY2019	FY2018
			(Rs. crore)	(Rs Crore)*	7-Sep-20	22-Jul-2019		29-Jan-2018
1	Term Loans	Long term	5248.21	5248.21	[ICRA]A (Positive)	[ICRA]A (Stable)	-	[ICRA]A (Stable)
2	Unallocated	Long term	1451.79		[ICRA]A (Positive)	[ICRA]A (Stable)	-	[ICRA]A (Stable)
3	Cash credit	Long term	300.00		[ICRA]A (Positive)	[ICRA]A (Stable)	-	[ICRA]A (Stable)
4	Bank guarantee	Short term	0.00		-	[ICRA]A1	-	[ICRA]A1
5	Interchangeable (Bank guarantee/Letter of credit)	Short term	(100.00)		[ICRA]A1	-	-	-
6	Unallocated	Short term	0.00		-	[ICRA]A1	-	[ICRA]A1

\* As on July 31,2020

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Term Loan 1	FY2010/2016		FY2036	2919.43	[ICRA]A (Positive)
-	Term Loan 2	FY2019		FY2035	1395.33	[ICRA]A (Positive)
-	Term Loan 3	FY2019		FY2035	933.25	[ICRA]A (Positive)
-	Unallocated				1451.79	[ICRA]A (Positive)
-	Cash Credit				300.00	[ICRA]A (Positive)
-	Interchangeable (Bank Guarantee/Letter of Credit)				(100.00)	[ICRA]A1

Source: Bhartiya Rail Bijlee Company Limited

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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