May 26, 2023

Bhartiya Rail Bijlee Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based term loan	5,577.67	6,296.26	[ICRA]AA-(Stable); reaffirmed
Fund-based unallocated limits	922.33	203.74	[ICRA]AA-(Stable); reaffirmed
Fund-based working capital facilities	500.00	500.00	[ICRA]AA-(Stable); reaffirmed
Non-fund-based working capital facilities^	(100.00)	(100.00)	[ICRA]A1+; reaffirmed
Total	**7,000.00**	**7,000.00**	

**Instrument details are provided in Annexure-1*

^ Interchangeable with cash credit limits

Rationale

The reaffirmation of the ratings factors 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. Further, a satisfactory operating track record of the 1,000-MW thermal power project of Bhartiya Rail Bijlee Company Limited (BRBCL/the company), evident from the higher-than-normative plant availability of 85% in FY2022 and FY2023, supports the rating action. 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 normative operating performance levels.

The ratings, however, are constrained by the pending approval of 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. While the counterparty credit risk pertaining to 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 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 holding the remaining 26% stake. ICRA takes comfort from NTPC's strong financial profile and a 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 70 gigawatts (GW) at present, comprising coal, gas, solar, wind and hydropower generation assets. NTPC Limited is also responsible for the operations and maintenance (O&M) of the project, which acts as a strong mitigant for the operating risk for the company.

Cost-plus PPAs allow normative return on equity, mitigating fuel price risk – The PPAs have been signed on a cost-plus basis, as per the CERC norms, which allow normative return on equity, 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 88.88% in FY2023 and 88.47% in FY2022 (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 auxiliary consumption and 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. 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.

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 the monthly billing at normative availability, escrow arrangement (only for 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 (improved from 95% in FY2022).

Liquidity position: Adequate

BRBCL's liquidity position is adequate, supported by healthy cash flows from operations and undrawn cash credit limits. As on December 31, 2022, the company had free cash of Rs. 45.1 crore and undrawn cash credit limit of Rs. 361.5 crore. The company's collection efficiency in the last four fiscals has remained strong, averaging ~101% of the monthly billed amount, 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 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 – The ratings could be upgraded if the CERC approves the tariff without any major disallowances, or if the plant is able to demonstrate satisfactory operating performance allowing full recovery of costs and ROE. Timely collection from the customers will also support 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 material delay in receiving the tariff order from the CERC, or any major disallowance in the project cost approval by the CERC adversely impacting the profitability 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 the 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 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, Unit 2, Unit 3 and Unit 4 of the project were commissioned in January 2017, September 2017, February 2019 and December 2021, respectively. The budgeted cost of the project is Rs. 10,566 crore, which will be funded through debt and equity in the ratio of 70:30. 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 cost-plus tariff based on CERC norms.

Key financial indicators

BRBCL Standalone	FY2021 (Audited)	FY2022 (Audited)	9MFY2023 (Provisional)
Operating income (Rs. crore)	2223.7	2604.5	2581.4
PAT (Rs. crore)	291.6	438.3	251.9
OPBDITA/OI (%)	47.0%	43.3%	34.2%
PAT/OI (%)	12.7%	12.6%	9.8%
Total outside liabilities/Tangible net worth (times)	2.2	2.1	2.0
Total debt/OPBDITA (times)	5.1	4.8	4.4
Interest coverage (times)	2.6	3.0	2.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation
Note: Amount in Rs. crore; All calculations are as per ICRA Research
Source: Annual Reports and ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					May 26, 2023		Feb 15, 2022	Mar 16, 2021	Sep 07, 2020
1	**Term loan**	Long Term	6,296.26	6,296.26*	[ICRA]AA– (stable)	-	[ICRA]AA– (stable)	[ICRA]AA– (stable)	[ICRA]A (positive)
2	**Unallocated Limits**	Long Term	203.74	-	[ICRA]AA– (stable)	-	[ICRA]AA– (stable)	[ICRA]AA– (stable)	[ICRA]A (positive)
3	**Fund-based limit**	Long Term	500.00#	-	[ICRA]AA– (stable)	-	[ICRA]AA– (stable)	[ICRA]AA– (stable)	[ICRA]A (positive)
4	**Non-fund based limit**	Short Term	(100.00)#	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1

**As on December 31, 2022*

#There is interchangeability of Rs. 100 crore from non-fund based to fund based limit towards cash credit

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based term loans	Simple
Fund-based working capital facility	Simple
Non-fund-based working capital facility	Very Simple
Unallocated limits	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-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	FY2022	-	FY2036	2099.37	[ICRA]AA– (stable)
NA	Term Loan 2	FY2019	-	FY2035	1148.01	[ICRA]AA– (stable)
NA	Term Loan 3	FY2019	-	FY2035	766.66	[ICRA]AA– (stable)
NA	Term Loan 4	FY2022	-	FY2035	1378.22	[ICRA]AA– (stable)
NA	Term Loan 5	FY2023	-	FY2037	904.00	[ICRA]AA– (stable)
NA	Unallocated				203.74	[ICRA]AA– (stable)
NA	Cash Credit				200.00	[ICRA]AA– (stable)
NA	Cash Credit				300.00	[ICRA]AA– (stable)
NA	Interchangeable (Bank Guarantee/ Letter of Credit)				(100.00)	[ICRA]A1+

Source: *Company*

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

ICRA

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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.

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