December 29, 2023

NLC Tamilnadu Power Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Term loans	1,305.79	769.01	[ICRA]AA (Stable); reaffirmed
Long term – Fund-based working capital limits	2,000.00	2,000.00	[ICRA]AA (Stable); reaffirmed
Commercial paper	2,000.00	2,000.00	[ICRA]A1+; reaffirmed
Total	**5,305.79**	**4,769.01**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings 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. Further, the ratings consider the reduced receivable position with debtors decreasing to Rs. 498 crore as on October 31, 2023 from Rs. 1,942.40 crore as on March 31, 2021 (excluding unbilled revenues) through the realisation of dues under the earlier Atmanirbhar package, late payment surcharge (LPS) scheme and use of the bill discounting mechanism. The bill discounting liabilities stood at Rs. 1,377.26 crore as on September 30, 2023 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 case of non-payment of dues to the lenders by the discoms. In addition, ICRA notes that the payment of the ongoing bills has remained timely following the notification of the LPS rules in June 2022. The sustainability of the same remains a key monitorable for the company.

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 the company. ICRA also considers the long-term fuel supply agreements (FSAs) that ensure the availability of domestic coal for the project. Further, the company procures coal from NLCIL's Talabira mine in addition to a swapping arrangement with Mahanadi Coalfields Limited (MCL) in lieu of coal from NLCIL's Talabira mine to procure coal for a two-year period ending March 2024. It also continues to import coal with high gross calorific value (GCV) for blending with domestic coal to meet the technical requirements of the plant. This has improved the plant's availability to 84.5% in FY2023 against 65.3% in FY2022. However, a planned overhaul has reduced the plant availability in H1 FY2024 to 70.6% and other operating challenges led to under-recovery in fixed charges.

The ratings are, however, constrained by NTPL's exposure to financially modest discoms such as Tamil Nadu Generation and Distribution Corporation Ltd (TANGEDCO) and the discoms in Telangana, Andhra Pradesh, Karnataka and Kerala, leading to 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. These factors, combined with the relatively high landed cost of fuel, have also impacted NTPL's position in the merit order list of the offtaking discoms. These parameters would continue to be the key monitorables for the company.

The ratings also factor in the company's moderate return indicators because the approved capital cost of Rs. 5,233.77 crore as per the latest CERC tariff order is lower than the actual incurred capital cost of Rs. 7,293.49 crore owing to the disallowance of interest during construction and other overheads arising from the delays in execution. ICRA notes that the company has filed an appeal with the Appellate Tribunal for Electricity (APTEL) for the disallowed portion to be considered in the tariff. Besides this, from the date of commissioning till March 31, 2018, NTPL has incurred a capital expenditure of Rs. 774.38 crore, which has been included for consideration by the company in the tariff petition filed before the CERC for the 2019-2024 period. The outcome of the tariff order and the quantum of the incremental project cost considered by the CERC and APTEL remain the sensitivity factors for the project returns.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company would benefit from the availability of long-term PPA with a cost plus tariff along with an improved payment cycle from the discoms and the availability of requisite support from NLCIL.

Key rating drivers and their description

Credit strengths

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 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 PPA 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 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 MCL and ECL, a wholly-owned subsidiaries of CIL, to procure 3 million metric tonnes per annum (MMTPA) and 1.3 MMTPA of coal respectively. Currently, NLCIL has an allotted block at Talabira, Odisha, which is used to meet NTPL's fuel requirement. Further, the company has entered into a swapping arrangement with MCL in lieu of the coal from the Talabira mine to procure coal for a two-year period ending March 2024 and also signed an MoU with the Talabira mine for 5.0 MMTPA. Further, it is importing 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; receivable position lower since LPS implementation – 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 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. The debtors reduced to Rs. 498 crore as on October 31, 2023 from Rs. 1,942.40 crore as on March 31, 2021 (excluding unbilled revenues) with the realisation of dues under the earlier Atmanirbhar package, LPS scheme and use of the bill discounting mechanism. Further, the outstanding bill discounting liabilities stood at Rs. 1,377.26 crore as on September 30, 2023 and these liabilities are being honoured by the discoms regularly. However, ICRA notes that recourse remains with the company in case of non-payment of dues to the lenders by the discoms under the bill-discounting mechanism. Importantly, the payment of the ongoing bills has remained timely post June 2022 following the notification of the LPS rules. The sustainability of the same remains a key monitorable for the company.

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 tariff order dated July 11, 2017, the CERC had allowed Rs. 5,233.77 crore against a total project cost of Rs. 7,293.49 crore, disallowing interest during construction and other overheads arising from delays in execution. The undischarged liability position as on the date of commissioning stood at Rs. 1,069 crore. This has resulted in moderate return indicators. NTPL has filed an appeal with APTEL for the disallowed portion to be considered in the tariff. Besides this, from the date of COD till March 31, 2018, NTPL has incurred a capital expenditure of Rs. 774.38 crore, which has been included for consideration by the company in the tariff petition filed for the period 2019-2024. The outcome of the tariff order and the quantum of the incremental project cost considered by APTEL remain the sensitivity factors for the project returns.

Operating inefficiencies leading to under-recovery in fixed and variable charges – While the plant availability improved in FY2023, it reduced in H1FY2024 owing to a planned overhaul at the plant and the company has faced under-recovery in fixed charges due to other operating challenges. Also, there is under-recovery in energy charges due to higher-than-normative SHR and auxiliary consumption. Further, the relatively high landed cost of fuel and a higher-than-normative SHR have led to relatively high cost of generation, thereby 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 healthy cash flow from operations, which is expected to be sufficient to meet the debt servicing obligations in FY2024 and 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. 622 crore[1] as on September 30, 2023 and has further enhanced its working capital limits by Rs. 500 crore in October 2023.

Rating sensitivities

Positive factors – ICRA could upgrade NTPL's ratings if the regulator approves the incremental capital cost during truing-up, which will lead to a significant improvement in the return indicators. Also, a sustained improvement in the receivable position and operating efficiency along with a reduction in the leverage level could lead to an upgrade.

Negative factors – NTPL's ratings may be downgraded if there is a deterioration in the credit profile of the parent – NLC India Limited – 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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers
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
Consolidation/Standalone	The ratings are based on the standalone financial profile of the rated entity

[1] *Limited to the available drawing power; the undrawn working capital lines as per the available sanctioned limits is Rs. 1,363 crore as on September 30, 2023*

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. 7,293 crore, funded through a mix of debt and equity in a ratio of 70:30. The power plant commenced its operation on June 18, 2015 for Unit I (500 MW) and on August 29, 2015 for Unit II (500 MW).

Key financial indicators (audited)

NTPL Standalone	FY2022	FY2023	H1 FY2024*
Operating income	2,346.6	3,620.4	1,400.1
PAT	211.3	278.6	96.0
OPBDIT/OI	34.0%	27.6%	27.9%
PAT/OI	9.0%	7.7%	6.9%
Total outside liabilities/Tangible net worth (times)	2.16	2.11	2.02
Total debt/OPBDIT (times)	5.70	4.64	5.31
Interest coverage (times)	3.82	4.30	3.60

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; *provisional*

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 as on Nov 30, 2023 (Rs. crore)	Date & rating	Date & rating in FY2023	Date & rating in FY2022			Date & rating in FY2021
					Dec 29, 2023	Dec 23, 2022	Mar 18, 2022	Mar 02, 2022	Jun 02, 2021	Mar 30, 2021
1	**Term loans**	Long Term	769.01	769.01	**[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)**	**[ICRA]AA+ (CE) (Negative)**
2	**Fund-based working capital limits**	Long Term	2000.00	-	**[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)**	**[ICRA]AA+ (CE) (Negative)**

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	800.00	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**-**
5	**Long term/Short term – Fund based**	Long / Short Term	-	-	**-**	**-**	**-**	**-**	**[ICRA]AA (Negative) / [ICRA]A1+**	**[ICRA]AA (Negative) / [ICRA]A1+**
6	**Unallocated**	Long term	-	-	**-**	**-**	**[ICRA]AA (Stable); withdrawn**	**[ICRA]AA (Stable)**	**[ICRA]AA (Negative)**	**[ICRA]AA (Negative)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Fund-based working capital limits	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 / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan – I**	FY2016	-	FY2026	651.22	[ICRA]AA (Stable)
NA	**Term loan – II**	FY2019	-	FY2027	117.79	[ICRA]AA (Stable)
NA	**Fund-based working capital facilities**	-	-	-	2000.00	[ICRA]AA (Stable)
INE05C614378	**Commercial paper – 1**	Oct 2023	7.27%	Jan 2024	300.00	[ICRA]A1+
INE05C614386	**Commercial paper – 2**	Nov 2023	7.33%	Feb 2024	500.00	[ICRA]A1+
NA	**Commercial paper***	-	-	-	1200.00	[ICRA]A1+

*Source: Company; *Unplaced*

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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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.

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