February 28, 2025

NLC India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term - Non-convertible debenture	2,000.00	2,000.00	[ICRA]AAA (Stable); reaffirmed
Total	**2,000.00**	**2,000.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation continues to factor in the strategic importance of NLC India Limited (NLCIL), a Navratna public sector undertaking (PSU), to the Government of India (GoI) in the mining and power generation sectors and the majority shareholding (72.2%) of the GoI. This provides strong financial flexibility to the company, enabling it to access funds at competitive rates. The rating draws comfort from the NLCIL Group's strong business risk profile in lignite mining, coal mining and power generation. Lignite from the mines is used as fuel for the pit-head thermal power plants, providing continuous demand for the mining segment. Moreover, the steady lignite supply leads to low fuel availability risks and supports the tariff competitiveness of the thermal power plants. The risk of fuel availability for its coal-based plants is mitigated by the long-term fuel linkages with the subsidiaries of Coal India Limited (CIL) and the supply from the 20-million-tonne-per-annum (MTPA) Talabira coal mines and the upcoming 9.0-MTPA Pachwara South coal block in Odisha.

Further, favourable tariff orders from the Central Electricity Regulatory Commission (CERC) for its subsidiary – NLC Tamilnadu Power Limited {NTPL; rated [ICRA]AA+ (Positive)/ [ICRA]A1+} for the 2019-24 and 2014-19 control periods, will result in a sizeable arrear income, which is expected to improve NLCIL's consolidated earnings for the FY2025 full fiscal. In addition, earnings from the 3X660-MW Neyveli Uttar Pradesh Power Limited { rated [ICRA]BBB+ (Stable)}, which is a 51% subsidiary of NLCIL, are likely to boost NLCIL's earnings from FY2026 (full-year benefit to flow in from FY2027) as one 660-MW unit has been commissioned in December 2024, and the balance two units of 660 MW each are expected to be commissioned by October 2025.

The long-term power purchase agreements (PPAs) with the state discoms limit the demand risks for power generation assets and the cost-plus tariff structure ensures steady profitability, resulting in comfortable debt coverage metrics. The rating also considers NLCIL's diversification into renewable power generation with an operating portfolio of 1,380-MW solar and 51-MW wind power units.

The rating is, however, constrained by NLCIL's exposure to financially modest discoms such as Tamil Nadu Generation and Distribution Corporation Ltd (TANGEDCO) and the discoms in Telangana, Andhra Pradesh, Karnataka, Kerala and Rajasthan, resulting in delays in receiving payments. Nonetheless, comfort can be drawn from the benefit available to NLCIL under the tripartite agreement among the GoI, the state governments and the Reserve Bank of India. Further, the receivables are being managed through a bill discounting arrangement and the initiatives of the Ministry of Power such as the late payment surcharge rule, enabling recovery of overdues from the discoms through instalments. A regular payment of the ongoing bills has helped to significantly reduce the receivables in the current fiscal. In this regard, ICRA notes that on a consolidated basis, the receivables have reduced significantly to Rs. 6,848 crore as of December 2024 (including Rs. 1,482 crore of bill discounting) from Rs. 12,349 crore in March 2023 (including Rs. 4,626 crore of bill discounting). Also, comfort on the liquidity front is drawn from the large undrawn working capital lines of ~Rs. 5,000 crore available with the company. A timely honouring of the liabilities under the bill discounting mechanism by the discoms remains a monitorable as recourse remains with the company in case of non-payment of dues to the lenders by the discoms.

The rating also factors in the operating inefficiencies on account of the technical issues at TPS II Expansion and TPS II, leading to lower-than-normative plant availability and under-recovery of fixed charges. On this front, however, there have been some improvements with the extent of the tariff under-recovery decreasing in 9M FY2025 over 9M FY2024. Further, the disallowance of capital costs by the CERC for the operating projects also impacts the company's return metrics. Nonetheless, the company's debt coverage metrics are expected to remain comfortable, going forward, as the overall earnings are expected to increase following the full capitalisation of the cost-plus based 3X660 MW super-critical thermal power plant.

The rating considers the execution risks associated with the sizeable capex programme to increase NLCIL's power generation capacity to 20,130 MW and the mining capacity to 104.4 MTPA by FY2030 to develop new thermal and renewable power projects and coal mining projects in Odisha and Jharkhand. The completion of the under-construction projects on time and within the budgeted costs and the subsequent approval of the tariffs by the CERC without any major disallowances will be a key rating monitorable.

The Stable outlook on the long-term rating of NLCIL reflects the revenue visibility from the operational assets, supported by the availability of long-term PPAs at cost-reflective tariffs and the captive mines for fuel. The outlook is also backed by expectations of a significant earnings increase from FY2026 following the capitalisation of NUPPL's 3X660 MW regulated asset base of ~Rs. 21,781 crore, which is likely to keep the credit metrics comfortable.

Key rating drivers and their description

Credit strengths

Navratna PSU, with sovereign ownership and control by Government of India- The rating draws comfort from NLCIL's majority ownership with the GoI (72.2% as of December 2024) and the strategic importance of the company to the Government in the lignite/coal mining and power sectors. The sovereign ownership affords significant financial flexibility to NLCIL, enabling it to raise funds at highly competitive rates.

Integrated mining & power generation operations leads to low fuel supply risks - NLCIL is the designated nodal agency of the Ministry of Coal for lignite mining in India, with a total lignite mining capacity of 30.1 MTPA across Tamil Nadu and Rajasthan. Lignite from the mines is used as fuel for the pit-head thermal power plants, providing continuous demand for the mining segment and leading to low fuel risks for the thermal plants. While majority of NLCIL's thermal stations are pit-head power plants, the 1,000-MW coal-based power plant in Tuticorin and the upcoming 1,980-MW coal-based unit in Uttar Pradesh are non-pit head plants. The coal supply for these plants is secured through long-term fuel linkages with the subsidiaries of Coal India Limited (CIL) and supply from the 20-MTPA Talabira coal mines in Odisha and the 9.0 MTPA Pachwara South coal block in Jharkhand.

Long-term PPAs with state distribution utilities limit demand risks for power generation assets - For its power generation portfolio of 6,071 MW, NLCIL has tied up long-term power purchase agreements (PPAs) with the state distribution utilities (discoms) of Tamil Nadu, Karnataka, Andhra Pradesh, Telangana, Kerala, Puducherry and Rajasthan, limiting the demand risks. The company is a major supplier of electricity for the discoms in the five southern states. Also, the 3X660 MW under-construction project in Uttar Pradesh (660 MW Unit I commenced operations in December 2024) has tied up long-term PPAs with Uttar Pradesh and Assam for the entire capacity. The tariff competitiveness of the projects is supported by the availability of captive mines.

Cost-plus tariff structure for both mining and power generation - NLCIL uses lignite mined from its captive mines to generate power and sells it to various beneficiaries. The lignite transfer pricing is determined as per the CERC's regulations (earlier it was as per the guidelines issued by Ministry of Coal), based on the cost-plus principles. The tariffs for the thermal power plants are determined by the CERC under the cost-plus tariff regulations with regulated return on equity of 15.5%. As a result, the company's profitability and debt coverage metrics are expected to remain comfortable.

Risk profile diversified through renewable energy generation - NLCIL has diversified into renewable power generation with an operational solar capacity of 1,380 MW and wind capacity of 51 MW. Also, the Group plans to increase the renewable energy generation capacity to over ~10 GW by FY2030. The presence in the renewable segment would provide steady returns for NLCIL, along with relatively low risks during the execution phase compared to thermal assets.

Credit challenges

Exposure to counterparty credit risk associated with state distribution utilities – NLCIL is exposed to high counterparty credit risks as most of its offtakers have weak-to-moderate financial profiles. The debtors have significantly reduced with the bill discounting mechanism adopted by NLCIL and the realisation of dues under the late payment surcharge rule. While the receivables have moderated from the peak levels, the dues continue to be sizeable, especially from TANGEDCO, which accounted for ~77% of the debtors as of December 2024 on a standalone basis. Also, ICRA notes that the recourse remains with the company in case of non-payment of dues to the lenders by the discoms under the bill discounting mechanism. However, the benefit of a tripartite agreement among the GoI, the state governments and the Reserve Bank of India available to NLCIL offers comfort towards a timely realisation of the overdue receivables.

Moderate operating efficiencies and disallowances in capital costs result in under-recovery of capacity charges - The average plant availability for NLCIL's portfolio has remained below the normative level of 80-85% in the last two-three years and 9M FY2025 owing to technical issues at the TPS II expansion and TPS II plants. This has resulted in under-recovery of fixed charges for the company, impacting the return metrics. Further, the disallowance of capital costs by the CERC for the operating projects has also impacted the company's return metrics.

Execution risks associated with large capex programme - NLCIL has sizeable expansion plans with a capex of ~Rs. 1,25,000 crore envisaged over FY2025-FY2030. The key ongoing projects are the 1,980-MW power plant in Uttar Pradesh, the 2,400-MW Talabira pit-head thermal power station, the Pachwara coal mines in Odisha and Jharkhand, the flue-gas desulfurisation capex for the existing units and new renewable power projects. These projects entail significant execution risks related to approvals, land acquisition and construction and are prone to delays and cost overruns. While the demand and fuel risks for these projects are low due to the long-term PPAs and captive fuel sources, the completion of the projects on time and within the budgeted cost remains a key rating monitorable. Any disallowance of the cost overrun by the regulator, as seen in the past, would adversely impact the company's return metrics.

Environmental and social risks

Environmental considerations: The environmental risks for lignite and coal-based power producers emanate from their exposure to fossil fuels with these power plants being the leading emitters of pollutants and one of the largest industrial users of water. It is important for NLCIL to comply with the emission and water consumption norms prescribed by the Government to avoid any disruption in operations or penalties for non-compliance. NLCIL is undertaking the required capex programme to comply with the emission norms within the timeline approved by the GoI. Also, the company is proposing to make large investments towards setting up renewable energy-based power generation projects to diversify its asset base. NLCIL is also exposed to the risk of natural disasters and extreme weather conditions, which could damage the power generation equipment or transmission lines. Nonetheless, the company avails insurance against such risks. This apart, the company's RE portfolio would remain exposed to the variation in weather patterns which could adversely impact its generation performance.

Social considerations: Given the large land requirement for power generation and mining projects, social risks manifest when there are disagreements on compensation between the developers and the landowners. Also, the adverse impact of air pollution caused by thermal power plants in the nearby localities could trigger local criticism. The thermal power and mining projects would also be exposed to labour-related risks and the risks of protests/social issues with local communities.

Liquidity position: Adequate

The liquidity profile of the company is supported by a consistent track record of generating positive retained cash flows (RCF), which are expected to be sufficient to meet the debt servicing obligations in FY2025 and FY2026. The funding for the capex programme is expected to be met through a mix of internal accruals (20-30%) and debt funding (70-80%). The company had large undrawn working capital lines of ~Rs. 5,000 crore as of December 2024 and has access to multiple funding channels, including the commercial paper (CP) market, which supports the liquidity profile.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – Pressure on NLCIL's rating may arise if there is a weakening of linkages with the GoI or if there is a significant build-up of receivables, adversely impacting the company's liquidity profile. Also, any significant weakening in the operating performance of the operational units or large cost overruns for the under-construction projects that are not allowed by the regulator would weaken the profitability and debt coverage metrics and weigh down on the rating.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Power - Thermal Power - Solar Corporate Credit Rating Methodology
Parent/Group support	The rating derives comfort from the sovereign ownership of the company. The systemic importance that NLCIL holds for power supply security, especially in the southern states, should induce the Government of India to extend timely financial support to the rated entity, should there be a need
Consolidation/Standalone	The rating is based on the consolidated financial profile of the company. The list of subsidiaries considered for consolidation is provided in Annexure II

About the company

NLC India Limited (NLCIL; erstwhile Neyveli Lignite Corporation Limited), a public sector undertaking incorporated in November 1956, is involved in lignite mining, coal mining and power generation. The company, at present, has a lignite mining capacity of 30.1 million tonnes per annum (MTPA), coal mining capacity of 20 MTPA and installed power generation capacity of 6,071 MW as on date, apart from 660-MW capacity of Unit-1 of NUPPL which commenced operations in December 2024.

Its power stations cater to the five southern states of Tamil Nadu, Andhra Pradesh, Telangana, Kerala and Karnataka, the Union Territory of Puducherry, while its thermal plant in Barsingsar caters to Rajasthan.

The GoI held a 72.2% stake in the company as of December 2024. NLCIL works under the administrative control of the Ministry of Coal, the GoI. In April 2011, the GoI declared the company as a Navratna enterprise.

Key financial indicators (audited)

NLCIL Consolidated	FY2023	FY2024	9MFY2025 (UA)
Operating income	13,986.4	14,071.9	11,310.3
PAT	1,425.1	1,867.3	2245.0
OPBDIT/OI	26.2%	32.7%	34.0%
PAT/OI	10.2%	13.3%	19.8%
Total outside liabilities/Tangible net worth (times)	2.35	2.19	-
Total debt/OPBDIT (times)	7.36	6.16	-
Interest coverage (times)	3.62	5.43	6.36

Source: Company, ICRA Research; 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

Rating history for past three years

		Current (FY2025)			Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Non-convertible debenture	Long term	2000.00	Feb 28, 2025	[ICRA]AAA (Stable)	Mar 01, 2024	[ICRA]AAA (Stable)	Mar 02, 2023	[ICRA]AAA (Stable)	Mar 02, 2022	[ICRA]AAA (Stable)
Borrowing programme	Long term	-	-	-	-	-	-	-	Mar 02, 2022	[ICRA]AAA (Stable); Withdrawn

Complexity level of the rated instruments

Instrument	Complexity indicator
Non-convertible debenture	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
INE589A07037	**NCD**	May-2019	8.09%	May-2029	1475.00	[ICRA]AAA (Stable)
INE589A07045	**NCD**	Jan-2020	7.36%	Jan-2030	525.00	[ICRA]AAA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company name	Ownership	Consolidation approach
NLC Tamilnadu Power Limited	89.00%	Full consolidation
Neyveli Uttar Pradesh Power Private Limited	51.00%	Full consolidation
NLC India Green Energy Limited	100.00%	Full consolidation
NLC India Renewables Limited	100.00%	Full consolidation
MNH Shakthi Limited	15.00%	Equity Method
Coal Lignite Urja Vikas Private Limited	50.00%	Equity Method

Source: Company

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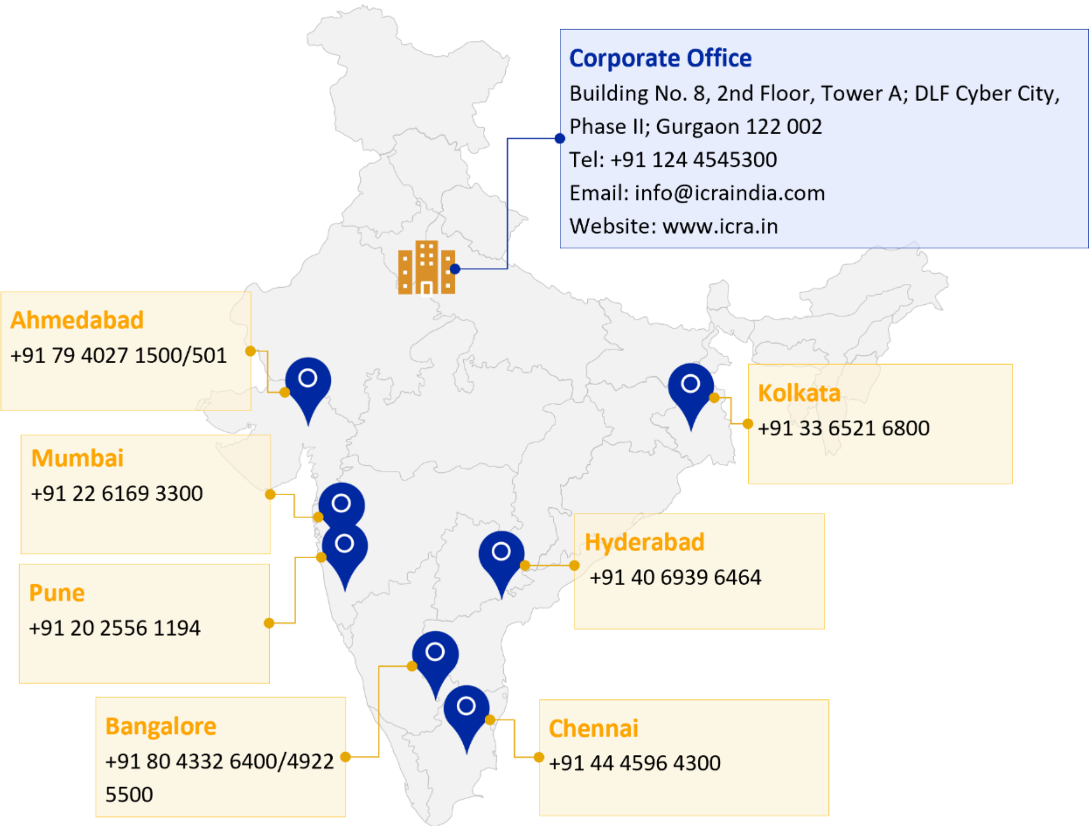

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