

## Neyveli Uttar Pradesh Power Limited

January 25, 2019

### Summary of rating action

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term, Term Loans	12,067.0	11,067.0	[ICRA]BBB+ (Stable); reaffirmed
Long Term, Unallocated facilities	-	1,000.0	[ICRA]BBB+ (Stable); reaffirmed
<b>Total</b>	<b>12,067.0</b>	<b>12,067.0</b>	

### Rationale

The rating reaffirmation reflects the strong sponsor profile of NUPPL being a Joint Venture project between NLC India Limited (NLC; rated [ICRA]AAA (Stable)) and Uttar Pradesh Raja Vidyut Utpadan Nigam Limited (UPRVUNL) which is the UP state generation company (Genco). The rating also factors in the low permitting risks for the project with key approvals from Public Investment Board, Cabinet Committee of Economic Affairs and Ministry of Environment & Forests (MoEF) already received. The rating also considers the timely project execution till date and the cost savings that the company has been able to achieve with regards to the awarded contracts which will largely aid in keeping the project cost within budgeted levels. Further, the sanction of project debt to the tune of Rs 11,067 crore (92% of debt requirements) by a consortium led by PFC at a lower than projected interest rate and with a moratorium till July 2024 mitigates the debt servicing risks to a large extent till project commissioning and ramp-up.

The rating further favourably considers the Power Purchase Agreement (PPA) signed with Uttar Pradesh Power Corporation Limited (UPPCL) for 75% of the plant capacity which reduces the off-take risks; the PPA is based on the 'cost-plus' tariff principles which will safeguard the profitability against any adverse fuel price movements. The project's fuel supply risks are expected to be low as a captive coal block has been allotted for the company's coal requirements.

The rating is, however, constrained by the project implementation risks associated with large greenfield projects; the project execution is at an early stage with only ~25% of project cost expended till date. The financial closure is also yet to be achieved for Rs 1,000 crore debt portion (out of total debt of Rs 12,067 crore); nevertheless, extension of unsecured loan by NLC mitigates the risk to an extent. The rating is also constrained by the large exposure of the project to the financially weak Uttar Pradesh state power sector entities, with 49% of the equity to be brought in by UPRVUNL and 75% of the project capacity to be sold to Uttar Pradesh Power Corporation Limited (UPPCL), post commissioning. The company is yet to enter into PPAs for the balance 25% of the project capacity and this exposes the project to offtake risks. This risk has increased over the past few months especially considering the changed thermal power supply-demand scenario and the high capital cost per MW of the NUPPL project which will keep its levelized tariff at higher levels. The rating also considers the slow progress witness in the works with regards to the captive coal mine due to local protests; delay in commencement of mining operations in line with project commissioning would necessitate usage of expensive imported coal and would also expose the company to foreign exchange fluctuation risks.

### Outlook: Stable

ICRA believes NUPPL's credit profile will remain stable given the execution of the project as per the initial targets and the availability of project debt moratorium till FY 2024. The outlook may be revised to 'Positive' if there is significant reduction in the project cost through cost savings and lower interest expenses during construction. The outlook may be revised to 'Negative' if NUPPL's execution slips relative to the target or if the costs increase due to contractor induced delays / higher interest rates or if financial closure / signing of PPA for the balance portion continues to get delayed.

## Key rating drivers

### Credit strengths

**Strong sponsor profile being a SPV promoted by NLC in JV with the UP state genco** - The project was conceived by NLC as part of the company's expansion plans and NUPPL was incorporated as a Joint Venture with 51% stake being held by NLC and 49% shareholding with UPRVUNL, Uttar Pradesh's generation company. The Government of India holds a dominant share of ~83% in NLC India Limited which has a strong operational track record of more than 50 years in the lignite mining and power generation segments.

**Low permitting risks with key governmental and environmental approvals in place** - The project requires the clearance of the Public Investment Board (PIB) by virtue of being a large public sector project and this clearance was received in February 2016. Post this, the project was considered for approval by the Cabinet committee on Economic Affairs (CCEA) and the final sanction was received in 27 July 2016 which is the zero date for the project. The company had earlier received the Environmental Clearance from the Ministry of Environment, Forest & Climate Change (MoEF) in June 2015.

**Cost plus PPA for 75% of the project capacity signed with the UP state discoms** – NUPPL signed a Power Purchase Agreement (PPA) for 75% of the project capacity of 1980 MW with Uttar Pradesh Power Corporation Limited (UPPCL) with the ultimate beneficiaries being the UP state discoms. The PPA follows the Cost Plus principles with pass through of fuel cost and thereby the project's profitability is expected to be safeguarded from volatility in coal prices.

**Low fuel supply risk with captive coal block allotted by Govt of India to NLC for the project** - NLC was awarded two coal blocks by the Ministry of Coal, GoI in 2013 towards the coal requirements of its upcoming mega power projects. NLC identified the South Pachwara block in Jharkhand for the NUPPL project and has commenced pre-development activities. This captive block is expected to minimise the fuel supply and price volatility risks for the project. Nevertheless, the ability of the company to commence coal mining in tandem with the project commissioning would be critical considering the long gestation time for development of greenfield mines.

**EPC contracts awarded to major contractors at lower than budgeted prices** - NLC had awarded the contracted packages in 2016 to various contractors – Boiler package to L&T MHPS Boilers Pvt Ltd; Turbine-Generator package to GE Power India (Alstom Bharat Forge Ltd); and, Balance of Plant package to BGR Energy Systems Ltd. The contracts were awarded at lower-than-budgeted prices due to healthy bidding competition. Nevertheless, higher land acquisition costs and the need to setup additional facilities such as FGD and DeNOx plants in order to comply with new environmental regulations are likely to offset the cost savings in the key packages and keep the project cost at initially budgeted levels.

### Credit challenges

**Early stage of project execution with financial closure yet to be achieved** – The project execution is in initial stages with only 23% of the planned project cost of Rs 17,238 crore incurred till November 2018. Acquisition of some portion of the land is still ongoing. The project is being funded at a debt : equity ratio of 70:30 and the equity component of Rs 5,171 crore will be infused by the JV partners as per their shareholding. The debt requirement for the project is Rs 12,067 crore and the company has tied up Rs 11,067 crore from PFC & REC consortium (interest rate of SBI MCLR + 2%; moratorium till July 2024 and debt repayment tenor of 10 years). Sanction has not been received for the final portion of Rs 1,000 crore. However, considering the early stage of execution, the current funding requirements are entirely being met by equity, tied-up project debt and short term loans from NLC; the management expects to receive the balance debt sanction shortly.

**PPA yet to be signed for balance 25% of the capacity exposing the project to offtake risks** – The company has been negotiating with UPPCL to sign a revised PPA for 100% of the project capacity. However, pending this, the company is exposed to offtake risks for the untied capacity. The risk is further exacerbated considering that the base capital cost of the project is high at Rs 8.71 crore/MW.

**Exposed to counterparty credit risks as UP state discoms have weak financial profiles** – The project is being set up in JV with UP state Genco and PPA has been signed with UP discoms - the counterparty risks are high considering the weak financial profile of UP power entities; however, various payment security mechanisms like revolving Letter of Credit, Escrow account and third party sales are likely to mitigate the risk. Moreover, the UP state discoms have signed up for the Govt's Ujwal Discom Assurance Yojana (UDAY) scheme and adherence to the regulations laid out in the scheme would support improvement in the overall financial profile of the discoms.

**Likely delay in commencement of coal mining in the captive block by NLC due to local issues** – Local protests and law & order problems have resulted in suspension of all mine development activities in the allotted Pachwara coal block; this is likely to result in delayed development of the mine by NLC necessitating market purchase in the initial years. The company has recently awarded a Mine Development and Operation (MDO) contract to a private player and hence the mining works are expected to be speeded up. Imported coal usage exposes the company to international coal pricing and forex risks which would have a bearing on the tariff level and merit order position considering that fuel cost is a pass through as per the PPA.

### Liquidity Position:

Given the tie-up of majority of the project cost (16,237 crore; 94%) and the early stage of project execution (<25% of project cost expended), the project's liquidity profile is adequate especially considering that NLC has advanced a significant amount as short term loan to manage the delays typically witnessed in equity / debt disbursement. The medium to long term liquidity profile will be dependent on the completion of the project without cost overruns and the execution of PPA for the balance 25% which will enable full recovery of fixed costs and repayment of project debt.

### 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	NLC India Limited (rated [ICRA]AAA(Stable) holds 51% in the entity and the NUPPL project is part of the expansion projects of NLC.
Consolidation / Standalone	Standalone

### About the company:

Neyveli Uttar Pradesh Power Limited (NUPPL) is a Joint Venture promoted by NLC India Limited and Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) with a shareholding ratio of 51:49. The JV was incorporated in the year 2012 and Ghatampur, Uttar Pradesh, was chosen as the site for a 1,980 MW (3x660 MW) supercritical power project. The total project cost is estimated to be Rs 17,238 crore and is to be funded through equity of Rs 5,171 crore and debt of Rs 12,067 crore (debt:equity of 70:30). The project is expected to be executed over the next 5 year period with final project COD (COD of all units) scheduled in November 2021.

## **SPONSOR PROFILE**

### **NLC India Limited**

NLC India Limited (NLC), a public sector undertaking incorporated in November 1956, is engaged in the activities of lignite mining and power generation. The company currently has lignite mining capacity of 30.6 million tons per annum (mtpa) and installed thermal power generation capacity of 4,295 MW. NLC's power stations cater to the five southern states of Tamil Nadu, Andhra Pradesh, Kerala, Karnataka and Puducherry, as well as Rajasthan through its thermal plant in Barsingsar. The Government of India (GoI) holds majority stake in the company. The company works under the administrative control of the Ministry of Coal, GoI. In April 2011, the Government of India declared the company as a 'Navratna' enterprise.

### **Key financial indicators (audited) - NLC**

	<b>FY 2017</b>	<b>FY 2018</b>
Operating Income (Rs. crore)	8735.0	8496.0
PAT (Rs. crore)	3242.0	1897.0
OPBDIT/ OI (%)	39.5%	36.6%
RoCE (%)	17.2%	14.3%
Total Debt/ TNW (times)	0.43	0.49
Total Debt/ OPBDIT (times)	2.02	2.81
Interest coverage (times)	20.29	15.17

### **Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited**

Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) was constituted on August 25, 1980 for construction of new thermal power projects in the state of Uttar Pradesh. In the year 2000, in accordance to U.P. State Electricity Reforms Acts 1999 and operation of U.P. Electricity Reforms Transfer Scheme 2000, UP State Electricity Board, till then responsible for generation, transmission and distribution of power within the state of UP was unbundled and operations of the state sector thermal power stations were handed over to UPRVUNL.

### **Status of non-cooperation with previous CRA: Not applicable**

### **Any other information: None**

### Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Jan 2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Term Loans	11,067.0	1,530.0	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Proposed	1,000.0	-	[ICRA]BBB+ (Stable)	-	-	-

### 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
NA	Term Loans	Dec 2018	~10.5%*	Jan 2034	11,067.0	[ICRA]BBB+ (Stable)
NA	Proposed long term	-	-	-	1,000.0	[ICRA]BBB+ (Stable)

\*SBI MCLR + 2%; currently 10.55%

Source: NUPPL

## ANALYST CONTACTS

**K.Ravichandran**

+91 44 4596 4301

[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Sai Krishna**

+91 44 4596 4304

[sai.krishna@icraindia.com](mailto:sai.krishna@icraindia.com)

**Raghunath.T**

+91 44 4596 4304

[raghunath.t@icraindia.com](mailto:raghunath.t@icraindia.com)

## RELATIONSHIP CONTACT

**L Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

### 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.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents