January 03, 2020

Nuclear Power Corporation of India Limited: [ICRA]AAA (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Proposed Non-Convertible Debenture Programme	2500.00	[ICRA]AAA(Stable); Assigned
Total	**2500.00**	

*Instrument details are provided in Annexure-1

Rationale

The rating assigned by ICRA takes into account the 100% ownership of Nuclear Power Corporation of India Limited (NPCIL) by Government of India (GoI) and its strategic importance to GoI. The rating also factors in the limited demand and tariff risks because of the presence of long-term power purchase agreements (PPAs) with state distribution utilities for its entire capacity as per the tariff norms notified by Department of Atomic Energy (DAE), GoI. Moreover, the tariffs offered by the operational capacity remain cost competitive in comparison to the average pooled procurement cost (APPC) of the off-taking distribution utilities. Further, ICRA takes note of the established track record of the operating capacity, with majority of the plants operating at higher than normative plant load factor (PLF), leading to stable cash flows. The lower than normative PLF was, however, observed in few plants because of long shutdown for EMCCR[1] and EMFR[2] and stabilisation period, like in case of Kudankulam Nuclear Power Project (KKNPP). The rating also draws comfort from the strong financial profile of NPCIL, supported by healthy profitability, low gearing levels and comfortable debt coverage metrics. The funding of the ongoing projects is expected to be met through a mix of internal accruals, fresh equity and debt funding at highly competitive rates.

These strengths are, however, partially offset by the high counter-party credit risk of NPCIL due to weak financial health of many of the off-taking state distribution utilities. This is reflected from the increase in debtor days in recent years to more than four months, due to significant delays from the state- owned utilities in few states such as Tamil Nadu, Uttar Pradesh and Karnataka (Hubli Utility). However, this risk is mitigated to some extent by the diversity in the off-taker profile and the recent directive from the Government of India to implement payment security mechanism in the form of letter of credit. Further, the rating factors in the execution risks associated with the large under-construction capacity, which entails an annual capital expenditure of about Rs.9000 crore, especially given the past delays in execution. The relatively high capital cost (Rs.12 crore to Rs.20 crore per MW) of these projects would lead to high normative tariff rates, though the blended tariff of the company is expected to remain competitive in relation to APPC of the discoms. In this context, the ability of the company to secure PPAs for the under-construction projects as per normative cost reflective tariff norms remains a key rating monitorable. ICRA also takes note of the liability of Rs.1500 crore in case of any nuclear accident under “The Civil liability for Nuclear Damages Act, 2010”, which is covered by an insurance policy of equivalent amount. Any liability beyond Rs.1500 crore would be borne by GoI.

[1] EMCCR: En-Masse Coolant Channel Replacement

[2] EMFR: En-Masse Feeder Replacement

The Stable outlook assigned to NPCIL reflects the healthy cash flow generation supported by an established track record of operations and the presence of long-term PPAs for the entire operational capacity.

Key rating drivers and their description

Credit strengths

Strategic importance of NPCIL to Government of India, with demonstrated equity support - NPCIL has strategic importance to GoI, amid the push towards reducing dependence on fossil fuel-based generation. NPCIL currently operates 22 nuclear power plants, with cumulative capacity of 6780 MW and is undertaking capex to set-up six more power reactor units with an aggregate capacity of 4800 MW over the next five years. The entity is fully owned by the Government of India, which provides continuous support in the form of regular equity infusion as well as the supply of fuel and coolant.

Limited demand risks and competitive tariff rates of existing projects - The demand risk for NPCIL is mitigated by the presence of long-term PPAs with state distribution utilities for its entire capacity as per the allocation approved by the Ministry of Power. The tariff under the PPAs is single-part cost plus based tariff that covers fixed and variable costs and linked to normative PLF of 68.5% as notified by DAE. The latest notification on tariff norms was issued by DAE on November 20, 2017, which is applicable from April 1, 2017 for a period of five years. The tariff rates of the existing projects are competitive compared to the APPC of the off-taking distribution utilities.

Established track record of operations - The nuclear power stations of NPCIL have established track record of operations with majority of the plants operating at higher than normative PLF, leading to stable cash flows. Though the average PLF for NPCIL witnessed a decline (from 80% in FY2017 to 70% in FY2018 and FY2019) because of long shutdown of few units and stabilisation period for KKNPP, the PLF is expected to improve in FY2020, given the considerable improvement in reported PLF in H1 FY2020.

Strong financial profile - The financial profile of NPCIL remains strong, supported by healthy profitability, low gearing levels and strong debt coverage metrics. The capital structure of the company remains comfortable with gearing at 1.10 times as on March 31, 2019. Also, the debt coverage metrics of the company are comfortable, with interest coverage ratio of 6.2 times and debt service coverage ratio of 2.2 times in FY2019. The funding of the ongoing projects is expected to be met through a mix of internal accruals, fresh equity and debt funding at a highly competitive rate. While the proposed NCD has a bullet maturity in the 10th year, the company's superior financial flexibility and healthy profitability aided by normative tariff based PPAs provide a comfort from the credit perspective.

Credit challenges

High counterparty credit risks - The counterparty credit risk for NPCIL remains high because of the weak financial health of majority of the state distribution utilities with whom PPAs have been signed. This is reflected from the increase in debtor days to more than four months over the past two years. However, this risk is mitigated to some extent by the diversity in the off-taker profile and the recent directive from the Government of India to implement payment security mechanism in the form of letter of credit.

Risk associated with under-construction projects - The execution risks remain high for NPCIL as under-construction projects entail annual capital expenditure of about Rs.9000 crore, especially given the past delays in execution. The capital cost of the under-construction projects remains relatively high, leading to high tariff, which may adversely impact the tariff competitiveness of these projects. Nonetheless, the blended tariff for the company is expected to remain competitive in relation to APPC of the discoms.

Liquidity position: Strong

The liquidity profile of NPCIL is strong, supported by positive cash flow from operations, healthy cash balances and investments, and presence of a largely undrawn working capital limit of Rs. 2000 crore. The cash flows remain sufficient to meet the debt payment obligations and the equity contribution for the under-construction projects.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – The rating could face negative pressure in case of sustained under-performance of the operational nuclear power stations with PLF below the normative level or there are payment delays from off-takers, leading to large build-up of receivables. Further, the company's inability to secure PPAs for the new projects under the normative tariff mechanism would be another negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	The rating derives strength from NPCIL's ownership by the Government of India and its strategic importance for nuclear power generation in the country.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

NPCIL is a public-sector enterprise under the administrative control of the Department of Atomic Energy (DAE), Government of India. NPCIL is responsible for design, construction, commissioning and operations of nuclear power plants in the country. At present, NPCIL is operating 22 nuclear power reactor units, with an installed capacity of 6780 MW. NPCIL owns all the commercial nuclear reactors (21) except Rajasthan Atomic Power Station Unit 1 (RAPS-1; 100 MW), which is owned by the DAE, Government of India. The company has under-construction capacity of 4800 MW, with advance progress in execution. In addition, the Government has given administrative approval to 10 more reactor units, which are in very early stages of development.

Key financial indicators (Audited)*

	FY2018	FY2019
Operating Income (Rs. crore)	12206.3	11528.5
PAT (Rs. crore)	3613.3	2818.9
OPBDIT/OI (%)	51.1%	48.0%
RoCE (%)	15.7%	13.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.3
Total Debt/OPBDIT (times)	5.2	7.3
Interest Coverage (times)	7.7	6.2
DSCR	2.6	2.2

*Ratios are as per ICRA's computation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					03-January-2020			
1	Proposed NCD	Long Term	2500.00	-	[ICRA]AAA (Stable)	-	-	-

Amount in Rs. crore

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 click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Proposed NCD	-	-	-	2500.00	[ICRA]AAA (Stable)

Source: NPCIL

Annexure-2: 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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