April 07, 2020

Neyveli Uttar Pradesh 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	11,067.0	11,067.0	[ICRA]BBB+ (Stable); reaffirmed
Long-term, unallocated facilities	1,000.0	1,000.0	[ICRA]BBB+ (Stable); reaffirmed
Total	**12,067.0**	**12,067.0**	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation reflects the strong sponsor profile of NUPPL—a joint venture project between NLC India Limited (NLCIL; rated [ICRA]AAA (Stable)) and Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL), which is the UP-state generation company (Genco). The rating also factors in the low permitting risks of the project as key approvals from Public Investment Board, Cabinet Committee of Economic Affairs and Ministry of Environment & Forests (MoEF) are already received. ICRA takes note of the moderate shortfall in project execution as on date due to delay in material supply by the plant's BoP contractor during the year – FY2020. However, notwithstanding the shortfall, the overall execution pace of the project continues to be healthy and the company is expected to achieve commercial operations as per schedule. The rating also considers the cost savings, which the company achieved in the awarded contracts, 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 (as per original plan) and with a moratorium till July 2024 mitigates the debt servicing risks to a significant 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. While, UPPCL has given its willingness letter to Ministry of Power (MoP) during FY2020 for availing balance 25% power and NUPPL is currently pursuing to expediate the allocation and make suitable amendment to the existing PPA, the PPA is yet to be signed, thereby exposing the company to moderate off-take risk. Further, ICRA notes that once operational, the project may be exposed to offtake risk due to the overall demand-supply scenario in the power sector in recent years, following the improvement in transmission network and the availability of cheap renewable power, which has resulted in increased thermal power surrender by DISCOMs. 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 to the company's coal requirements. However, ICRA notes that there are delays in commencement of mining operations, in line with project commissioning, which may necessitate usage of expensive imported coal, exposing the company to foreign exchange fluctuation risks. However, this risk is partly mitigated by the temporary allotment of bridge coal linkage by the Ministry of Coal (MoC) for the next three years (FY2021-23) and the expected supply from NLCIL's captive coal mine at Talabira, Odisha, which is expected to commence mining in FY2021.

The rating is, however, constrained by the project implementation risks associated with large greenfield projects since only ~47% of the project cost was expended till Nov 2019. 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 NLCIL as and when required mitigates the risk to an extent. The ratings also consider the counterparty risk arising from weak financial profile of UP discoms, post commissioning, although the presence of payment security mechanism may mitigate the risk.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that NUPPL's credit profile will remain stable given the healthy execution pace of the project and the availability of project debt moratorium till FY2024.

Key rating drivers

Credit strengths

Strong sponsor profile - The project was conceived by NLCIL 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 ~82% 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) as it is a large public sector project; 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 project capacity signed with 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); the ultimate beneficiaries are 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.

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 47% of the planned project cost of Rs 17,238 crore incurred till November 2019. The project is being funded at a debt-to-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.

Exposure of project to offtake risk as PPA is yet to be signed for balance 25% capacity; however, willingness letter received for purchase of remaining capacity from UPPCL – With PPA for balance 25% of the capacity yet to be signed, the company is exposed to offtake risk. However, the company has been negotiating with UPPCL to sign a revised PPA for 100% of the project capacity. In continuation to this, during FY2020**,** UPPCL has given its willingness letter to MoP for availing balance 25% power and the company is currently pursuing to expediate the allocation and make suitable amendment to the existing PPA**.** However, pending this, the company is exposed to offtake risks for the untied capacity. Further, ICRA notes that once operational, the project may be exposed to offtake risk due to the overall demand supply position scenario in the power sector witnessed in recent years, following the improvement in transmission network and the availability of cheap renewable power, which has resulted in increased thermal power surrender by DISCOM's.

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.

Likely delay in commencement of coal mining in captive block by NLC due to local issues; allotment of bridge coal for next three years mitigates fuel supply risk to some extent – 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. Meanwhile, in order to supply coal till development of the Pachwara block, on March 2019, NUPPL had submitted a proforma for seeking bridge coal linkage for a period of three years (2020-2023) to the Ministry of Coal. Based on the proforma submitted by NUPPPL, the Ministry of Coal had sanctioned the allotment of bridge coal linkage of 0.5 MT in FY2021, 7.5 MT in FY2022 and 4.7 MT in FY2022. The remaining required quantity is expected to be fulfilled from Talabira ll & lll Mine belonging to NLCIL, which is expected to commence mining in FY2021. Any usage of imported coal 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: Adequate

As the project is under-construction (<50% of project cost expended till Nov 2019), liquidity is supported by sanctioned term loan (~92% of total debt requirement closed). Additionally, comfort can be drawn from NLCIL's ability to provide financial support if required (NLCIL holds 51% stake in the entity). The JV partners – NLCIL and UPRVUNL have already infused almost half of the equity requirement (~47% till Nov 2019) and the liquidity and financial flexibility of the partners are sufficient to meet the balance equity requirement in the project. 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.

Rating sensitivities

Positive triggers – ICRA could upgrade NUPPL's rating if the entire project achieves completion within the budgeted time and cost; or satisfactory operational performance of the project

Negative triggers – Negative pressure on NUPPL's rating may arise if there are significant delays or cost overruns in the project or if financial closure / signing of PPA for the balance portion continues to get delayed. The rating may also be downgraded if there is deterioration in the credit profile of NLCIL, which holds 51% stake in the entity; NUPPL project is part of expansion projects of NLCIL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for thermal power producers
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	The ratings are based on the standalone financial profile of the company

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, which 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 five-year period with final project COD (COD of all units) scheduled in November 2021.

SPONSOR PROFILE

About NLC India Limited

NLC India Limited (NLC; erstwhile Neyveli Lignite Corporation Limited), a public sector undertaking incorporated in November 1956, is involved 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 power generation capacity of over 6600 megawatt (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 newly commissioned thermal plant in Barsingsar. The Government of India (GoI) holds ~82% 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 fiscal indicators of NLC India Limited - Consolidated

	FY2018	FY2019
Operating Income (Rs. crore)	11,652.1	10,477.0
PAT (Rs. crore)	2,005.8	1537.4
OPBDIT/OI (%)	37.6%	27.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.8
Total Debt/OPBDIT (times)	3.0	7.1
Interest Coverage (times)	8.0	4.1
DSCR	2.9	1.4

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 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 past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	07-Apr 2020	Date & Rating in FY19 25-Jan-2019	Date & Rating in FY18 03-10-2017	Date & Rating in FY17 08-Sep-2016
1	Term Loan	Long Term	11,067.0	4705.8	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Proposed facilities	Long Term	1,000.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-

Amount in Rs. Crore; source: NUPPL

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

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 facilites	-	-	-	1,000.0	[ICRA]BBB+ (Stable)

Source: NUPPL

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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