November 08, 2019

Nabha Power Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture (NCD) Programme	4,960	4,960	[ICRA]AAA(CE)(Stable); Reaffirmed
Commercial Paper (CP)	4,000	4,000	[ICRA]A1+; Reaffirmed
Total	**8,960.0**	**8,960**	

**Instrument details are provided in Annexure-1*

Rating Without Explicit Credit Enhancement	**[ICRA]A+**

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. The change in suffix is not to be construed as a change in rating. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]AAA(CE)(Stable) rating

The above rating is based on the strength of corporate guarantee provided by Larsen & Toubro Limited (L&T, rated at [ICRA]AAA(Stable)/[ICRA]A1+), the ultimate parent of Nabha Power Limited, for the rated non-convertible debentures (NCD) programme. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, Larsen & Toubro Limited.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach, whereby the rating of the guarantor has been translated to the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenure of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by Larsen & Toubro Limited is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]AAA(CE)** against the Unsupported Rating of [ICRA]A+. In case the rating of the guarantor were to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

Upon invocation of the guarantee, guarantor would be the principal debtor. The guarantor shall not be entitled to and also hereby waive all the rights conferred on it under Sections 131, 133, 134, 135, 139 and 141 of the Indian Contract Act, 1872. The guarantee is a continuing one and shall remain in full force and effect till the final settlement of the rated facilities. The guarantors, shall forthwith on demand by the Trustee, deposit such sum as the trustee may specify within one business day of the demand notice.

For the [ICRA]A1+ rating

The above rating factors the strong financial linkage of NPL with its ultimate parent L&T (rated at [ICRA]AAA(Stable)/[ICRA]A1+) as evidenced in the form of L&T's board backed resolution[1] for providing support for an amount upto Rs. 6,410 crore, extension of corporate guarantee/letter of comfort by L&T for various debt instruments of NPL, and demonstrated track record of timely financial support provided by L&T to NPL in the past. Given these strong linkages of NPL with L&T, ICRA believes L&T will continue to provide financial support to NPL as and when required. The rating also factors in the operational stage of the power plant, with low offtake risk, due to the presence of long-term power purchase agreement (PPA) with Punjab State Power Corporation Limited (PSPCL) for its entire power generation capacity. The rating also reflects the availability-based tariff structure, the fuel pass-through arrangement, and the modest fuel supply risk due to the presence of long-term fuel supply agreement (FSA). ICRA has also taken comfort from NPL's track record of maintaining healthy plant availability.

These strengths apart, NPL is exposed to the counter-party credit risk due to modest financial position of PSPCL, which in the past has resulted in elongation of receivable cycle. Further, NPL is also exposed to frequent refinancing requirement due to its dependence on short/medium tenure debt, which along with leveraged capital structure also results in modest debt coverage ratios. The gearing (total debt to tangible net-worth) remained moderately high, at 2.2 times as on September 30, 2019, as sizeable number of receivables were under dispute. Out of total receivables of ~Rs. 1,900 crore as on September 30, 2019, ~Rs. 1,100 crore are under dispute with PSPCL, primarily related to the mega power status benefit and the coal washing charges. Although Supreme Court has ruled in favour of NPL with regards to the coal washing charges, NPL is yet to fully realise those receivables.

Key rating drivers and their description

Credit strengths

Strong linkage with L&T and track record of financial support – NPL has strong financial linkage with L&T as reflected by the presence of board resolution to provide financial assistance upto Rs. 6,410 crore. Further, L&T has demonstrated track record of providing timely support to NPL in the form of inter-corporate deposits (ICD) to meet its external debt repayment obligations or plug any operational shortfall due to under-recovery of its receivables. The importance of NPL to L&T is further fortified by the corporate guarantee for the NCDs and the letter of comfort provided for the CP programme of NPL extended by L&T.

**Long-term PPA with availability-based tariff structure and fuel cost pass-through - ** NPL has signed a long-term (25 years) PPA for 100% of the installed capacity with PSCPL at a tariff determined as per CERC norms, with pass-through of fuel cost. The presence of long-term PPA mitigates the off-take risk. Further, variable energy charge recovery is based on a quoted heat rate, which essentially means that the fuel cost is a pass-through subject to a specified heat rate, which insulates the company from the fluctuations in coal prices. Full fixed capacity charges are payable by PSPCL to NPL at the normative plant availability factor (PAF) of 85%, irrespective of any off-take. The company has been maintaining PAF levels of above 85% since the past four years.

Presence of FSA mitigates fuel supply risk - NPL's fuel requirement has been estimated at 5.96 million tons per annum (MTPA). The company has signed FSA for long-term coal linkage with South Eastern Coalfields Ltd (SECL; a fully-owned

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[1] L&T Board has passed a resolution for providing support vide corporate guarantee or any other form of suitable assistance in relation to debt at NPL and providing funding support in any form directly or indirectly for an amount upto Rs. 6,410 crore

subsidiary of Coal India Ltd) for 5.55 MTPA of grade 'F' coal, which is around 93% of its coal requirement for both the units operating at 100%; SECL has mines in Chhattisgarh. Punjab State Electricity Regulatory Commission (PSERC) has also allowed procurement of coal from alternate sources (domestic and imported) in case of shortfall in coal supplied under the FSA. Price of such alternate coal shall also be a pass-through. Thus, the fuel supply risk is mitigated to a major extent. During FY2019, the NPL met 81% of its coal requirements under the FSA, whereas the remaining 19% was imported.

Credit challenges

Counterparty credit risk – NPL remains exposed to counterparty credit risk given the modest financial profile of PSPCL. Nonetheless, PSCPL has been making payments in a timely manner and at times before the due date to take advantage of the rebate available under the terms of PPA. However, there have been delays in payment of disputed receivables, which impacted NPL's cashflow position and debt servicing ability. L&T has provided financial support in the form of ICDs as and when required to fulfil its external debt repayment obligations. Timely realisation of regular as well as disputed receivables remains important from the credit perspective.

Leveraged capital structure and refinancing dependence – The financial profile of NPL is characterised by a leveraged capital structure, with gearing of 2.2 times as on September 30, 2019. Further, majority of the debt of NPL is of short-to-medium tenure, which makes it dependent on regular refinancing. However, ICRA takes comfort from the fact that NPL has been able to refinance its debt in the past on account of its strong linkages and support from L&T.

Sizeable receivables under dispute with PSCPL impact returns – Out of ~Rs. 1,900 crore receivables outstanding as on September 30, 2019, ~Rs. 1,100 crore is currently under dispute relating to mega power status benefit and coal washing charges. While the Supreme Court has ruled in favour of NPL for the coal washing charges dispute, there have been delays in realisation of these receivables. Post the Supreme Court contempt order in August 2019, NPL has received Rs. 417 crore while ~Rs. 714 crore is yet to be realised as on September 30, 2019. Further, NPL is also not able to fully recover its capacity charges due to another dispute related to the mega power benefit, which is still subjudice. The outstanding receivables under this dispute along with other adhoc deductions stood at Rs. 391 crore as on September 2019. The prolonged delay in realisation of these receivables has impacted NPL's debt coverage and return indicators.

Liquidity position

For the [ICRA]AAA(CE)(Stable) rating: Strong

L&T's liquidity is strong as reflected in its sizeable cash & bank balances and liquid investments of ~Rs. 6,321 crore as on September 2019 and fund-based limits of ~Rs. 7,000 crore, which is largely unutilised. L&T's liquidity is also supported by its healthy cash flows from operations, which is expected to be sufficient to meet its debt servicing obligations (debt repayment is at ~Rs. 4,100 crore in FY2020), as well as its commitment towards subsidiaries. In addition, L&T derives significant financial flexibility with substantial stake in its listed subsidiaries.

For the [ICRA]A1+ rating: Adequate

NPL's liquidity is **adequate** with free cash balance of Rs. 207 crore as on September 30, 2019 and fund-based limits of Rs. 500 crore, which is largely unutilised. The liquidity is further supported by the demonstrated track record of financial support provided by its parent entity—L&T.

Rating sensitivities

For the [ICRA]AAA(CE)(Stable) rating

The rating assigned to the Rs. 4,960 crore NCD Programme would remain sensitive to any movement in the rating or outlook of the guarantor, L&T Limited.

For the [ICRA]A1+ rating
Positive triggers: Not applicable, as the existing rating is the highest rating.

Negative triggers: Negative pressure on the above ratings of NPL could arise if there is a deterioration in the credit profile of L&T or weakening of linkage and financial support to NPL by L&T. Further, prolonged delays in realisation of NPL's receivables or actual PAF being lower than the normative PAF of 85%, which causes lower revenue realisation and consequently lower profitability, could also exert negative pressure on NPL's rating. Increase in external borrowings to more than Rs. 7,500 crore or debt-funded nature of future capex related to flu gas-desulphurisation (FGD) not compensated by commensurate increase in revenue in the form of increased capacity charge could also negatively impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Thermal Power Producers Approach for rating debt instruments backed by third-party explicit support Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent: Larsen & Toubro Limited For arriving at the NCD rating, ICRA has taken into account the unconditional and irrevocable corporate guarantee by L&T. For arriving at the CP rating, ICRA factors in the likelihood and the willingness of NPL's parent, L&T, extending financial support to NPL out of its need to protect its reputation from the consequences of a group entity's distress. There also exists a consistent track record of L&T having extended timely financial support to NPL in the past, whenever a need has arisen.
Consolidation/Standalone	Standalone

About the company

Nabha Power Limited (NPL) was established as a special purpose vehicle (SPV) by the erstwhile Punjab State Electricity Board (PSEB) to develop a 1,400 MW (2 x 700 MW) coal-fired thermal power plant at Nalash Village, Rajpura, District Patiala, Punjab, India. Pursuant to an RFQ/RFP floated by PSEB in line with the Case-2 competitive bidding guidelines of Government of India (GoI), L&T Power Development Limited (L&T PDL) was awarded the project by PSEB. Accordingly, the ownership of NPL was transferred to L&T PDL on January 18, 2010 and a long-term power purchase agreement (PPA) for 25 years was signed with PSEB on the same date. The tariff in PPA comprises fixed capacity charge (payable based on the plant availability) and energy charges based on net quoted heat rate, actual cost of coal (includes cost of purchasing, transporting and unloading the coal) and the gross calorific value of the coal. The Unit-1 (700 MW) of the project is operational since February 2014 and Unit-2 (700 MW) has been operational since July 2014. The boiler & turbine generator (BTG) package has been supplied by L&T- MHI (JV between L&T and Mitsubishi Heavy Industries). The company has also signed a fuel supply agreement with subsidiary of Coal India Limited, viz. South Eastern Coalfields Limited, for 5.55 million tonnes per annum.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	3,778	3,968
PAT (Rs. crore)	245	96
OPBDIT/OI (%)	20.7%	18.1%
RoCE (%)	8.6%	6.7%
Total Outside Liabilities/Tangible Net Worth (times)	2.5	2.3
Total Debt/OPBDIT (times)	9.9	10.5
Interest Coverage (times)	1.2	1.2
DSCR	0.3	0.3

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
					8-Nov-2019	9-Aug-2018	21-July-2017	8-Dec-2016
1	NCD	Long Term	4,960	3,550	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(SO) (Stable)	[ICRA]AAA(SO) (Stable)	[ICRA]AAA(SO) (Stable)
2	Commercial Paper	Short Term	4,000	2,960*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Amount in Rs. Crore
**Outstanding as on October 30, 2019*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE445L08342	NCD	23-Mar-18	8.12%	23-Jun-21	215	[ICRA]AAA(CE)(Stable)
INE445L08334	NCD	23-Mar-18	8.12%	28-Apr-21	385	[ICRA]AAA(CE)(Stable)
INE445L08359	NCD	6-Apr-18	7.90%	5-Jun-20	600	[ICRA]AAA(CE)(Stable)
INE445L08367	NCD	10-Dec-18	8.75%	28-Feb-20	1,250	[ICRA]AAA(CE)(Stable)
INE445L08375	NCD	25-Jun-19	8.06%	15-Apr-21	1,100	[ICRA]AAA(CE)(Stable)
Yet to be placed	NCD	-	-	-	1,410	[ICRA]AAA(CE)(Stable)
NA	CP	NA	NA	7-365 days	4,000	[ICRA]A1+

Source: Nabha Power Limited

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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.

For more information, visit www.icra.in

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