February 13, 2020

NLC Tamilnadu Power Limited: [ICRA]AA+ (CE) (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term, Term Loans	2257.47	[ICRA]AA+(CE) (Stable); assigned
Long Term, Fund-based working capital limits	1500.00	[ICRA]AA+(CE) (Stable); assigned
Total	**3757.47**	
Rating Without Explicit Credit Enhancement		**[ICRA]AA**

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. 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

The above rating of NLC Tamil Nadu Power Limited (NTPL/ 'the entity') is based on the Letter of Comfort (LOC) provided by NLC India Limited (NLCIL, rated at [ICRA] AAA (Stable)), the parent of NTPL which hold 89% stake in NTPL. The Stable outlook on this rating reflects ICRA's outlook on the rating of the LOC provider.

Adequacy of credit enhancement

For assigning the ratings, ICRA has assessed the attributes of the Letters of Comfort (LOC) provided by NLCIL in favour of the said facilities. Taking cognizance of the above credit enhancement, ICRA has assigned a rating of [ICRA]AA+(CE)(Stable) to the said facilities against the Unsupported Rating of [ICRA]AA. In case the ratings of the support provider or the Unsupported Rating of NTPL were to undergo a change in future, the same would have a bearing on the ratings of the aforesaid facilities as well. The ratings of this facilities may also undergo a change in a scenario, whereby in ICRA's assessment, there is a change in the strength of the business linkages between the LOC provider and the rated entity, or there is a change in the reputation sensitivity or change in the strategic importance of the rated entity for the LOC provider.

Salient covenants related to the credit enhancement, as specified in the LOC

» LOC Provider shall undertake to follow very closely the financial situation of NTPL from time to time and NLCIL shall ensure NTPL complies and meet the obligations including the repayment of interest along with other interest and other monies due on the due dates

» LOC Provider exercises administrative and management control through its Nominee Directors on the Board of Directors of NTPL.

» The LOC provider will not dilute its shareholding (89%) in borrowing company without the specific approval of the Bank/Consortium of Bankers/Financial Corporation/Financial Institutions.

The assigned rating considers the benefits arising from the strong parentage with NLC India Limited (NLCIL), a Navratna entity with an established track record of more than 50 years in lignite mining and power generation segments, holding

89% stake in NTPL. ICRA takes note of the shared management, operational and financial linkages and track record of financial support provided by the parent. The rating also considers the presence of long-term cost-plus power purchase agreement (PPA) for the entire capacity based on Central Electricity Regulatory Commission's (CERC's) tariff regulations which ensures steady revenues and assured return potential. ICRA also factors in the long-term domestic coal linkage for the entire capacity by the presence of assured long-term fuel supply agreement (FSA).

However, the ratings are constrained by the stretched receivables and elevated working capital requirements arising from exposure to financially weak DISCOMs. While, ICRA takes note of the payment security mechanism introduced by the Ministry of Power since August 2019, has resulted in improvement in collection, the receivables levels remain high due to past dues, although there has been some moderation in recent months. ICRA further takes note of the steps taken by company to recover the outstanding dues, however the timeliness and quantum of recovery remains to be seen and will be monitored. Further, the ratings also consider the impact on NTPL's relatively weaker merit order position, arising from the availability of low-cost merchant power for the DISCOMs, resulting in power surrender and thereby impacting the PLF levels of the plant. ICRA notes that the company is trying to mitigate the impact of power surrender by selling its Un-requisitioned Surplus (URS) power over the exchanges, the actual impact on profit and sustained improvement in PLF levels remains to be seen. In addition to this, the ratings also consider the moderate return indicators for the company, due to approved capital cost as per the current tariff order being lower than the actual incurred capital cost. ICRA notes that the company has appealed for inclusion of the disallowed cost with APTEL[1] and further, in the tariff petition for 2019-24, it has requested for inclusion of capex incurred post COD for tariff consideration. The outcome of the tariff order and quantum of incremental cost considered by APTEL will be monitored.

Key rating drivers and their description

Key Strengths

Strong parentage of NLCIL which owns 89% stake in the project – NTPL benefits from its strong parentage with NLCIL holding 89% stake in the company. NLCIL, has an installed capacity of over 6600 MW at present with an established track record of more than 50 years in lignite mining and power generation segments. NLCIL had provided equity capital (in the proportion of its ownership) for the budgeted cost as well cost overruns for the project, has demonstrated track record of financial support and also provides other operational and technical support. The Chairman of NLCIL is also acting as the Chairman of NTPL and senior officials of NLCIL are part of the board of directors/management team of NTPL.

Long term PPA with cost -plus tariff – NTPL has entered into a PPA with the southern DISCOMs, for the entire quantum of power generated with cost plus tariff based on CERC guidelines. The power is being sold mainly to Tamil Nadu, Karnataka, Kerala, Andhra Pradesh, Telangana and Pondicherry DISCOMs (~40% to Tamil Nadu state DISCOM). This mitigates the offtake risks for the company to an extent. The tariff is determined by the Central Electricity Regulatory Commission (CERC) as per the two-part tariff methodology whereas the fixed and energy charges are calculated and approved separately. The fixed charges include a stable return on equity and operation of the plants at desired parameters would result in a healthy profitability at the company level.

Assured fuel supply – NTPL has signed long-term FSA with Mahanadi Coal Fields Limited (MCL) to procure 3 MMTPA coal, a wholly owned subsidiary of CIL. NTPL has also signed a long-term fuel supply agreement (FSA) with Eastern Coalfields Limited (ECL) to procure 1.3 MMTPA coal. Further, based on the requirement, NTPL procures imported coal

[1] Appellate Tribunal For Electricity

through tendering process. In addition to this, NLCIL also has an allotted block in Talabira, Odisha which is expected to commence mining in the medium term and supply coal to the NTPL plant.

Credit Weaknesses

High receivable buildup due to exposure to state distribution utilities with weak financial profile - ICRA notes that there has been build-up of receivables in the last few years due to stretched payment from state distribution utilities with weak financial profile, leading to high working capital requirements. However, ICRA notes that due to the payment security mechanism introduced by the Ministry of Power since August 2019, there has been improvement in collection in subsequent periods, although the receivables levels remain high due to past dues. ICRA further takes note of the steps taken by company to recover the outstanding dues, however the timeliness and quantum of recovery remains to be seen and will be monitored.

Current low power tariff scenario has increased the risks of power surrender by DISCOMs; expected to be partly mitigated after the start of power trading through exchanges –The overall demand supply position has changed in the power sector in recent years with the improvement in transmission network and availability of cheap renewable power. This has resulted in DISCOMs increasingly surrendering high cost thermal power which has impacted the PLF levels of thermal plants. NTPL has also witnessed power surrender from DISCOMs since its first full year of operations, which have resulted in moderate PLF levels in the range of 61.8% -71.4% during FY2017 and FY2018. The company's PLF levels witnessed further moderation in FY2019 and 8MFY2020 due to a fire accident in Jan 2019, nonetheless the operations have been fully restored and the plant is currently operating at pre accident levels. In addition to this, the normative variable cost for the company remains relatively high at Rs. 3.17/unit (as per tariff petition filed by NTPL for 2019-24), although the actual cost has witnessed some moderation in the last few months. This affects the position of the Company in the merit order dispatch for DISCOMs and exposes it to offtake risk.

However, ICRA notes that, going forward the risk of power surrender would be partly mitigated by selling its Un-requisitioned Surplus (URS) power over the exchanges which would result in enhancing the revenue and also recover the energy charge to an extent. However, the actual impact and sustained improvement in PLF levels remain to be seen.

Moderate return indicators due to lower approved project costs compared to actual capex; however, project returns might witness improvement at the time of true-up – Although the tariff is of a cost-plus nature, the regulatory framework allows for the recovery of only approved capital costs. For NTPL, as per the tariff order dated 11th July 2017, CERC had allowed Rs. 5,233.77 crore, against total project cost of Rs. 7293.49 crore, disallowing interest during construction and other overheads. The undischarged liability position as on date of commissioning stood at Rs. 1069 crore. This has resulted in moderate return indicators. NTPL has filed an appeal with APTEL for the disallowed portion to be considered in tariff. Besides this, from the date of COD till 31.03.2018, NTPL has incurred a capital expenditure of Rs. 774.38 crore, which has been included for consideration by the company in the tariff petition filed for the period 2019-24. The outcome of the tariff order and quantum of incremental project cost considered by APTEL remain a sensitivity factor for the project returns and will be monitored.

Liquidity position

For the [ICRA]AA+(CE) rating: Adequate

NLCIL has traditionally maintained healthy cash balances owing to sizeable operational cash generation. However, over the last two years – FY2018 and FY2019, the company had declared large dividends of Rs. 1350 crore and also completed share buyback at a substantial premium resulting in an outgo of Rs 1477 crore. These outflows have decreased the overall liquid surplus available with the company. In addition, the company's working capital intensity has increased receivables remain at elevated levels as of December 2019 due to large arrears from DISCOMs related to older payments.

Though the cash balances have moderated, the projected cash generation of NLC is expected to be largely adequate to meet the equity commitments of the ongoing and planned projects for the next three-year period. Also, the availability of working capital limits of Rs. 4000.0 crore, of which average utilisation remains at ~60-70%, is also expected to provide adequate liquidity buffer to the company.

For the [ICRA]AA rating: Adequate

NTPL has track record of positive fund flow from operations since plant commission. However, the cash flows in current year has been adversely impacted due to the fire accident, but with the restoration of operations at optimal level the cash flows are expected to be healthy in FY2021. The company has repayment obligations of Rs. 492.2 crore and Rs. 492.2 crore in FY2020 and FY2021 and capex commitment of ~Rs 450 crore for FY2021, for which the expected equity contribution will be around Rs. 135.0 crore. The liquidity position of the company remains adequate to meet these obligations supported by expected cash accruals, availability of unutilized working capital limits (Rs. 1500.0 crore sanctioned limits with average utilization of ~70%) and financial support in the form of standing fund arrangement with from the parent of Rs. 1000.0 crore

Rating sensitivities

For the [ICRA]AA+(CE) rating

The ratings assigned to the Rs, 2,257.47 crore long-term term loan facilities and Rs. 1,500.00 crore long-term fund based working capital facilities would remain sensitive to any movement in the rating or outlook of NLCIL.

For the [ICRA]AA rating

Positive triggers – ICRA could upgrade NTPL's rating if there is significant reduction in receivable levels on sustained basis leading to improvement in working capital intensity. Further, the quantum of incremental capital cost (not considered in current tariff) approved by regulator during truing up remains a sensitivity factor, which if results in significant improvement in return indicators, may lead to revision in ratings.

Negative triggers – Negative pressure on NTPL's rating may arise if NTPL's working capital intensity remains elevated, on account of delay in payments for the current/past dues resulting in build-up of receivables, thereby impacting the liquidity position or if there is significant moderation in PLF levels on sustained basis. Negative pressure on NTPL's rating will also arise if there is significant deterioration in the credit profile of the parent – NLC India Limited or if the linkages between the parent and NTPL weakens.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent/Group Company: NLC India Limited The rating is based on explicit support from parent company in the form of a letter of comfort.
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

NLC Tamil Nadu Power Limited (NTPL) is a joint venture between Neyveli Lignite Corporation Limited (NLC) and the Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO). NLC holds 89% of the share in equity along-with the management control of the company; with TANGEDCO holding balance 11% of the equity. The JV was incorporated on 18th November 2005 and the project was conceived by NLC as part of its expansion strategy and Tuticorin, Tamil Nadu was chosen to set up 2X500 MW coal-based Thermal Power Plant. The total cost of set up is Rs 7293 crore, funded through a mix of debt and equity in the ratio of 70:30. The power plant commenced its operation on June 18, 2015 and August 29, 2015 for Unit I (500 MW) and Unit II (500 MW) respectively.

Key financial indicators - NTPL (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	2,897.5	2,892.5
PAT (Rs. crore)	146.3	270.7
OPBDIT/OI (%)	34.6%	31.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.6	2.3
Total Debt/OPBDIT (times)	5.2	5.5
Interest Coverage (times)	2.4	2.0
DSCR	1.11	1.32

About NLC India Limited

NLC India Limited (NLC; erstwhile Neyveli Lignite Corporation Limited), 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 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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding – Dec '19 (Rs Crore)	13-Feb-2020	Date & Rating in FY19	Date & Rating in FY18	Date & Rating in FY17
1	Term Loan	Long Term	1953.66	1953.66	[ICRA]AA+(CE) (Stable)	-	-	-
2	Term Loan	Long Term	303.81	303.81	[ICRA]AA+(CE) (Stable)	-	-	
3	Fund-based working capital facilities	Long Term	1500.00	1500.00	[ICRA]AA+(CE) (Stable)	-	-	-

Amount in Rs. Crore; source: NTPL

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 Loan**	FY2016	NA	NA	**1953.66**	**[ICRA]AA+(CE) (Stable)**
NA	**Term Loan**	FY2019	NA	NA	**303.81**	**[ICRA]AA+(CE) (Stable)**
NA	**Fund-based Working capital facilities**	NA	NA	NA	**1500.00**	**[ICRA]AA+(CE) (Stable)**

Source: NTPL

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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