March 02, 2022

# NLC India Limited: Rating reaffirmed; Outlook revised to Stable from Negative; rating withdrawn for matured borrowing programme

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long Term – Borrowing Programme | 1,000.00 | - | [ICRA]AAA; reaffirmed and withdrawn; outlook revised to Stable from Negative |
| Long Term – Non-Convertible Debentures | 2,000.00 | 2,000.00 | [ICRA]AAA; reaffirmed; outlook revised to Stable from Negative |
| Total | **3,000.00** | **2,000.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The revision in the outlook to Stable from Negative on the long-term rating of NLC India Limited (NLCIL) reflects the improvement in its receivable position owing to the bill discounting arrangement employed, and better collection efficiency in 9M FY2022, driven by the funds released to distribution companies (discoms) through loans from Power Finance Corporation (PFC) and REC Limited (REC) under the Atmanirbhar package. On a consolidated basis, the receivables outstanding reduced to Rs. 5,182 crore[1] as on December 31, 2021 from the peak of Rs. 11,581 crore as on January 31, 2021. While ICRA takes note of the steps taken by NLCIL to improve the receivable position, the timely honouring of the liabilities under the bill discounting mechanism by the discoms remains a monitorable as recourse remains with the company in case of non-payment of dues to the lenders by the discoms.

The rating reaffirmation continues to factor in the strategic importance of NLCIL, a Navratna public sector undertaking (PSU), to the Government of India (GoI) in the mining and power generation sectors and the majority shareholding (79.2%) of the GoI. This provides strong financial flexibility to the company and ability to access funds at competitive rates. Further, ICRA has withdrawn the long-term rating assigned to the borrowing programme at the request of the company and based on the No-Dues Certificate received, and in accordance with ICRA's policy on withdrawal and suspension.

The rating also draws comfort from NLCIL Group's strong business risk profile in both lignite mining and power generation. Lignite from these mines is used as fuel for pit-head thermal power plants, providing continuous demand for the mining segment and leading to low fuel risks and supporting the tariff competitiveness of the thermal power plants. Further, the risk of fuel availability for its coal-based plants is also secured through long-term fuel linkages with the subsidiaries of Coal India Limited (CIL) and the supply from the 20-MTPA Talabira coal mines and the 9.0 MTPA Pachwara South coal block in Odisha.

The long-term power purchase agreements (PPAs) with the state discoms limit the demand risks for power generation assets and the cost-plus tariff structure ensures steady profitability, resulting in comfortable debt coverage metrics. The rating also considers NLCIL's diversification into renewable power generation with an operating portfolio of 1,370-MW solar and 51-MW wind power units, and 150-MW hybrid project and 510-MW solar projects won under the CPSU scheme under development.

[1] Includes NTPL's non-power dues of ~Rs. 8 crore from sale of fly ash

The ratings are, however, constrained by NLCIL's exposure to financially modest discoms such as Tamil Nadu Generation and Distribution Corporation Ltd (TANGEDCO) and the discoms in Telangana, Andhra Pradesh, Karnataka, Kerala and Rajasthan, leading to delays in receiving payments. Nonetheless, comfort can be drawn from the tripartite agreement between the GoI, state governments and the Reserve Bank of India (RBI), protecting NLCIL from payment defaults by discoms.

Further, the ratings also factor in the operating inefficiencies on account of the technical issues at Barsingsar and TPS II Expansion, stabilisation issues at Neyveli New Thermal Power Station (NNTPS) and fuel shortage at NLC Tamilnadu Power Limited (NTPL), leading to a lower-than-normative plant availability and under-recovery of fixed charges. Further, the disallowance of capital costs by the Central Electricity Regulatory Commission (CERC) for the operating projects also impacts the company's return metrics. The rating also considers the execution risks associated with the sizeable capex programme with the company planning a capital expenditure of ~Rs. 24,000 crore over the next four years to develop new thermal and renewable power projects and coal mining projects in Odisha and Jharkhand. The completion of the under-construction projects on time and within budgeted costs and the subsequent approval of the tariffs by the CERC without any major disallowances will be a key rating monitorable.

## Key rating drivers and their description

### Credit strengths

**NLCIL is a Navratna PSU, with sovereign ownership and control by Government of India** - The rating draws comfort from NLCIL's majority ownership with the GoI (79.2% as of December 2021) and the strategic importance of the company to the Government in the lignite mining and power sectors. The sovereign ownership affords significant financial flexibility to NLCIL, enabling it to raise funds at highly competitive rates.

**Integrated mining & power generation operations lead to low fuel supply risks** – NLCIL is the designated nodal agency of the Ministry of Coal for lignite mining in India, with a total lignite mining capacity of 30.6 MTPA across Tamil Nadu and Rajasthan. Lignite from these mines is used as fuel for pit-head thermal power plants, providing continuous demand for the mining segment and leading to low fuel risks for the thermal plants. While a majority of NLCIL's thermal stations are pit-head power plants, the 1,000-MW coal-based power plant in Tuticorin and the upcoming 1,980-MW coal-based unit in Uttar Pradesh are non-pit head plants. The coal supply for these plants is secured through long-term fuel linkages with the subsidiaries of Coal India Limited (CIL) and the supply from the 20-MTPA Talabira coal mines and the 9.0 MTPA Pachwara South coal block in Odisha.

**Long-term PPAs with state distribution utilities limit demand risks for power generation assets** – For its power generation portfolio of 6,061 MW, NLCIL has tied up long-term power purchase agreements (PPAs) with the state distribution utilities (discoms) of Tamil Nadu, Karnataka, Andhra Pradesh, Telangana, Kerala, Puducherry and Rajasthan, limiting demand risks. The company is a major supplier of electricity for the discoms in the five southern states. Also, the under-construction project in Uttar Pradesh has tied up a long-term PPA with Uttar Pradesh for 75% of its capacity. The tariff competitiveness of the projects is supported by the availability of captive lignite mines.

**Cost-plus tariff structure for both mining and power generation** – NLCIL uses lignite mined from its captive mines to generate power and sells it to various beneficiaries. The lignite transfer pricing is determined as per the CERC's regulations (earlier it was as per the guidelines issued by Ministry of Coal), based on the cost-plus principles. The tariffs for the thermal power plants are determined by the CERC under the cost-plus tariff regulations with regulated return on equity of 15.5%. As a result, the company's profitability and debt coverage metrics are expected to remain comfortable.

**Risk profile diversified through renewable energy generation** – NLCIL has diversified into renewable power generation with an operational solar capacity of 1,370 MW and wind capacity of 51 MW. Also, the Group has two projects under development in the RE segment won under the CPSU scheme – a 150-MW hybrid project and a 510-MW solar project. The presence in the renewable segment would provide steady returns for NLCIL, along with relatively lower risks during the execution phase compared to thermal assets.

## Credit challenges

**Exposure to counterparty credit risk associated with state distribution utilities** – NLCIL is exposed to high counterparty credit risks as most of its offtakers have weak-to-moderate financial profile. While the debtors have moderated in FY2022 over FY2021 with the realisation of dues under the liquidity support scheme for the discoms and the bill discounting mechanism adopted by NLCIL, the dues continue to be sizeable, especially from TANGEDCO, which accounts for 54% of the debtors as of December 2021 on a consolidated basis. Also, ICRA notes that the recourse remains with the company in case of non-payment of dues to the lenders by the discoms under the bill discounting mechanism. However, the tripartite agreement between the GoI, the state governments and the Reserve Bank of India, which protects NLCIL from payment defaults by the state distribution utilities, offers comfort.

**Moderate operating efficiencies and disallowances in capital costs leading to under-recovery in capacity charges** - The average plant availability for NLCIL's portfolio has remained below the normative level of 80-85% in FY2021 and 9M FY2022 owing to the technical issues with the plants, especially with projects like Barsingsar and TPS II expansion, stabilisation issues for the recently commissioned NNTPS plant and fuel shortage at NTPL. This in turn has resulted in under-recovery of fixed charges for the company, impacting the return metrics. Also, the disallowance of capital costs by the CERC for these projects has adversely impacted the company's return metrics.

**Execution risks associated with the large capex programme -** NLCIL has sizeable expansion plans with a planned capex of ~Rs. 24,000 crore over the next four years. The key ongoing projects are the 1,980-MW power plant in Uttar Pradesh, 2,400-MW Talabira pit-head thermal power station, Talabira and Pachwara coal mines in Odisha and Jharkhand, FGD capex for existing units and new renewable power projects. These projects entail significant execution risks related to approvals, land acquisition and construction and are prone to delays and cost overruns. While the demand and fuel risks for these projects are low due to the long-term PPAs and captive fuel sources, the completion of the projects on time and within the budgeted costs remains a key rating monitorable. Disallowance of the cost overrun by the regulator, as seen in the past, would adversely impact the company's return metrics.

# Liquidity position: Adequate

The liquidity profile of the company is supported by the healthy cash flow from operations, which are expected to be sufficient to meet the debt servicing obligations in FY2022 and FY2023. The funding for the capex programme is expected to be met through a mix of internal accruals and debt funding. The company has large undrawn working capital lines of ~Rs. 3285 crore as of December 2021.

## Rating sensitivities

**Positive factors –** Not Applicable

**Negative factors -** Negative pressure on NLCIL's rating may arise if there is a weakening of linkages with the GoI or a significant build-up of receivables adversely impacting the company's liquidity profile. Also, significant weakening in the operating performance of the operational units or large cost overruns for the under-construction projects which are not allowed by the regulator, weakening the profitability and debt coverage metrics, would be the other negative factors.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Thermal Power Producers<br>Rating Methodology for Wind Power Producers<br>Rating Methodology for Solar Power Producers<br>Policy on Withdrawal of Credit Ratings |
| **Parent/Group Support** | Rating derives comfort from the sovereign ownership of the company, which offers it considerable financial flexibility |
| **Consolidation/Standalone** | Consolidated – Including the subsidiaries / JVs – NTPL and NUPPL |

## About the company

NLC India Limited (NLC; erstwhile Neyveli Lignite Corporation Limited), a public sector undertaking incorporated in November 1956, is involved in lignite mining and power generation. The company, at present, has a lignite mining capacity of 30.6 million tonnes per annum (MTPA), coal mining capacity of 20 MTPA and installed power generation capacity of 6,061 MW as on date. Its power stations cater to the five southern states of Tamil Nadu, Andhra Pradesh, Telangana, Kerala and Karnataka, union territory of Puducherry, as well as Rajasthan through its thermal plant in Barsingsar. The GoI holds a ~79% stake in the company. It works under the administrative control of the Ministry of Coal, the GoI. In April 2011, the GoI declared the company as a 'Navratna' enterprise.

## Key financial indicators (audited)

| NLCIL Consolidated | FY2020 | FY2021 | 9M FY2022* |
|---|---|---|---|
| Operating Income (Rs. crore) | 10,458.0 | 10,309.0 | 9115.36 |
| PAT (Rs. crore) | 1,452.2 | 1,345.4 | 784.18 |
| OPBDIT/OI (%) | 34.3% | 32.8% | 36.7% |
| PAT/OI (%) | 13.9% | 13.1% | 8.6% |
| Total Outside Liabilities/Tangible Net Worth (times) | 2.69 | 2.55 | NA |
| Total Debt/OPBDIT (times) | 7.77 | 8.51 | NA |
| Interest Coverage (times) | 3.05 | 2.58 | 4.35 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional; NA – Not Available*

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

## Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | | Chronology of Rating History for the past 3 years | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as on Dec 31, 2021 (Rs. crore) | Date & Rating | Date & Rating in FY2021 | | Date & Rating in FY2020 | | Date & Rating in FY2019 |
| | | | | | 02-Mar-2022 | 03-Mar-2021 | 17-Aug-2020 | 15-May-2019 | 16-Apr-2019 | 28-Feb-2019 |
| 1 | Non-Convertible Debentures | Long Term | - | - | - | - | - | - | - | [ICRA]AAA (Stable); Withdrawn |
| 2 | Non-Convertible Debentures | Long Term | 2000.00 | 2000.00 | [ICRA]AAA (Stable) | [ICRA]AAA (Negative) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | - | - |
| 3 | Term Loans | Long Term | - | - | - | - | [ICRA]AAA (Stable); Withdrawn | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) |
| 4 | Borrowing Programme | Long Term | 1000.00 | - | [ICRA]AAA (Stable); Withdrawn | [ICRA]AAA (Negative) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Non-Convertible Debentures | Very Simple |
| Borrowing Programme | Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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 | Borrowing Programme | Dec-2017 | 7.00% | 19-Aug-2021 | 1000.00 | [ICRA]AAA (Stable); withdrawn |
| INE589A07037 | NCD | May-2019 | 8.09% | May-2029 | 1475.00 | [ICRA]AAA (Stable) |
| INE589A07045 | NCD | Jan-2020 | 7.36% | Jan-2030 | 525.00 | [ICRA]AAA (Stable) |

*Source: Company*

### Annexure-2: List of entities considered for consolidated analysis:

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| NLC Tamilnadu Power Limited | 89.00% | Full Consolidation |
| Neyveli Uttar Pradesh Power Private Limited | 51.00% | Full Consolidation |
| MNH Shakthi Limited | 15.00% | Equity Method |
| Coal Lignite Urja Vikas Private Limited | 50.00% | Equity Method |

*Source: NLCIL Annual report FY2021*

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