Nabha Power Limited

April 01, 2022

Rating

S.No.	Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
i)	Long Term Bank Facilities	480.00 (Reduced from 705.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
ii)	Long Term Bank Facilities- External Commercial Borrowings	-	-	Withdrawn
iii)	Short Term Bank Facilities- BG/LC	-	-	Withdrawn
	Total Bank Facilities	**480.00 (Rs. Four Hundred Eighty Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in long-term rating of Nabha Power Limited (NPL) takes cognizance of improvement in operational performance of the company in 8MFY22 (refers to period April 01, to November 30,) as compared to 8MFY21. The company reported Plant Load Factor (PLF) of 83.11% in 8MFY22 as compared to 61.40% in 8MFY21. The rating also factors Plant Availability Factor (PAF) above normative level of 85% p.a for the plant. Furthermore, the company reported improvement in debt coverage indicators in FY21. Overall gearing ratio improved to 1.91 times at end-FY21 as compared to 2.13 times at end-FY20. Interest coverage ratio of the company improved to 1.57 times in FY21 as compared to 1.42 times in FY20. The rating also factors in realization of significant trade receivables post Supreme Court order. Receivables stood Rs. 560.56 crore as on September 30, 2021 as compared to Rs. 1040.37 crore as on March 31, 2021.

The rating continues to derive strength from well-established promoter group having rich experience in infrastructure business, continual demonstration of financial support by the promoter group to the company towards meeting operational & financial obligations and firm power offtake arrangement for the entire capacity where the fuel cost is pass through.

The rating strengths are tempered by sole counterparty with weak credit profile, moderate financial risk profile of NPL characterized by lower gross cash generation and significant refinancing need and implementation risk associated with ongoing Flue Gas Desulphurization (FGD) capex. Furthermore, the impact of any modification in power procurement terms by offtaker with NPL post enactment of The Punjab Renewable Energy Security, Reform, Termination and Redetermination of Power Tariff Bill, 2021 would a key rating monitorable.

CARE Ratings has withdrawn the rating assigned to the bank facilities bearing s.no (ii) of NPL with immediate effect, as the company has repaid the rated term loan in full and there is no amount outstanding under the loan as on date.

Also, CARE Ratings has withdrawn the short-term rating assigned to bank facilities bearing s.no. (iii) of NPL with immediate effect, as the company has surrendered the limits and there is no amount outstanding as on date.

Rating Sensitivities

Positive factors - Factors that could lead to positive rating action/upgrade:

- Improvement in credit profile of counter party

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Substantial reduction in promoter's shareholding in NPL with reduced need-based support
- Plant Availability Factor of the plant below normative level (i.e. 85%) on continual basis
- Deterioration in the credit profile of the promotor
- Any adverse regulatory outcome impacting credit risk profile of the company

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in operational performance and gradual improvement in leverage metrics

NPL reported improvement in PLF to 86% in 8MFY22 (refers to the period from April 1 to November 30) as compared to 53.73% in 8MFY21 on account of revival of economic activity. Despite the locational disadvantage of remoteness from coal mines, the variable cost of the plant is still relatively competitive leading to better placement in the merit order dispatch for the State of Punjab. Further, the company deployed various measures in order to improve operational efficiencies. As a result, the auxiliary consumption reduced from 5.60% in FY20 to 4.90% in FY21. NPL continues to operate plant at above normative PAF level of 85%.

Continuous generation of profit with some reduction in external debt has led to improvement in the overall gearing. Interest cover and Total Debt/Gross Cash Accrual (TD/GCA) has also witnessed improvement over the years. During FY22, NPL repaid foreign currency debt, as a result the exposure of company to foreign exchange rate fluctuation is absent.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Receivables of the company has reduced to Rs. 560.56 crore as on September 30, 2021 as compared to Rs. 1040.37 crore as on March 31, 2021.

Well established promoter group having rich experience in infrastructure business

NPL is a wholly owned subsidiary of L&T Power Development Limited (LPDL). LPDL, a wholly-owned subsidiary of engineering and construction firm Larsen & Toubro (L&T). Incorporated in September, 2007; LDPL is into developing, investing, operating and maintaining grid /linked Independent Power Plants, Cogeneration and Captive Power Plants on Build-Own-Operate (BOO), Build-Own-Operate-Maintain (BOOM) and Build-Lease-Operate (BLO) basis.

L&T, the ultimate holding company of NPL. L&T is a major technology, engineering, construction, manufacturing and financial services conglomerate, with global operations. L&T has presence in key sectors - Hydrocarbon, Infrastructure, Power, Process Industries and Defence - for customers in over 30 countries around the world.

The day-to-day operations of NPL are managed by a team of highly qualified and experienced professionals headed by Mr. Mr. Suresh Kumar Narang.

Promoter supporter towards meeting financial and operational obligations

L&T has extended financial and operational support to the company. L&T continues to extend corporate guarantee towards the Non-Convertible Debentures (NCDs) issue and Letter of Comfort (LoC) towards Commercial Paper issue of the company. In addition to it, L&T has supported through inter corporate borrowings and or loan to the company.

Firm offtake arrangement for the entire capacity where the fuel cost is pass through

NPL has signed a long-term Power Purchase Agreement (PPA) of 25 years (from February, 2014) with Punjab State Power Corporation Limited (PSPCL, rated CARE BB+; Stable /CARE A4+) for off-take of the power generated from the power plant. As per the PPA, the tariff consists of two parts – capacity charge and energy charge. As per the PPA, if NPL maintains a minimum Plant Availability Factor (PAF) of 85%., full recovery of fixed costs is allowed. The energy charge consists of fuel charges which are fully pass-through to PSPCL. Further, as per the PPA, the PSPCL is responsible for the power evacuation thus ensuring long-term revenue visibility.

NPL has signed Fuel supply agreement (FSA) for long term coal linkage from Ministry of Coal (MoC) with South Eastern Coalfields Ltd. (SECL) and Northern Coalfields Limited (NCL) mines in Chhattisgarh for around 5.421 MTPA of Grade of coal is G10, G11 and G12 to meet its coal requirement. For the balance requirement, the company has permission to import coal or procure it locally which is also reimbursable by PSPCL as a part of energy charges. During FY21 and 8MFY22 there was no procurement of imported coal by the company as a result the average cost of fuel remined low compared to previous years. With the new FSA with NCL, the company expects better quality of coal and reduction on coal transportation charges.

Industry Outlook

Thermal PLF has been continuously declining in the past few years. With resumption of industrial and commercial activities post the 2nd wave of covid'19, base energy demand has witnessed sharp increase. As a result, thermal plants are receiving higher schedule and are expected to clock improved PLF for FY22 and FY23. Lag in coal production/ transportation to match up the high consumption level along with higher peak demand has firmed up merchant rates which augurs well for plants with untied capacity. There are numerous and interconnected challenges for the sector. The sector is expected to witness FGD capex of ~Rs. 1 lakh crore in the medium term where the progress in terms of financial closure and project implementation have been slow. The payables of the discoms have continuously increased over the past. Till the time structural changes are successfully implemented for the discoms, the gencos are expected to have high working capital requirement.

Key Rating Weaknesses

Sole offtaker of power generation with dispute in certain receivables

NPL operational performance is exposed to high counter party risk. PSPCL is the sole offtaker of power generated from NPL's plant. Coupled with limited tariff hike in the past few years, PSPCL has fair dependence of subsidy with instances of delay in its receipt which has led to higher leverage.

NPL has ongoing dispute with PSPCL regarding receivables. The dispute is towards change in mega power policy and coal washing charges. However, with dispute related to mega power status pending, PSPCL undertakes deductions from monthly payables. Currently, the matter related to mega power status benefits deductions and capacity charge under COVID force majeure is subjuidce.

The discom had attempted to seek discount in tariff and re-negotiate the same. Under pretext to this Government of Punjab (GoP) passed on November 11, 2021 a bill namely, The Punjab Renewable Energy Security, Reform, Termination and Redetermination of Power Tariff Bill, 2021. Currently, the bill has been referred to the President of India for consideration. Any significant elongation in receivables or adverse regulatory outcome may have bearing on the credit profile of NPL, and thus, will remain monitorable.

Inherent risk associated with ongoing Flue Gas Desulphurization (FGD) capex

As per the Central Pollution Control Board guidelines for thermal power plants across India, would be incurring capex towards installation of FGD. The company is executing Flue Gas Desulphurization (FGD) capex amounting to Rs. 890 crore. The capex is expected to complete by March 2023. As on February 28, 2022, around 65% of physical progress has been achieved and Rs.269 crore is spent as on March 31, 2022. The amount spent is funded through internal accurals and loans from promoter group.

Liquidity: Adequate
Cash and cash equivalent of the company stood at Rs.385.76 crore as on September 30, 2021. Average utilisation of fund-based limit limits is around 7%. Overall gearing ratio of the company stood at 1.91 times as on March 31, 2021 providing limited headroom for the company to incur capital expenditure related to FGD. However, NPL being a step-down subsidiary of L&T continues to derive support in term of financial assistance from L&T in form of NCD, ICD and extending of Letter of Comfort for CP issuance.

Analytical approach: Standalone. CARE has notched up the rating of NPL factoring in the financial support extended by promoter group.

Applicable Criteria
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Infrastructure Sector Ratings
Power Generation Projects
Thermal Power
Policy on Withdrawal of Ratings

About the Company
NPL is a wholly-owned subsidiary of L&T Power Development Limited (LPDL). Further, LPDL is wholly owned subsidiary of Larsen & Toubro Limited. NPL has set up a coal based super-critical thermal power plant with a capacity of 1,400 MW (2x700 MW) in Patiala district, Punjab.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	3,784.21	3,406.95	3,053.41
PBILDT	802.91	771.13	504.91
PAT	243.04	163.86	185.95
Overall gearing (times)	2.13	1.91	N.A.
Interest coverage (times)	1.42	1.57	1.85

A: Audited; UA: Unaudited; N.A: Not Available

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of various instruments rated for this company: Annexure 4
Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantee	-	-	-	-	80.00	CARE A+; Stable
Fund-based - LT-External Commercial Borrowings	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Working Capital Limits	-	-	-	-	400.00	CARE A+; Stable
Non-fund-based-ST-BG/LC	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT-Bank Guarantee	LT	80.00	CARE A+; Stable	-	1)CARE A; Stable (08-Jan-21) 2)CARE A (CWD) (20-Nov-20) 3)CARE A; Stable (06-Apr-20)	1)CARE A; Stable (02-Apr-19)	-
2	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)CARE A; Stable (08-Jan-21) 2)CARE A (CWD) (20-Nov-20) 3)CARE A; Stable (06-Apr-20)	1)CARE A; Stable (02-Apr-19)	-
3	Fund-based - LT-Working Capital Limits	LT	400.00	CARE A+; Stable	-	1)CARE A; Stable (08-Jan-21) 2)CARE A (CWD) (20-Nov-20) 3)CARE A; Stable (06-Apr-20)	1)CARE A; Stable (02-Apr-19)	-
4	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1 (08-Jan-21) 2)CARE A1 (CWD) (20-Nov-20) 3)CARE A1 (06-Apr-20)	1)CARE A1 (02-Apr-19)	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: N.A.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-External Commercial Borrowings	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - LT-Bank Guarantee	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company:
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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