NTPC-SAIL Power Company Limited

September 05, 2022

Ratings

S. No.	Facilities/ Instruments	Amount (₹ crore)	Rating[1]	Rating Action
i	Long-term bank facilities	2,700.00 (Reduced from 2,815.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
ii	Short-term bank facilities	300.00 (Enhanced from 185.00)	CARE A1+ (A One Plus)	Reaffirmed
	Total bank facilities	**3,000.00 (₹ Three thousand crore only)**		
iii	Bonds	-	-	Withdrawn
	Total long-term instruments	**-**		
iv	Commercial paper	200.00	CARE A1+ (A One Plus)	Reaffirmed
	Total short-term instruments	**200.00 (₹ Two hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The reaffirmation of the ratings of NTPC-SAIL Power Company Limited (NSPCL) continues to derive strength from the operational linkages with its promoters – NTPC Ltd (NTPC, rated 'CARE AAA; Stable/CARE A1+') and Steel Authority of India Ltd (SAIL, rated 'CARE AA; Stable/CARE A1+'), the two 'Maharatna' companies. The ratings continue to factor in the revenue visibility and assured returns backed by long-term power purchase agreements (PPAs) for the existing and envisaged expansion project. The ratings continue to derive strength from the minimal fuel supply risk by virtue of supply from SAIL for PP-II and the existence of long-term fuel supply agreement (FSA) for PP-III with reasonable annual contracted quantity (ACQ) materialisation. The ratings also draw comfort from the healthy operational performance depicted by higher-than-normative plant availability factor (PAF) leading to full recovery of fixed charges as well as healthy plant load factor (PLF) during FY22 (refers to the period from April 1 to March 31). The ratings continue to derive strength from the comfortable financial risk profile characterised by low leverage and strong coverage metrics in the past with acceptable moderation in the medium term due to capex implementation and refinancing of sizable debt.

The rating strengths are, however, constrained by the customer concentration risk coupled with stabilisation risk for recently commissioned Rourkela expansion plant along with exposure to risk related to under implementation projects.

Furthermore, CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to the non-convertible debenture (NCD) issue (bearing ISIN No. INE115D07019) of NSPCL with immediate effect, as the company has repaid the aforementioned NCD issue and there is no amount outstanding under the issue as on date. CARE Ratings has also withdrawn the rating assigned to the balance rated bond programme with immediate effect, as the company has confirmed non-placement of the same.

Rating sensitivities

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

- Better-than-envisaged improvement in the operational performance of the Rourkela and Durgapur expansion projects.

Negative factors – factors that could lead to negative rating action/downgrade:

- Significantly lower-than-envisaged recovery of capacity charge.
- Deterioration in the credit profile of SAIL or significant deterioration in average collection period leading to strained liquidity on a sustained basis.
- Delay in completion of under-implementation projects resulting in cost overrun and lower-than-projected profitability.

Detailed description of the key rating drivers

Key rating strengths

Renowned promoters with extensive project development experience: The major shareholder in the joint venture (JV) partners (i.e., NTPC and SAIL) is the Government of India (GoI). NTPC is the largest power generation company in India (consolidated installed capacity: 69.5 GW as on June 30, 2022) with significant experience in setting up and operating coal-based thermal generation assets across the country. It has expertise in the entire cycle of conceptualisation to operation of thermal power plants and provides technical and management input to NSCPL.

SAIL is an integrated iron and steel maker, producing both carbon and special steel for diversified industries. NSPCL, being an important power supplier for SAIL, is adequately supported by SAIL through provision of land for setting up units and supply of coal for captive generation. SAIL is the predominant power off-taker of NSPCL.

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

Long-term PPAs providing revenue visibility: The company has long-term PPAs for its entire operational and under implementation capacity of 1,104 MW, including 884 MW tied up with SAIL for its captive consumption (80%) and remaining 220 MW (20%) with three beneficiary states and union territories of central and western India. This arrangement with its clients ensures long-term revenue visibility for NSPCL for its full capacity. The company's PPA is in the nature of a take-or-pay contract, thereby ensuring complete fixed cost recovery. The PPAs of PP-II are on cost plus basis ensuring recovery of actual cost. The tariff under PPAs of PP-III is determined on the basis of Central Electricity Regulatory Commission (CERC) guidelines. The contractual terms of PPAs support complete recovery of fixed cost including debt servicing and fixed return on equity of 15.5% based on achievement of 85% normative PAF.

Firm FSA providing adequate fuel security: NSPCL has firm FSA for all the units. The entire fuel risk for PP-II units is borne by SAIL (from which NSPCL sources coal). NSPCL has signed a FSA for 20 years with South Eastern Coalfields Limited (SECL) for supplying 2.41 million tonne per annum (MTPA) of coal to PP-III, which would be sufficient to meet 85% PLF. The requirement for the balance capacity is fulfilled through purchase from Singareni Collieries Company Ltd by virtue of short-term MoU and e-auction. The fuel cost is passed through in tariff.

Robust operational performance of the older plants: NSPCL's PAF for its PP-II and PP-III units continued to remain strong (i.e., above 90%) in FY22 (refers to the period from April 01 to March 31) leading to full recovery of capacity charge. The PLF of PP-II improved to 91.01% during FY22 (PY: 83.98%) and PLF of PP-III improved to 80.31% in FY22 (PY: 73.29%). The annual contracted quantity (ACQ) materialisation under FSA remained stable during FY22, leading to stable fuel cost and higher scheduling for the plant. Auxiliary consumption has remained under control for PP-III. The company's plant availability has remained robust due to adequate coal availability, leading to normal recovery of capacity charge.
Plant availability for the recently commissioned Rourkela expansion plant remained low during Q1FY23 (refers to the period from April 01 to June 30) due to stabilisation issues. Improvement in the availability factor of this plant would remain a key monitorable.

Comfortable financial risk profile, however, expected to witness moderation in medium-term: NSPCL has maintained comfortable financial risk profile characterised by stable GCA, relatively lower leverage and healthy coverage metrics in the past. It is, however, partially queered by a projected moderation in coverage metrics and leverage on account of further drawal of debt due to planned capex. The overall gearing of 0.51x as on March 31, 2022, has remained at similar levels. The debt coverage metrics have also remained at a similar level with TD/GCA of 3.54x (PY: 3.48x) and TD/PBILDT of 3.73x (PY: 3.77x). Going forward, stabilisation of the recently commissioned Rourkela unit as well as commissioning of Durgapur unit and the flue gas de-sulphurisation (FGD) units is expected to improve the cash accruals and hence the financial risk profile of NSPCL.

Liquidity: Strong

The company's strong liquidity is characterised by healthy cash balance, and acceptable cushion in cash accruals vis-à-vis repayment obligations for FY23. The debt maturity profile is projected to peak in FY23, when it would require refinancing. Nonetheless, given its strong financial flexibility due to its parentage and operational profile, NSCPL's refinancing risk is low, provided its ongoing capex projects are implemented in a timely manner.
The company's liquidity position is aided by healthy cash balance with sizable undrawn working capital limits. NSPCL had cash and bank balance of around ₹80 crore as on August 30, 2022. The average fund-based utilisation for the 12 months ending June 2022 has been low at 9.67%. The company also has a ₹200 crore commercial paper issue, which stands un-utilised as on date. The net operating cycle also improved to 28 days (PY: 38 days) due to timely payments by off-takers.

Key rating weaknesses
Risk related to projects under implementation: NSPCL is currently implementing a thermal power project with a capacity of 40 MW at SAIL's Durgapur plant. The sales and fuel risks for the same have been mitigated through execution of long-term PPA and coal supply arrangement from SAIL. The project cost is estimated at ₹634 crore (expected to be financed with a debt: equity of 70:30) – the financial progress as on August 30, 2022 was 86.75%. The project has witnessed revision of commercial operations date (CoD) in the past and has incurred cost overrun as a result.
NSPCL has awarded FGD contract for PP-III. The project is envisaged to be financed at debt to equity ratio of 70:30.
The execution of such large projects exposes the company to both funding and implementation risk. The funding risk is partially mitigated by its having tied up long-term debt for these projects.

Counterparty credit risk: NSCPL's counterparty credit risk is two-pronged – on account of customer concentration (i.e., SAIL, which accounts for around 80% of energy sales) and moderate credit profile of other power off-takers (i.e., the DISCOMs of central and western India). However, the payments from off-takers have been timely with majority of the debtors outstanding of less than 30 days.

Industry outlook

NSPCL faces industry risk from two major sectors – steel and thermal power generation. With majority of its capacity tied up with SAIL, the company faces demand risk from steel production. The company also has capacity tied up with electricity distribution companies, which exposes it to risks associated with thermal power generation sector.
Steel: The domestic steel industry's production and consumption grew by 18.1% and 11.4%, respectively, on a y-o-y basis in FY22. Steel exports remained robust continuously for the third year and increased by 25.1% during FY22, after recording a growth of 29.1% in FY21 and 31.4% in FY20. International factors such as environmental concerns surrounding China's steel industry,

an uptrend in global steel prices, and higher demand from European nations led to increased shipments from India. In the current fiscal year also, domestic steel consumption has grown by 10.8% on a y-o-y basis during the period from April-June 2022. Going forward, domestic steel demand is likely to grow in high single digits, backed by various measures, such as the increase in government capex by 36% y-o-y to ₹7.5 lakh crore in the Union Budget 2022-23; infrastructure push towards seven growth engines – roads, railways, airports, ports, mass transport, waterways, and logistic infra; the Pradhan Mantri Awas Yojana (PMAY) scheme; and the Jal Jeevan Mission. Apart from these, a revival in economic activities will also support domestic steel consumption and will aid steel production in India. However, there has been a moderation in steel prices both, globally and domestically, which shall result in the normalisation of high spreads witnessed over the past couple of years.

Thermal Power Generation: The base and peak demand is expected to maintain the increasing growth in FY23, driven by higher industrial and commercial activities, digitalisation and electric transportation. Thermal power has continued to be the mainstay in supply evidenced by receipt of higher schedule as well as brisk sale of power on a short-term basis. 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 inter-connected challenges for the sector. The sector is expected to witness FGD capex of around ₹1 lakh crore in the medium term where the progress in terms of financial closure and project implementation have been slow. Moreover, 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.

Environment, social and governance (ESG) profile: The ESG profile of the company is expected to derive comfort from the strong parental support of NTPC and SAIL. NSPCL is expected to benefit from the sharpened focus of NTPC in mitigating its environmental and social risks with various initiatives including the well-defined sustainability goals as per its 'Brighter Plan 2032' initiative. It is also expected to be benefitted from SAIL's voluntarily adopted Charter on Corporate Responsibility for Environment Protection (CREP), a Ministry of Environment, Forest and Climate change (MOEFCC) initiative by adoption of various clean and environment friendly technologies.

Analytical approach: Standalone

Applicable criteria
CARE's Policy on Default Recognition
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology - Infrastructure Sector Ratings
Rating Methodology - Power Generation Projects
Rating Methodology – Thermal Power Producers
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Policy on withdrawal of ratings
Factoring Linkages Parent Sub JV Group

About the company
NSPCL was incorporated in March 2001 by taking over the captive power plants of SAIL. Furthermore, another JV company with SAIL in the name of Bhilai Electric Supply Company (P) Limited was merged with NSPCL with effect from September 11, 2006. These plants (with aggregate capacity of 314 MW) are collectively termed as PP-II units of NSPCL. In order to meet the additional captive power requirement of Bhilai Steel Plant of SAIL, NSPCL conceived and successfully commissioned 2x250-MW power project (denoted as PP-III) at Bhilai and commercialised the units during 2009-10. The company achieved COD for its 1x250 MW unit at SAIL's Rourkela plant on March 29, 2022. NSPCL is currently implementing 2x20 MW units at SAIL's Durgapur plant.

Brief Financials – Standalone (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
Total operating income	2,448	2,636	819
PBILDT	408	421	127
PAT	349	358	74
Overall gearing (times)	0.53	0.51	NM
Interest coverage (times)	43.84	46.27	6.68

A: Audited | UA: Unaudited | NM: Not meaningful
Status of non-cooperation with previous CRA: NA
Any other information: NA
Rating history for last three years: Please refer Annexure-2
Covenants of rated instruments/facilities: 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	June 2032	2135.00	CARE AA; Stable
Fund-based - LT-Cash credit	-	-	-	565.00	CARE AA; Stable
Fund-based/Non-fund-based-Short term	-	-	-	300.00	CARE A1+
Bonds	-	-	-	0.00	Withdrawn
Commercial paper-Commercial paper (Standalone)	-	-	Seven days to 364 days	200.00	CARE A1+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Bonds	LT	-	-	-	1)CARE AA; Stable (06-Sep-21)	1)CARE AA; Stable (08-Sep-20)	1)CARE AA; Stable (04-Oct-19)
2	Fund-based - LT-Term loan	LT	2135.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Sep-21)	1)CARE AA; Stable (08-Sep-20)	1)CARE AA; Stable (18-Feb-20)
3	Commercial paper-Commercial paper (Standalone)	ST	200.00	CARE A1+	-	1)CARE A1+ (06-Sep-21)	1)CARE A1+ (08-Sep-20)	1)CARE A1+ (18-Feb-20)
4	Fund-based - LT-Cash credit	LT	565.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Sep-21)	1)CARE AA; Stable (08-Sep-20)	1)CARE AA; Stable (18-Feb-20)
5	Fund-based/Non-fund-based-Short term	ST	300.00	CARE A1+	-	1)CARE A1+ (06-Sep-21)	1)CARE A1+ (08-Sep-20)	1)CARE A1+ (18-Feb-20)

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not applicable.

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

Sr. No	Name of Instrument	Complexity Level
1	Bonds	Simple
2	Commercial paper-Commercial paper (Standalone)	Simple
3	Fund-based - LT-Cash credit	Simple
4	Fund-based - LT-Term loan	Simple
5	Fund-based/Non-fund-based-Short term	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 instruments: CARE Ratings 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 us:
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