NLC India Limited

November 08, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	937.90 (Reduced from 1,504.00)	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed; Outlook revised from Negative**
Total Bank Facilities	**937.90 (Rs. Nine hundred thirty seven crore and ninety lakh only)**		
Commercial Paper	6,000.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Short-term Instruments	**6,000.00 (Rs. Six thousand crore only)**		

Details of instruments / facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the outlook assigned to the bank facilities of NLC India Limited (NLC) is on account of significant liquidation of its built-up receivables in FY21 (refers to the period April 1 to March 31) and H1FY22 pursuant to the 'Atmanirbhar Bharat Scheme' and bill discounting facility availed by the company and consequent improvement in its liquidity profile and leverage. Furthermore, with moderation in the debt-funded capex program the overall gearing is expected to remain stable.

The ratings continue to derive strength from the company being a 'Navratna' Central Public Sector Enterprise (CPSE) with majority ownership by Government of India (GoI), long operational track record of nearly six decades, assured off-take of power arising from long-term power purchase agreements (PPAs) backed by cost-plus tariff mechanism with State Discoms, presence of captive lignite mines with adequate resources resulting in assured fuel supplies and its financial performance characterised by stable profit margins and cash accruals.

The ratings are, however, constrained on account of counterparty credit risks with rising exposure to financially weak Discoms and large-sized debt-funded capex plans which exposes the company to project implementation with possible cost overrun and stabilisation risks.

Rating Sensitivities

Negative Factors

- Dilution in the GoI's stake to below 51%
- Larger-than-envisaged debt-funded capex or acquisitions leading an overall gearing of 2x
- Significant elongation in receivables on a sustained basis impacting the liquidity of the company
- Sustained weakening of the plant performance with significant impact on the profit margins

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by GoI and 'Navratna' status

NLC was established by the GoI in the year 1956, following the discovery of lignite deposits in Neyveli, Tamil Nadu. The company is majority owned by the GoI with 79.20% stake in the company as on August 31, 2021, which provides financial flexibility to access banking and capital markets to raise funds at competitive rates. The company was given 'Navratna' status in the year 2011, a status that gives greater autonomy to CPSEs in their investment decisions. Also, the company acts as a Nodal Agency for lignite mining appointed by Ministry of Coal (MoC), with majority market share in lignite mining in the country.

Established track record of operations

NLC has long operational track record of nearly six decades in lignite mining and power generation. NLC serves as an important source of power generation in the southern India, as it has entered into long-term PPAs with all the southern states and Rajasthan as well. NLC is presently operating four opencast lignite mines (three in Tamil Nadu and one in Rajasthan) with aggregate capacity of 30.60 Million Metric Tonnes Per Annum (MMTPA). Furthermore, in April 2020, the company began mining of coal at its Talabira II and III opencast mines (capacity 20 MMTPA) in a phased manner and is expected to achieve full mining capacity by the year 2027-28. These mines would supply coal to the existing power plant of NLC Tamil Nadu Power Limited (NTPL; rated 'CARE AA+ (CE); Stable'). As on September 30, 2021, on a consolidated basis, NLC operates six thermal power stations and renewable power with an aggregate power generation capacity of 6,061 MW including NTPL's thermal power plant of 1,000 MW, solar power plant of 1,370 MW and wind power plant of

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

51 MW. NLC has also commissioned unit-II of Neyveli New Thermal Power Station NNTPS (500 MW) and 17.50-MW solar power plant in Andaman during FY21 (refers to the period April 1 to March 31). The company has commissioned most of its renewable energy capacities during FY19- FY21, thereby providing healthy diversification for the company in power generation mix.
The overall thermal PLF of NLC dropped from 67% in FY20 to 59% in FY21; however, remained above the national average of 53%. Moderation in PLF in FY21 was on account of fire incident in two units of TPS-II in FY21. This apart, PLF in respect of TPS-II expn. continues to remain low at 48% (PY: 37%) on account of technical issues related to boilers. Fire incident issue was fully resolved, and all the units became operational in since May 2021. Furthermore, operations of TPS-II expn. plant is stabilised with improved PAF of 71% in Q1FY22 (FY21: 61%). Hence, operational parameters are expected to improve during FY22.
NLC sold 2,292 Mus (PY:1,168) of power in different market segments of the Power Exchange in FY21 due to low variable cost which not only enabled the company to utilise the generation capacity more efficiently but also monetised surrendered power during the day of operation.

Two-part tariff structure coupled with presence of long-term PPAs ensuring steady profitability and revenue visibility
All the power plants of NLC have long-term PPA with most of the State Discoms in southern India. The tariff structure of the thermal power plants of NLC is fixed by Central Electricity Regulatory Commission (CERC) and for lignite mines it is fixed by the MoC. The tariff structure of every thermal power plant of NLC is broadly divided into two parts, i.e., capacity charges upon maintaining plant availability factor (PAF) equal to or above normative levels and energy charges. Capacity charges ensure recovery of all the fixed overheads for each power plant along with a fixed return on equity (RoE).

Captive lignite mines with adequate resources resulting in guaranteed fuel supply
Of the six thermal power plants operated by NLC, five plants are lignite-based power generation plants and the remaining one plant of NTPL is coal-based. The lignite-based power plants mostly operate as pit-head power stations which have access to captive lignite mines with capacity of 30.60 MMTPA as on March 31, 2021, which ensures adequate fuel supplies and gives stability to operations. With respect to coal-based power plant, NTPL has entered into fuel supply agreement (FSA) with Mahanadi Coal Fields and Eastern Coalfields Limited for supply of 2.56 MMTPA and 1.3 MMTPA of coal, respectively, for a tenure of 25 years. Further, since July 2021, NTPL has also started receiving coal from Talabira captive mines of NLC. Availability of captive mines reduces fuel availability risks.

Financial performance marked by improvement in gearing and stable profit margins
During FY21, on consolidated basis, NLC's total income increased marginally to Rs.11,641 crore from Rs.11,517 crore in FY20. However, its PBILDT margin reduced marginally to 38.64% during FY21 as against 40.21% in FY20, partly on account of under recovery of fixed costs due to fire incidents in TPS II units and technical issue in TPS II exp plant. Average power sales realization stood at Rs.4.08/unit in FY21 against Rs.3.84/unit in FY20. Also, surcharge on sale of power increased from Rs.1,068 crore in FY20 to Rs.1,561 crore in FY21 on consolidated basis due to delay in receipts of bills from the offtakers.
During FY21 and H1FY22, the company has pre-paid its term debt to the tune of Rs.2,304 crore and Rs.458 crore respectively. This has led to improvement in its overall gearing to 1.72x as compared with 1.87x in FY20.
During Q1FY22, on consolidated basis, total income increased by 5% at Rs.3,222 crore as against Rs.3,066 crore in Q1FY21 on account of increase in generation levels due to recently commissioned NNTPS power plant. For Q1FY22, the PBILDT margin stood at 36% (Q1FY21: 43.31%).

Key Rating Weaknesses
Large-size debt-funded capex plans exposing to cost and time overruns and stabilisation risks
The company has envisaged capex of around Rs.15,000 crore over the next three years. The capex would be spread amongst the thermal-based plant housed under Neyveli Uttar Pradesh Power Limited (NUPPL), setting up of renewable power capacities, towards flue-gas desulphurisation (FGD) capex and the balance towards mining projects. The thermal power and mining projects are expected to be structured with debt equity ratio of 70:30 and the renewable projects with 80:20. Given that all the projects are taken-up by the company post signing PPA for majority of the capacity, the revenue risk is expected to be limited. However, the company is exposed to cost and time overruns in these ongoing projects and stabilisation risk post commissioning of the plants.
The overall gearing of the NLC on a consolidated basis has improved marginally from 1.87x as on March 31, 2020 to 1.72x as on March 31, 2021. The management has articulated that it would calibrate its debt-funded capex programs to keep the overall gearing under 2x. Any larger-than-envisaged debt-funded capex or acquisitions leading an overall gearing of over 2x would a key rating sensitivity.

Significant improvement in receivables albeit with continued counterparty credit risks due to weak profile of offtakers
On consolidated basis, total power sales debtors reduced significantly from Rs.11,409 crore as on September 30, 2020 to Rs.5,705 crore as on September 30, 2021, on account of receipt of funds by Discoms under the Atmanirbhar Bharat

Scheme and bill discounting facility availed by the company. Reduction in receivables has led to decrease in the working capital borrowings (CP and Fund-based Limits) from Rs.5,556 crore as on August 2020 to Rs.3,358 crore as on July 2021. While some amount has been utilised towards prepayment of debt in FY21 and H1FY22, the cash and cash equivalent increased from Rs.13 crore as on August 30, 2020 to Rs.1,320 crore as on September 30, 2021.

However, NLC remains exposed to counterparty credit risks on account of weak financial profile of state Discoms. The receivables position in the medium to long term is likely to be conditioned by financial profile of its major customer, viz., Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO), which is presently very weak. TANGEDCO's financial risk profile has witnessed deterioration in the recent past with increase in operating loss, high accumulated losses and weak capital structure.

As on September 30, 2021, on consolidated basis, TANGEDCO alone accounted for around 49% of the outstanding power debtors. As of September 2021, out of NLC's consolidated power capacity around 54% of the capacity was contracted to TANGEDCO. Furthermore, NNTPS unit II (500 MW) has been commissioned in February 2021, wherein majority of capacity is contracted to TANGEDCO. In addition, company's ongoing major project NUPPL (1,980 MW) thermal plant, PPAs has been signed with UP Discoms, which also has weak credit profile. On commissioning of above plants, the company's exposure to Discoms with weak financial position is likely to increase further.

Power demand supply situation in Southern region

As per the load generation balance report (2021-22) the power scenario in the southern region has remained stable during FY21 on a y-o-y basis. Kerala is expected to face energy deficit in the range of around 11% in FY22. Other southern states are expected to have power surplus in FY22. It is expected that during FY22, the energy surplus in Tamil Nadu (6.8% of demand) will be at 8,086 million units and the peak surplus is estimated to be 4.5% (767 MW).

NLC is one of the major power suppliers in the southern region, especially to Tamil Nadu. As of May 2021, Tamil Nadu has total installed capacity of 33,715 MW, out of which NLC's share was around 9%. Furthermore, NLC's plants' variable cost/unit remains competitive, enabling majority of its power generation to be evacuated by the state discoms itself.

Liquidity: Strong

Liquidity of NLC is marked by strong cash accruals against its debt repayment obligations and availability of cash and cash equivalents of around Rs.1,300 crore as on September 30, 2021. NLC also has total cash credit limit of Rs.4,000 crore on a standalone basis and average utilisation of the same stood at around 29% during last twelve months ended July 2021. Also, the company has access to commercial paper (CP) market with total CP limits of Rs.6,000 crore on a standalone basis.

During the next two years, the company has internal accruals requirement of capex in the range of Rs.800-1,200 crore and has annual debt repayment obligations in the range of Rs.2,000 crore as compared to its annual cash accruals in the range of Rs.3,200-4,000 crore. Furthermore, the company has a policy of maintaining unutilised fund-based and CP limits of at least Rs.2,500 crore out of the total limits of Rs.10,000 crore. Further, the company being a 'Navratna' CPSE has strong financial flexibility to raise additional debt at competitive rates.

Analytical Approach

CARE Ratings has considered the consolidated financials of NLC for arriving at the rating on account of the significant operational and financial linkages between the parent and subsidiaries due to similar line of business. The subsidiary companies which are consolidated are NLC Tamil Nadu power Limited (NTPL, 89% stake held by NLC), Neyveli Uttar Pradesh Power Private Limited (NUPPL, 51% stake held by NLC) and associate company MNH Shakthi Limited (15% stake held by NLC).

Applicable Criteria

Criteria on Assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on default recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Factoring Linkages Parent Sub JV Group
Rating Methodology - Power Generation Projects
Rating Methodology - Thermal Power Producers
Financial Ratios – Non-Financial Sector

About the Company

NLC, formerly known as Neyveli Lignite Corporation Limited, is a CPSE with 'Navratna' status and is engaged in mining of lignite (30.60 MMTPA) and coal (20 MMTPA) and generation of electricity (6,061 MW) as on March 31, 2021. The company was established in the year 1956 by GoI following the discovery of lignite deposits in Neyveli, Tamil Nadu. NLC is one of the major power generating sources in southern India. It operates under the administrative control of MoC, GoI, which holds 79.20% stake in NLC as on August 31, 2021.

Brief Financials - NLC (Consolidated) (Rs. Crore)	FY20 (A)	FY21 (A)	Q1FY22 (UA)
Total Operating Income	11,517	11,641	3,222
PBILDT	4,631	4,498	1,162
PAT	1,453	1,345	358
Overall Gearing (times)	1.87	1.72	NA
Interest Coverage (times)	3.94	3.43	4.33

A: Audited; UA: Unaudited; NA: 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 instruments / facilities: Detailed explanation of covenants of the rated instruments / facilities is given in Annexure-3

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

Annexure-1: Details of instruments / facilities

Name of the Instrument/Bank Facilities	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	September 30, 2024	937.90	CARE AAA; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7 days to 1 year	6,000.00	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 (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	Fund-based - LT-Term Loan	LT*	937.90	CARE AAA; Stable	-	1)CARE AAA; Negative (05-Oct-20)	1)CARE AAA; Stable (05-Mar-20) 2)CARE AAA; Stable (14-Jun-19)	1)CARE AAA; Stable (01-Mar-19)
2	Commercial Paper-Commercial Paper (Standalone)	ST*	6,000.00	CARE A1+	-	1)CARE A1+ (19-Feb-21) 2)CARE A1+ (05-Oct-20) 3)CARE A1+ (15-May-20)	1)CARE A1+ (02-Mar-20)	-

*Long-term / Short-term

Anneuxre-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 the Instrument/Bank Facilities	Complexity level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - LT-Term Loan	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 has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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