

NLC India Limited

February 19, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Commercial Paper	6,000 (enhanced from Rs.5,000 crore)	CARE A1+ (A One Plus)	Reaffirmed
Total	6,000 (Rs. Six thousand crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the commercial paper issue of NLC India Limited (NLC) continues to derive strength from the company being a 'Navratna' Central Public Sector Enterprise with majority ownership by the Government of India (GoI), long operational track record of nearly six decades, assured off-take of power arising from long term power purchase agreements (PPA) backed by cost-plus tariff mechanism with Discoms, presence of own lignite mines with adequate resources resulting in guaranteed fuel supply and its financial performance characterized by healthy profit margin and internal accruals.

The rating strengths, however, are offset to an extent by counterparty risks with rising exposure to financially weak Discoms and increasing debt levels on account of large debt-funded capex plans. The company's receivables position witnessed significant increase during FY20 (refers to period from April 01 to March 31) due to delay in receipt of payments from Discoms and further in FY21 (year to date) as Discoms continued to delay payments due to lower collections from their ultimate customers on account of Covid-19 pandemic. In the last two years ended March 31, 2020, large size debt-funded capex, increase in working capital borrowings and cash outflows in the form of dividends & share buybacks have led to moderation in the capital structure. Consequently, overall gearing of the company increased from 0.96x as on March 31, 2018 to 1.87x as on March 31, 2020 and Debt-Equity ratio increased from 0.80x as on March 31, 2018 to 1.46x as on March 31, 2020.

Rating Sensitivities

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

- Dilution in the Government of India's stake to below 51.00%
- Continuation of elongated collection period with average collection days of 150 days or above
- Further increase in share of revenue from weaker Discoms
- Significant delay in commissioning or stabilization of the on-going/future projects

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by GoI and Navratna status

NLC was established by Government of India (GoI) in the year 1956, following the discovery of lignite deposits in Neyveli, Tamil Nadu. The company is majority owned by GoI holding 79.20% stake as on December 31, 2020, which provides financial flexibility to access banking and capital markets to raise funds at finer rates. The company was given 'Navratna' status in 2011, a status that gives greater autonomy to Central Public Sector Enterprises (CPSEs) in their investment decisions. Also, the company acts as Nodal Agency for lignite mining appointed by Ministry of Coal, 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 power purchase agreements (PPA) with all the southern states. NLC is presently operating four opencast lignite mines (3 in Tamil Nadu and 1 in Rajasthan) with aggregate capacity of 30.6 Million Metric Tonnes Per Annum (MTPA). Further, in April 2020, the company began mining of coal at its Talabira II and III opencast mines (capacity 20 MTPA) in a phased manner and expected to achieve full mining capacity by 2027-28. These mines would supply coal to the upcoming Odisha Pit head TPS plants and the existing plant of NTPL (NLC Tamil Nadu Power Ltd).

As on February 10, 2021, on a consolidated basis, NLC was operating six thermal power stations and renewable power with an aggregate power generation capacity of 6,061 MW including subsidiary's (NTPL) thermal power of 1,000 MW, solar power of 1,370 MW and wind power of 51 MW. During FY20, the company had commissioned the unit I of NNTPS (500 MW) and 709 MW solar power plants. Further the company had commissioned the unit II of NNTPS (500 MW) in February 2021. It is to

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

be noted that the company had retired all units of TPS I as on September 30, 2020. The company has commissioned most of its renewable energy capacities during FY19-FY20, providing healthy diversification for the company in power generation mix.

Stable operational performance of power plants

During FY20, on consolidated basis, NLC generated 26,837 million units (MU) of power against 26,163 MU during FY19. Power sales stood at 23,404 MU during FY20 (PY: 22,667 MU). Power surrender by Discoms during FY20 stood at 3,699 MU as against 3,341 MU in FY19. The same was on account of lesser demand conditions and availability of cheaper power in the market.

During FY20, NLC's most of the plants' operating performance remained more or less in-line with CERC norms, except for TPS II Expn and Barsingsar plants. Further, PLF levels are well above All-India Thermal PLF of 56% in FY20. The overall thermal PLF of NLC during FY20 dropped to 67% from 70% during FY19. Moderation in PLF was on account of TPS II Expn and unit II (500 MW) of NTPL (subsidiary), which was temporarily shut down between January-July 2019 due to fire damage to winding and other parts of the rotor. With respect to TPS II Expn, the company faced operational challenges on account of issues related to Circulating Fluidized-bed Combustion Technology (CFBC) based boilers, which had led to major under-recovery of fixed costs during FY20. PLF in respect of TPS II Expn stood low at 37% (PY: 44%) in FY20. On account of relatively low PAF level achieved by few of its plants, under recovery of fixed capacity charges increased to Rs.567 crore in FY20.

TPS I (oldest plant) which was scheduled to be decommissioned by August 2018 continued to be operational during FY20, however the same has been retired as on September 30, 2020. Its replacement NNTPS unit I (500 MW) and unit II (500 MW) was commissioned in December 2019 and February 2021, respectively.

CARE also takes note of fire accidents at the units of TPS II Stage II (840 MW) in May and July 2020, which was expected to impact the company's operational performance in FY21 to a certain extent. During 9mFY21 (refers to period from April 01 to December 31), NLC has reported power generation of 13,743 MU against 15,802 MU in 9mFY20.

Two part tariff structure coupled with presence of PPA ensuring steady profitability and revenue visibility

All the power plants of NLC are backed by presence of PPA with most of the Discoms in South India. The tariff structure for the power plants is fixed by central electricity regulatory commission (CERC) and for lignite mines it is fixed by Ministry of Coal (MoC). The tariff structure for every power plant is broadly classified under two categories namely fixed capacity charges and variable charges. Fixed capacity charges ensure recovery of all the fixed overheads for each power plant along with a fixed return on equity. Energy charges for lignite is decided by MoC and incorporated by CERC in their tariff order and billed along with the power tariff.

Presence of own 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 units and the remaining one plant (NTPL) is coal based power generation. The lignite based power plants mostly operates as pit-head power station which has access to captive mines with reserve of 1,151 MT and capacity of 30.6 MTPA as on June 30, 2020 which ensures adequate fuel supply and enhances operational efficiency. With respect to coal based power plant, NTPL has entered into fuel supply agreement with Mahanadi Coal Fields and Eastern coal fields supply of 2.56 MT and 1.3 MT of coal per annum, respectively, for a tenure of 25 years.

Financial performance characterized by healthy profit margins and internal accruals

For FY20, on consolidated basis, NLC's total income increased 8% y-o-y to Rs.11,517 crore from Rs.10,643 crore in FY19. On a standalone basis, NLC's total income increased 14% y-o-y to Rs.9,050 crore (FY19: Rs.7,929 crore) on the back of higher power sales on account of commissioning of solar plants (709 MW) and NNTPS unit I (500MW) during the year. Average power sales realization stood at Rs.3.84/unit against Rs.3.73/unit in FY19.

Further, surcharge on sale of power increased from Rs.606.11 crore in FY19 to Rs.1068.21 crore on account of significant delay in realization of receivables. PBILDT margin on a consolidated basis improved to 40.21% during FY20 from 28.88% in FY19, partly on account of increased generation from the recently commissioned solar plants where margins are relatively high & NNTPS I and increase in other income (surcharge on power sales).

Debt-equity ratio on consolidated basis has increased from 1.17x as on March 31, 2019 to 1.46x as on March 31, 2020. Overall gearing on consolidated basis stood at 1.87x as on March 31, 2020 as against 1.50x as on March 31, 2019. The moderation in the capital structure was on account of increasing debt levels to fund the ongoing large sized capex plans and increase in working capital borrowings (due to stretch in receivables position). During FY20, NLC has paid dividend of Rs.1,183 crore and repaid scheduled term debt amounting Rs.1,831 crore. With significant portion of GCA being utilized towards dividend and meeting debt repayment obligations, major portion of capex is funded through debt, resulting in further increase in leverage levels. It is to be noted that during last three years (FY18-FY20), the company has returned over Rs.4,020 crore in the form of dividends and share buybacks, limiting the improvement in net worth/capital structure.

During 9mFY21, on consolidated basis, total income remained flat y-o-y at Rs.8,198 crore against Rs.8,188 crore in 9mFY20. For 9mFY21, PBILDT margin stood at 40.27% (9mFY20: 39.98%). On standalone basis, total income decreased 7% y-o-y to Rs.6,111 crore from Rs.6,559 crore in 9mFY20. PBILDT margin stood at 39.22% (9mFY20: 42.01%). Decline in income in 9mFY21 was on account of fire accident at TPS-II Stage-II (840 MW) and retirement of TPS-I (oldest plant of the company), partly offset by increase in generation by recently established units (NNTPS-I) and solar units (709 MW).

Key Rating Weakness***Exposure to high counterparty credit risks***

NLC remains exposed to counterparty credit risks on account of weak financial profile of state Discoms. On consolidated basis, total power sales debtors stood at Rs.10,706 crore as on December 31, 2020 as against Rs.9,391 crore on March 31, 2020. On standalone basis, total power sales debtors stood at Rs.8,554 crore on December 31, 2020 as against Rs.7,289 crore as on March 31, 2020. Receivables remain elevated due to constrained liquidity of the Discoms on account of Covid-19 impact. Continued low collections from Discoms have led to increase in the working capital borrowings of the company.

Delay in realization of receivables from one of its major customers (TANGEDCO) has led to elongated working-capital cycle. The average collection period has increased from 196 days as on March 31, 2019 to 256 days as on March 31, 2020. As on December 31, 2020, on consolidated basis, TANGEDCO alone accounted for ~64% of the outstanding power debtors. TANGEDCO's financial risk profile has witnessed deterioration in the recent past with increase in operating loss, high accumulated losses & weak capital structure. As of July 2020, out of NLC's consolidated power capacity around 54% of the capacity is contracted to TANGEDCO (41% as on March 31, 2019). Further, NNTPS unit II (500 MW) has been commissioned in February 2021, wherein majority of capacity is contracted to TANGEDCO. And, the 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. NUPPL's unit I and II (660 MW each) are expected to be commissioned in FY22, followed by unit III in FY23.

In May 2020, Govt announced measures to improve liquidity of Discoms to clear power genco's dues (Rs.90,000 crore support package, subsequently increased to Rs.1.2 lakh crore). In the months of July-August and December 2020, NLC has received a portion of dues from few Discoms as part of the scheme. The company expects to receive balance in coming months. Though it may improve the receivables position in the immediate term, receivables position of the company in the medium-to-long term is likely to be conditioned by financial position of its major customer TANGEDCO, which is very weak.

Timely realization of receivables is critical to improve liquidity position and shall remain a key rating monitorable.

Large size debt-funded capital expenditure plans

NLC has planned to increase its installed capacity to 21GW by 2025 and has multiple projects under implementation. Recently, in July 2020, NLC signed an agreement with Coal India Ltd (CIL), a Maharatna CPSE, to form a JV company (50:50) for developing solar and thermal power assets to the tune of 5,000 MW across India. The total capex incurred during FY20 on a consolidated basis was Rs.6,470 crore, of which around Rs.3,525 crore was spent towards Neyveli Uttar Pradesh Power Limited (NUPPL) and rest was spent mainly towards solar projects and New Neyveli Thermal Power Station (NNTPS). During FY20, the company had commissioned 709 MW solar project and unit I (500 MW) of NNTPS. Also, by end of June 2020, the company commissioned remaining 17.5 MW out of total 20 MW solar project at Andaman Islands. Given the Covid19 pandemic, the execution of the ongoing projects has been slowed and the company expects delays in final commissioning. Unit II of NNTPS has been commissioned in February 2021.

Given that all projects are taken up post signing PPA for majority of the capacity, revenue risk is limited. However, timely stabilization of the commissioned plants will be a key rating sensitivity as any delay in stabilization of the plants is likely to constrain the cash flow position of NLC.

Stable power supply situation in southern region during FY20 with no major improvement

As per the load generation balance report (2020-21) the power scenario in the southern region has remained stable during FY20 on a y-o-y basis. The power supply scenario in Tamil Nadu, Karnataka, Andhra Pradesh & Puducherry is likely to turn energy surplus during FY21. The other states in the south including Kerala and Telangana are expected to face energy deficit in the range of 9%-11%. However, given the Covid-19 pandemic, demand for electricity witnessed a significant decline in the months of April and May 2020. With easing of restrictions since June 2020, the demand continues to gradually pickup.

Prospects

With track record of around six decades and well established operations, the operational performance of NLC continues to remain stable. Installed capacity of NLC stood around 3,253 MW till March 31, 2015. Commissioning of various plants in NLC and its subsidiaries in the past few years has resulted in installed capacity of 5661 MW as on June 30, 2020. As per the corporate plan (2015-2025), NLC has announced large capex plan to add additional capacity of around 14,927 MW by end of 2025. During FY18 to FY20, solar projects with combined capacity of 1,209 MW (500 MW & 709 MW) was commissioned and Unit 1 of NNTPS (500 MW) was commissioned. Unit II (500 MW) of NNTPS has been commissioned in February 2021. Also, from April 2020, the company has commenced mining operations from its Talabira-II & III coal blocks, Odisha. In view of the increasing debt level due to large sized capex plan, stabilization of the recently commissioned plants in timely manner will be a key rating sensitivity as any delay is likely to constrain the cash flow position of NLC. Going forward, improving the receivable position and timely completion of ongoing projects without cost overrun will be crucial from credit perspective.

Liquidity: Adequate

The liquidity of the company is adequate. The company had free cash balance of Rs.10 crore as on October 15, 2020. NLC also has cash credit limit of Rs.4,000 crore where average utilization stood at around 55% in the last twelve months ended December 2020. Further, the company has access to CP market. It is to be noted that the company being a Navratna CPSE

has strong financial flexibility to raise additional debt at finer rates. On consolidated level, scheduled repayment obligations for FY21 is Rs.2,262 crore as against GCA of Rs.2,280 crore achieved in 9mFY21.

Analytical approach:

CARE 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](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

[Rating Methodology - Thermal Power Producers](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Short Term Instruments](#)

[Financial ratios \(Non-Financial Sector\)](#)

[Rating Methodology: Consolidation](#)

About the Company

NLC, formerly Neyveli Lignite Corporation Limited is a Central Public Sector enterprise (CPSE) with 'Navratna' status and is engaged in mining of lignite (30.6 Million Metric Tonnes per annum) and generation of electricity (6,061 MW) as on February 10, 2021. The company, established in 1956, by Government of India (GoI) following the discovery of lignite deposits in Neyveli, Tamil Nadu, is one of the major power generating sources in South India. It operates under the administrative control of Ministry of Coal, GoI, which has 79.20% stake in NLC as on December 31, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	10,643	11,517
PBILDIT	3,073	4,631
PAT	1,537	1,453
Overall gearing (times)	1.50	1.87
Interest coverage (times)	4.39	3.94

A: Audited;

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	-	-	7 days to 1 year	6000.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	1504.00	CARE AAA; Negative	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)	1)CARE AAA; Stable (05-Jan-18)
2.	Commercial Paper-Commercial Paper (Standalone)	ST	6000.00	CARE A1+	1)CARE A1+ (05-Oct-20) 2)CARE A1+ (15-May-20)	1)CARE A1+ (02-Mar-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Nil**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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