NLC India Limited (Revised)

November 07, 2023

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	2,321.69 (Reduced from 2,708.51)	CARE AAA; Stable	Reaffirmed
Commercial paper	6,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the long-term bank facility and commercial paper (CP) issue of NLC India Limited (NLC) continue to derive strength from the company being a 'Navratna' Central Public Sector Enterprise (CPSE) with majority ownership by the Government of India (GoI) and long operational track record of nearly six decades. The ratings also draw comfort from assured off-take of the power arising from long-term power purchase agreements (PPA) backed by cost-plus tariff mechanism with power distribution companies (Discoms), presence of captive lignite and coal mines with adequate resources resulting in assured fuel supplies for its entire capacity and its financial performance characterised by healthy profit margins and cash accruals. The ratings also favourably factor significant liquidation of its built-up receivables during the last two years pursuant to the 'Atmanirbhar Bharat Scheme', availment of bill discounting facility and consequent improvement in its liquidity profile and leverage.

The ratings strengths are, however, partially offset by the counterparty credit risks emanating from rising exposure to financially weak Discoms; large-sized debt-funded capex plans exposing the company to underlying project-implementation risks and stabilization risks.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Not applicable

Negative factors

- Dilution in the GoI's stake to below 51% or weakening of its strategic importance to GoI.
- Larger-than-envisaged debt-funded capex or acquisitions leading to 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.

Analytical approach: Consolidated

CARE Ratings Limited (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 entities which are consolidated into NLC are given in Annexure-6.

Outlook: Stable

The stable outlook on the long-term rating reflects the company's ability to sustain satisfactory generation levels along with timely receipt of payment from the off-takers in the medium term.

Detailed description of the key rating drivers

Key strengths

Majority ownership by the GoI and 'Navratna' status

NLC was established by the GoI in the year 1956, following the discovery of lignite deposits in Neyveli, Tamil Nadu. With 79.20% stake as on September 30, 2023, the GoI majorly owns the company 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 the CPSEs in their investment decisions. Also, the company acts as a Nodal Agency for lignite mining appointed by the Ministry of Coal (MoC), with majority market share in lignite mining in the country.

Established track record of operations

NLC has a long operational track record of nearly six decades in lignite mining and power generation. It has also started leveraging its mining capabilities by engaging into coal mining from FY20 (refers to the period April 1 to March 31) onwards. NLC serves as an important source of power generation in southern India and Rajasthan, and it plans to establish its footprint in the state of Jharkhand, Odisha, Uttar Pradesh and Assam by establishing power and mining projects in these states. For power sales, it has entered into long-term PPAs with state discoms of Assam, Odisha, Rajasthan, Uttar Pradesh and all the southern states.

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

As on March 31, 2023, NLC is operating four opencast lignite mines (three in Tamil Nadu and one in Rajasthan) with aggregate capacity of 30.10 million metric tonnes per annum (MMTPA). 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; 'CARE AA; Stable/CARE A1+'), upcoming Odisha pithead thermal power plant and Neyveli Uttar Pradesh Power Limited's (NUPPL)'s Ghatampur plant (until South Pachwara mines are commissioned).

As on March 31, 2023, on a consolidated basis, NLC operates six thermal power stations and renewable power plants with an aggregate power generation capacity of 6,061 MW, including NTPL's thermal power plant of 1,000 MW, solar power plants of 1,370 MW, and wind power plant of 51 MW. The company has commissioned most of its renewable energy capacities during FY19-FY21, thereby providing healthy diversification for the company in its power generation mix. During FY23, on a consolidated basis, NLC generated 30,083 million units (MUs) of power against 29,204 MUs during FY22. Power sales stood at 26,806 MUs during FY23 (FY22: 25,894 MUs). The sale of power has been mainly due to increase in the generation from NTPL's plant post resolution of the fuel supplies issues in NTPL. NLC sold 276 MUs (FY22: 1,278 MUs) of power in different market segments of the power exchange in FY23 due to low variable cost which not only enabled the company to utilize the generation capacity more efficiently, but also monetized surrendered power during the day of operation. Power surrender by Discoms during FY23 stood at 2,094 MU as against 2,410 MUs in FY22. The same was on account of better demand conditions in the market.

Two-part tariff structure coupled with presence of long-term PPAs ensuring steady profitability and revenue visibility

All the power plants of NLC (thermal, wind and solar) have long-term PPAs of 25 years with the state power Discoms in southern India and Rajasthan. The tariff structure for the thermal power plants of NLC is fixed by the Central Electricity Regulatory Commission (CERC) and for the 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 the 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). Energy charges for lignite are decided by the MoC and incorporated by the CERC in its tariff order and billed along with the power tariff. The operation of plants at normative parameters fixed by the CERC would result in complete recovery of the eligible capacity charges ensuring healthy profitability for the company.

Presence of captive lignite mines and coal 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 pithead power stations which have access to captive lignite mines with capacity of 30.10 MMTPA as on March 31, 2023, which is sufficient to take care of the entire fuel requirement of NLC's power plants. This ensures adequate fuel supplies and gives stability to its operations. With respect to coal-based power plant, NTPL had entered into fuel supply agreements (FSAs) with Mahanadi Coalfields Limited (MCL) and Eastern Coalfields Limited (ECL) for the supply of 2.56 MMTPA and 1.30 MMTPA of coal, respectively. However, since September 2021, NTPL has also started receiving coal from captive Talabira mines of NLC. The availability of captive mines reduces fuel availability risks.

Financial performance marked by improvement in gearing and stable profit margins

During FY23, on a consolidated basis, NLC's total operating income (TOI) increased to ₹16,025 crore from ₹12,126 crore in FY22 mainly on account of lower under-recovery of capacity charges on the back of higher PAF, improvement in the plant load factor (PLF) and ramp-up in its mining operations. Also, its PBILDT margin improved to 43.40% during FY23 as against 34.42% in FY22 due to the reasons cited above. The average power sales realisation improved to ₹5.12 per unit in FY23 as against ₹3.99 per unit in FY22. However, late payment surcharge on sale of power decreased to ₹137 crore in FY23 from ₹451 crore in FY22 on a consolidated basis due to improved collections from the off-takers. During H1FY24, on a consolidated basis, TOI stood at ₹6,294 crore (H1FY23: ₹7,352 crore) mainly on account of decline in the PAF pursuant to shortfall in lignite supplies due to land-related issue. In H1FY24, the PBILDT margin stood at 32.23% (H1FY23: 37.53%). During FY23-end, the overall gearing of NLC stood moderate at 1.28x (FY22: 1.37x) whereas its total debt / PBILDT and total debt / GCA stood at comfortable at 3.18x (FY22: 5.29x) and 3.28x (FY22: 7.28x) respectively on a consolidated basis.

Significant improvement in the receivables

On a consolidated basis, the total receivables of NLC reduced significantly from ₹7,522 crore as on March 31, 2021 to ₹3,710 crore as on March 31, 2022, on account of receipt of funds by the Discoms under the Atmanirbhar Bharat scheme and bill discounting facility availed by the company. However, there is an increase in the total receivables of NLC to ₹4,729 crore as on March 31, 2023 and ₹5,072 crore as on September 30, 2023 mainly due to increase in the regulatory receivables pursuant to the true-up and tariff orders issued by the CERC. The average collection period, however, improved to 94 days in FY23 as against 167 days in FY22.

Key weaknesses

Continued counterparty credit risks due to weak profile of off-takers

NLC remains exposed to the counterparty credit risks on account of the weak financial profile of the state Discoms. The receivables position in the medium to long term is likely to be conditioned by financial profile of its major customer, viz., TANGEDCO, which is presently very weak. TANGEDCO's financial risk profile has witnessed deterioration in the past with an increase in the operating losses, high accumulated losses and weak capital structure and debt-protection metrics. On account of non-uniform tariff revisions, operational inefficiencies and high cost of power purchase, the cash flow position of TANGEDCO has remained weak in the last few years.

As on June 30, 2023, on a consolidated basis, TANGEDCO alone accounted for around 64% of the total outstanding receivables of NLC. As of June 30, 2023, out of NLC's consolidated power generation capacity of 6,061 MW, around 55% of the capacity was contracted with TANGEDCO, whereas around 53% of the power sales in Q1FY24 were made to TANGEDCO. In addition to the same, PPAs for all the upcoming thermal power plants of NLC are signed with off-takers having weak financial risk profile due to which NLC's exposure to weak counterparties is expected to increase further.

Large-size debt-funded capex plans exposing to cost and time overruns and stabilisation risks

The present power generation capacity and mining capacity of NLC is 6,061 MW and 50.10 MMTPA respectively. NLC has plans of increasing its power generation capacity and mining capacity to 17,171 MW and 82.10 MMTPA respectively by FY30.

Also, it has plans for installation of flue gas desulphurisation (FGD) in its thermal power plants. NLC has envisaged a capex of around ₹82,000 crore till FY30, thus translating into around ₹8,000-10,000 crore of annual capex.

The capex would be spread across setting up (i) thermal power plant under NUPPL, (ii) thermal power generation project in Odisha and Tamil Nadu, (iii) renewable power generation capacities, (iv) mining and (v) lignite to methanol project and FGD capex. Except for renewable project-related capex, rest are expected to be structured in a debt-to-equity ratio of 70:30, whereas the renewable projects in a debt-to-equity ratio 80:20. Given that all the projects are taken-up by the company post signing of PPA for the majority of the capacity, the revenue visibility post commissioning is satisfactory. However, the company is exposed to the cost and time overruns in these ongoing projects and stabilisation risks post commissioning of the plants.

The overall gearing of NLC at consolidated level has improved to 1.28x at FY23 end (FY22: 1.37x). The management has articulated that it would calibrate its debt-funded capex programs to keep the overall gearing under 2x on a consolidated basis. Any larger-than-envisaged debt-funded capex or acquisitions leading to breach of this guidance would a key rating sensitivity.

Liquidity: Strong

The liquidity of NLC is marked by strong cash accruals against its debt repayment obligations and availability of cash and cash equivalents of around ₹345 crore as on September 30, 2023 on a consolidated basis. NLC also has total cash credit limit of ₹4,000 crore on a standalone basis and average utilisation of the same stood at around 7% during last 12 months ended July 2023. Also, the company has access to capital market issuances with total CP limits of ₹6,000 crore on a standalone basis. During the next three years, the company has internal accrual requirement of capex in the range of ₹2,400-3,000 crore per annum. Furthermore, the company has a policy of maintaining unutilised fund-based and CP limits of around 40% of the total limits. Furthermore, the company being a 'Navratna' CPSE, has strong financial flexibility to raise additional debt at competitive rates.

Environmental, social and governance (ESG) risks

Environmental: The environmental risks in case of thermal power plants like NLC emanate from high emission of polluting gases coupled with significant consumption of water. In order to mitigate environment risk, NLC is incurring capex towards installation of FGD. NLC also has rainwater harvesting on its premises. Moreover, apart from setting-up thermal capacities, NLC is also setting-up renewable power generation capacities.

Social: In order to mitigate social risk, NLC has a Rehabilitation and Resettlement (R&R) policy in place, as per which compensation is given to the project-affected persons. NLC also provides employment opportunities to the project-affected persons through skill development and contractual employment besides engagement in agriculture and farming.

Governance: From a governance point of view, the Board of NLC is diversified with four out of 11 directors as independent directors. Also, the quality of financial reporting and disclosures are adequate.

Applicable criteria

Rating Outlook and Rating Watch
Policy on Default Recognition
Policy On Curing Period
Liquidity Analysis of Non-Financial Sector Entities
Short Term Instruments
Consolidation
Factoring Linkages Government Support
Infrastructure Sector Ratings
Thermal Power

Solar Power Projects
Wind Power Projects
Financial Ratios – Non-Financial Sector
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Generation

NLC, formerly Neyveli Lignite Corporation Limited, is a CPSE with 'Navratna' status and is engaged in the mining of lignite (30.10 MMTPA) and generation of electricity (6,061.06 MW) as on March 31, 2023. The company is also into mining of coal (20 MMTPA capacity). The company, established in 1956 by the GoI following the discovery of lignite deposits in Neyveli, Tamil Nadu, is one of the major power generating companies in southern India. It operates under the administrative control of the MoC, GoI, which has 79.20% stake in NLC as on September 30, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
TOI	12,126	16,205	6,294
PBILDT	4,174	7,034	2,029
PAT	1,116	1,426	1,500
Overall gearing (times)	1.37	1.28	1.15
Interest coverage (times)	4.24	6.95	4.56

A: Audited; UA: Unaudited; The above financials have been adjusted as per CARE Ratings' criteria.
Note: The above results are latest financial results available

Status of non-cooperation with previous CRA: Brickwork Ratings, vide its press release dated October 20, 2023, has continued to classify it under the issuer non-cooperating category on account of inadequate information and lack of management cooperation.

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments/facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument/Bank Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper-Commercial paper (Standalone)	-	-	-	7 days to 1 year	6,000.00	CARE A1+
Fund-based - LT-Term loan	-	-	-	September 30, 2029	2,321.69	CARE AAA; Stable

Annexure-2: Rating history for the 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 2023-2024	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
1.	Fund-based - LT-Term loan	LT*	2,321.69	CARE AAA; Stable	1)CARE AAA; Stable (04-Apr-23)	1)CARE AAA; Stable (27-Dec-22)	1)CARE AAA; Stable (08-Nov-21)	1)CARE AAA; Negative (05-Oct-20)
2.	Commercial paper-Commercial paper (Standalone)	ST*	6,000.00	CARE A1+	1)CARE A1+ (04-Apr-23)	1)CARE A1+ (27-Dec-22)	1)CARE A1+ (08-Nov-21)	1)CARE A1+ (19-Feb-21) 2)CARE A1+ (05-Oct-20) 3)CARE A1+ (15-May-20)

*LT: Long-term / ST: Short-term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments/facilities rated

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: Lender details

To view the lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated into NLC

Sr. No.	Name of the Entity	% Shareholding by NLC as on March 31, 2023
1.	NLC Tamil Nadu Power Limited	89%
2.	Neyveli Uttar Pradesh Power Private Limited	51%
3.	Coal Lignite Urja Vikas Private Limited	50%
4.	MNH Shakthi Limited	15%

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.

Contact us

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Media Contact

Name: Mradul Mishra
Director
CARE Ratings Limited
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Relationship Contact

Name: Pradeep Kumar V
Senior Director
CARE Ratings Limited
Phone: +91-44-2849 0876
E-mail: pradeep.kumar@careedge.in

</td><td>

Analytical Contacts

Name: Rajashree Murkute
Senior Director
CARE Ratings Limited
Phone: +91-22-6837 4474
E-mail: rajashree.murkute@careedge.in

Name: Nikhil Hardikar
Associate Director
CARE Ratings Limited
Phone: +91-22-6754 3410
E-mail: Nikhil.hardikar@careedge.in

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About us:

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