NTPC-SAIL Power Company Limited

April 18, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,700.00	CARE AA+; Stable	Revised from CARE AA; Positive
Short-term bank facilities	300.00	CARE A1+	Reaffirmed
Commercial paper	200.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings of NTPC-SAIL Power Company Limited (NSPCL) factors in commissioning of the 20 MW Durgapur expansion project along with satisfactory operational performance marked by higher-than-normative Plant Availability Factor (PAF) leading to full recovery of fixed charges as well as healthy Plant Load Factor (PLF) in 9MFY24 (refers to the period from April 1 to December 31). Ratings continue to derive strength from the revenue visibility and assured returns backed by long-term power purchase agreements (PPAs) for the existing and newly commissioned project. Ratings continue to draw comfort from the minimal fuel supply risk for the power plants in PP-II (represented by Rourkela (120 MW), Durgapur (120 MW) and Bhilai (74 MW)) and PP-II expansion (Rourkela (250 MW)). Moreover, the presence of long-term fuel supply agreement (FSA) for PP-III (represented by 500 MW capacity at Bhilai) and its reasonable annual contracted quantity (ACQ) materialization in the past provides comfort. The low leverage of the company and its sustenance despite sizable capital expenditure (capex) in the medium term along with strong coverage metrics adds strength to the rating. The rating factors 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.

However, the rating strengths are constrained by the customer concentration risk coupled with stabilisation risk for recently commissioned plants along with exposure to risk related to under-implementation projects.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving Total debt (TD)/ profit before interest, lease rentals, depreciation and tax (PBILDT) to below 1.50x.

Negative factors

- Significantly lower-than-envisaged recovery of capacity charge or sharply increasing borrowing cost.
- Deteriorating ecredit profile of SAIL or significantly deteriorating average collection period, leading to strained liquidity on a sustained basis.
- Deteriorating TD/PBILDT above 4.0x.

Analytical approach: Standalone

Outlook: Stable

The 'stable' outlook reflects NSPCL's ability to sustain its healthy operational performance, the maintenance of reasonable inventory level and the timely collection from its off-takers.

Detailed description of the key rating drivers

Key strengths

Commissioning of 20 MW expansion project along with satisfactory operational performance

The second unit of Durgapur PP-III plant of 20 MW has achieved commercial operations date (COD) on March 29, 2024, triggering positive rating sensitivity noted in last review.

The relatively newer units with aggregate capacity of 270 MW (Rourkela PP-II expansion of 250 MW and one unit of Durgapur PP-III expansion of 20 MW), which clocked lower-than-normative PAF in FY23, showed stabilization by clocking higher-than-normative PAF in 9MFY24. The other older units of PP-II and PP-III continued to demonstrate strong operational performance in 9MFY24. As a result, the total debt/PBILDT of the company is expected to improve to below 2.70x in FY24. Sustenance of healthy operational performance will be important from cash accrual perspective.

Long-term PPAs providing revenue visibility

The entire operational capacity of 1,104 MW W is tied up through long-term PPA, thus providing revenue visibility. The tariff under PPAs of PP-III (500 MW) is determined on the basis of Central Electricity Regulatory Commission (CERC) guidelines. The

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

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. For the balance operational thermal capacity, the tariff is on normative cost-plus return on equity (ROE) which is largely based on CERC guideline.
NSPCL has tied up 884 MW of capacity with SAIL for its captive consumption and the remaining 220 MW is tied up with three beneficiary states and union territories of central and western India.

Firm FSA providing adequate fuel security
NSPCL has firm FSA for all units. The fuel risk for 584 MW capacity is largely borne by SAIL (from which NSPCL sources coal). For PP-III having capacity of 500 MW, NSPCL has signed an FSA for 20 years with South Eastern Coalfields Limited (SECL) for supply of 2.41 million tonne per annum (MTPA) coal, 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.

Comfortable financial risk profile
The financial risk profile is characterized by improving gross cash accrual with commissioning and ramping up on new units along with peaking of debt profile. Networth of the company, due to high distribution of dividend in FY23 and FY24, is estimated to remain stagnant. Moreover, further debt drawal is envisaged due to pending capex. Despite the same, NSPCL's capital structure is expected to remain steady going forward. The projected average debt service coverage ratio is also comfortably placed.

Liquidity - Strong
The company's strong liquidity is characterized by adequate cushion in the projected gross cash accrual less internal accrual committed for capex against the scheduled debt repayment. The free cash balance of company stood at ₹11.8 crore as on December 31, 2023. The average fund-based utilization for the 12 months ending December 2023 stood at 52%. The company has undrawn limits for commercial paper of ₹200 crore. Financial flexibility of the company remains strong due to its parentage and operational profile. Timely payment from its offtakers (collection period of 27 days and 32 days in FY22 and FY23 respectively) has augmented its liquidity profile.

Key weaknesses

Risk related to projects under implementation
NSPCL is implementing flue gas desulphurisation (FGD) for its PP-III and Rourkela PP-II expansion units. The company is likely to set up a 15 MW solar plant at Bhilai. The cumulative pending capex is likely to be executed during the next 2-3 years, thus exposing NSPCL to project-implementation risk. Moreover, a sizable amount of debt is also likely to be drawn. 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 (SAIL, which accounts for around 80% of energy sales) and moderate credit profile of other power off-takers (DISCOMs of central and western India). However, payments from off-takers have been timely.

Applicable criteria

Definition of Default
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Short Term Instruments
Infrastructure Sector Ratings
Thermal Power

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power generation

NSPCL was incorporated in March 2001 by taking over the captive power plants of SAIL. Another joint venture (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 and for the first unit of Durgapur expansion of 20 MW on September 30, 2022 and for the second unit of Durgapur expansion of 20 MW on March 29, 2024.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	2,944	3,646	960
PBILDT	520	666	182
PAT	358	470	110
Overall gearing (times)	0.51	0.67	0.61
Interest coverage (times)	57.10	6.72	5.43

*A: Audited; UA: Un-audited; *Analytically adjusted as per CARE Ratings' methodology; Note: 'the above results are latest financial results available'*

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating history for the last three years: Annexure-2
Covenants of the 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
Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	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 - 364 days	200.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	765.00	CARE AA+; Stable
Fund-based - LT-Term Loan	-	-	-	June, 2036	1935.00	CARE AA+; Stable
Fund-based/Non-fund-based-Short Term	-	-	-	-	300.00	CARE A1+

- Not placed

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 2024-2025	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
1	Bonds	LT	-	-	-	-	1)Withdrawn (05-Sep-22)	1)CARE AA; Stable (06-Sep-21)
2	Fund-based - LT-Term Loan	LT	1935.00	CARE AA+; Stable	-	1)CARE AA; Positive (04-Sep-23)	1)CARE AA; Stable (05-Sep-22)	1)CARE AA; Stable (06-Sep-21)
3	Commercial Paper-Commercial Paper (Standalone)	ST	200.00	CARE A1+	-	1)CARE A1+ (04-Sep-23)	1)CARE A1+ (05-Sep-22)	1)CARE A1+ (06-Sep-21)
4	Fund-based - LT-Cash Credit	LT	765.00	CARE AA+; Stable	-	1)CARE AA; Positive (04-Sep-23)	1)CARE AA; Stable (05-Sep-22)	1)CARE AA; Stable (06-Sep-21)

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5	Fund-based/Non-fund-based-Short Term	ST	300.00	CARE A1+	-	1)CARE A1+ (04-Sep-23)	1)CARE A1+ (05-Sep-22)	1)CARE A1+ (06-Sep-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based/Non-fund-based-Short Term	Simple

Annexure-5: Lender details

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

Note on the 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

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Rajashree Murkute Senior Director **CARE Ratings Limited** Phone: +91-22-6837 4474 E-mail: rajashree.murkute@careedge.in Sabyasachi Majumdar Senior Director **CARE Ratings Limited** Phone: +91-120-445-2006 E-mail: Sabyasachi.majumdar@careedge.in Agnimitra Kar Associate Director **CARE Ratings Limited** Phone: +91-120-445 2019 E-mail: agnimitra.kar@careedge.in

About us:

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