

NLC Tamil Nadu Power Limited (Revised)

October 31, 2024

Facilities/Instruments	Amount (₹ crore)	Ratings ¹	Rating Action
Long-term bank facilities	1,107.22 (Reduced from 1,551.64)	CARE AA; Stable	Reaffirmed
Short-term bank facilities	2,000.00 (Enhanced from 1,500.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings reaffirmation on bank facilities of NLC Tamil Nadu Power Limited (NTPL) continues to derive strength from stable revenue visibility owing to the presence of long-term power purchase agreements (PPAs) backed by cost-plus tariff mechanism with state power distribution companies (discoms). Fuel availability is secured through fuel supply agreements (FSAs) from the captive Talabira II and III coal mines of NLC India Limited (NLC; rated 'CARE AAA; Stable / CARE A1+').

Despite decline in plant availability, which resulted in under-recovery of fixed charges by ~₹200 crore in FY24, overall cash flow generation from a debt servicing perspective was adequate. CARE Ratings Limited (CARE Ratings) understands that decline in plant availability is attributable to shortage of imported coal having high gross calorific value (GCV), which had to be substituted with lower GCV Talabira coal, leading to ash evacuation issues. However, imported coal procurement stabilized in H1FY25 leading to full recovery of fixed cost as reflected by a plant availability factor (PAF) of ~86%, which is above normative parameters.

CARE Ratings also takes note of the liquidation of past built-up receivables pursuant to the bill discounting facility availed by the company and consequent improvement in its liquidity profile. Ratings are also underpinned by strong parentage considering NTPL being a subsidiary of NLC. The form of support from NLC towards NTPL is explicit as reflected by a letter of comfort (LoC) from NLC for NTPL's overall debt. CARE Ratings takes comfort from past instances of support coming in from NLC towards cash gaps at NTPL.

However, ratings are tempered due to counterparty credit risk as the company sells its entire generation to state distribution utilities. NTPL witnessed lower return on equity (RoE) due to under-recovery of capacity charges and pending approval of the final project cost.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in operating performance with PAF remaining above normative parameters and collections remaining lower than 80 days on a sustained basis.
- Significant improvement in profitability led by approval of incremental capital cost.

Negative factors

- Non-achievement of normative plant parameters on a sustained basis, leading to under-recovery of capacity charges.
- Significant elongation in receivables, impacting NTPL's liquidity and leverage profile.
- Weakening credit profile of the ultimate parent, NLC, or changes in linkages/support philosophy between the parent and NTPL.

Analytical approach: Standalone, factoring linkages with its parent, NLC, due to NTPL being majorly owned by NLC and the operational and financial synergies it has with its parent.

Outlook: Stable

The stable outlook reflects NTPL's steady operational and financial performance backed by its PPAs and FSAs with moderate debt coverage indicators in the medium-term.

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

Detailed description of key rating drivers

Key strengths

Long-term PPAs in place, resulting in low off-take risk

NTPL has signed PPAs for 25 years for its entire power generation capacity with Tamil Nadu (43.90%), Karnataka (17.91%), Telangana (15.57%), Andhra Pradesh (13.31%), Kerala (8.22%), and Puducherry (1.08%), which provides long-term revenue visibility. Tariff of NTPL's plant is being determined on a cost-plus basis by the Central Electricity Regulatory Commission (CERC) based on tariff regulations, which are enforced periodically.

Low fuel supply risks with commissioning of Talabira II & III coal mines of NLC

Currently, NTPL has total coal requirement of ~5.00 million metric tonne per annum (MMTPA) to operate the plant at 85% plant load factor (PLF). Earlier, NTPL had signed FSAs with Mahanadi Coalfields Limited (MCL) for supply of 2.57 MMTPA coal with GCV of ~4,000 kCal/kg and Eastern Coalfields Limited (ECL) for supply of 1.30 MMTPA coal, of which 1 MMTPA was for supply of coal with high GCV of ~6,300 kCal/kg. Balance requirement of high GCV coal was being met through imports.

The Government of India (GoI) allocated the Talabira II & III open-cast coal block to NLC in May 2016 and the peak capacity of this mine is 20 MMTPA. NTPL is one of the end-user plants with an allocated quantity of five MMTPA. The FSA signed with MCL for 2.57 MMTPA and ECL for 1.30 MMTPA was until production of coal from captive Talabira mines ramps-up and stands extinguished as NTPL has started receiving coal from captive Talabira mines since September 2021. Availability of captive mines reduces fuel availability risks.

Stable operational and financial performance of power plants since commissioning

NTPL's plant achieved its commercial operations date (COD) in Q2FY16, post which, it has been exhibiting stable operational performance. The company achieved average PAF of 72% and PLF of 62% in FY24 (FY23: 85% and 68% respectively) mainly due to shortfall in high GCV imported coal, which had to be substituted with lower GCV Talabira coal, leading to ash evacuation issues. Under-recovery in capacity charges for not meeting normative PAF was ~₹200 crore in FY24 (FY23: ₹34 crore). NTPL's PAF and PLF in 5MFY25 stood at 86% and 66% respectively.

NTPL's total operating income (TOI) reduced from ₹3,557 crore in FY23 to ₹2,792 crore in FY24. Lower revenue was mainly attributed to under-recovery of capacity charges due to lower than normative PAF considering ash evacuation issues faced by the company.

The company has planned capital overhauling of unit-2 in FY25 leading to a shutdown for 50-60 days, which is likely to affect recovery of capacity charges to some extent. However, with a planned capex of ~₹130 crore by H1FY26 for augmentation of ash handling system, the company expects improvement in revenue as PLFs are likely to increase significantly from current levels. Its overall gearing improved to 1.09x in FY24 (FY23: 1.19x) whereas its total debt to profit before interest, lease rentals, depreciation, and taxation (TD/PBILDT) stood at 5.40x (FY23: 3.55x).

Improvement in receivables position

There has been an improvement in NTPL's receivable position in the last two years with receivables of ~₹477 crore at FY24 end and ₹550 crore at Q1FY25 end against ₹1,942 crore at FY21 end. Liquidation of receivables is mainly through bill discounting route. In FY24, NTPL realised power dues through bill discounting to the tune of ₹1,310 crore. Receivables from Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) accounted for ~30% of the total receivables (including unbilled revenue) as on June 30, 2024.

Ministry of Power (MoP) vide notification dated June 03, 2022, notified Electricity (Late Payment Surcharge and Related Matters) Rules, 2022 allowing Discoms to liquidate overdue amount in instalments. TANGEDCO and Gulbarga Electricity Supply Company Limited (GESCOM) have availed the facility to repay the outstanding dues of ₹160.19 crore and ₹16.21 crore respectively to NTPL in 48 equal monthly instalments. In terms of payment security, in line with the MoP order dated June 28, 2019, NTPL received a letter of credit (LC) for all Discoms for the desired quantum of power.

Strong parentage of NLC and LoC from NLC for major portion of debt and demonstrated financial support

Formerly known as Neyveli Lignite Corporation Limited, NLC is a central public sector enterprise (CPSE) with 'Navratna' status and is engaged in mining lignite (30.1 MMTPA) and generation of electricity (6,071.06 MW) as on September 30, 2024. The company is also into mining coal (20 MMTPA capacity). Established in 1956 by the GoI following the discovery of lignite deposits in Neyveli, Tamil Nadu, the company is one of the major power generating companies in south India. It operates under administrative control of Ministry of Coal (MoC), GoI, which has 72.20% stake in NLC as on September 30, 2024.

NTPL's total term debt outstanding as on March 31, 2024, stood at ~₹1,208 crore, whereas it has sanctioned working capital limits of ₹2,500 crore (fund-based limits of ₹2,300 crore and non-fund-based limits of ₹200 crore). The entire term debt of ₹1,208 crore and working capital limits of ₹1,500 crore are backed by LoC of NLC, which holds 89% stake in NTPL.

NLC has a track record of extending financial support to NTPL for making debt repayments and for bridging cash shortfalls due to delay in achievement of project COD and commencement of debt repayments and pending receipts of final tariff orders.

Key weaknesses**Counterparty credit risk associated with sale of power to weak power Discoms**

NTPL sells power generated to discoms in southern India with majority power being sold to TANGEDCO, while the balance is accounted for by Karnataka, Telangana, Andhra Pradesh, Kerala, and Puducherry. Power off-takers largely have below average credit profile, exposing NTPL to counterparty credit risk.

NTPL's receivables position in the medium-to-long term is likely to be conditioned by financial profile of its major customer, TANGEDCO, which is currently weak. TANGEDCO's financial risk profile deteriorated in the past with increase in operating losses, high accumulated losses, and weak capital structure and debt-protection metrics. Considering non-uniform tariff revisions, operational inefficiencies, and high cost of power purchase, TANGEDCO's cash flow position remained weak in the last few years.

Of the total contracted capacity, capacity of ~44% has been contracted with TANGEDCO. CARE Ratings notes that of the total sales in Q1FY25 and outstanding receivables as at Q1FY25 end, TANGEDCO accounted for ~40% and 35% respectively.

Lower actual RoE and under-recovery of capital cost; albeit positive tariff orders received from CERC

Total cost approved for the project has undergone revision twice from the initial cost of ₹4,909 crore to ₹6,603 crore and finally to ₹7,293 crore. However, the actual cost considered for calculation of tariff after adjusting for undischarged liabilities, interest in construction (IDC) and excess fuel cost reduction was ₹5,224 crore.

The capital cost considered for calculation of tariff per the tariff order dated July 11, 2017, was based on the cost incurred on cash basis as on COD (September 01, 2015). Approved capital cost as undischarged liabilities of ₹1,069 crore was deducted as on September 01, 2015. This has affected project returns in terms of lower actual pre-tax RoE. However, hearings for both tariff orders from 2019-24 and the true-up for 2014-19 have been completed, and CERC has released the order.

NTPL has received favourable tariff orders from CERC relating to order filed for the 2019-24 period and true up for 2014-19 resulting in regulatory income of ~₹550 crore pertaining to 2014-19 and ₹463 crore pertaining to 2019-24.

Liquidity: Adequate

NTPL has adequate headroom of projected cash accruals in FY25 against its repayment obligations. Equity commitment for its flue gas desulphurisation (FGD) capex is expected to be funded through internal accruals. Liquidity was earlier tempered by high average collection period. It has been alleviated in the last three years through substantial proceeds from discoms, mainly through bill discounting, which has led to a reduction in working capital limit and standalone commercial paper utilisation.

NTPL has also sanctioned working capital limits of ₹2,500 crore (including non-fund-based limits of ₹200 crore). The average utilisation of fund-based limits (excluding standalone commercial paper) for 12-months ended July 2024 was ~59%. NTPL enjoys strong financial flexibility in terms of access to bank funding. NTPL also has a provision to arrange for discounting of bills with a higher tenor.

Applicable criteria

[Definition of Default](#)
[Factoring Linkages Parent Sub JV Group](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Thermal Power](#)
[Financial Ratios – Non financial Sector](#)
[Infrastructure Sector Ratings](#)
[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power generation

NTPL is a joint venture (JV) company between NLC and the erstwhile Tamil Nadu Electricity Board (TNEB) to implement a 1,000-MW coal-based thermal power project in Tuticorin, Tamil Nadu. As on March 31, 2024, NLC's shareholding in NTPL is 89% and remaining shares are held by TANGEDCO.

The project is a conventional thermal power plant comprising two units of pulverised coal-fired steam boilers with two units of steam turbine generators of 500 MW each. The project work started on May 12, 2008, and Unit-I of NTPL declared its COD in the month of June 2015 (delayed by 39 months from original COD), followed by Unit-II in the month of August 2015 (delayed by 36 months from the original COD). Based on the COD of Unit-I and Unit II, revised cost for the project was ₹7,293 crore, which was approved by the MoC on April 27, 2016.

NTPL operates as a central power generating plant and power generated by the project is being sold to southern states under long-term PPAs. The tariff for the same is fixed per CERC regulations.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	3,557	2,792	809
PBILDT	937	547	179
PAT	279	129	72
Overall gearing (times)	1.19	1.06	0.98
Interest coverage (times)	3.65	2.61	3.65

A: Audited; UA: Unaudited; NA: Not available; Brief financials have been adjusted per CARE Ratings' criteria

Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

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

Complexity level of 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
Fund-based - LT-Cash Credit		-	-	-	500.00	CARE AA; Stable
Fund-based - LT-Term Loan		-	-	October 2025	488.41	CARE AA; Stable
Fund-based - LT-Term Loan		-	-	July 2025	118.81	CARE AA; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	2000.00	CARE A1+

Annexure-2: Rating history for 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	Fund-based - LT-Term Loan	LT	488.41	CARE AA; Stable	-	1)CARE AA; Stable (04-Oct-23)	1)CARE AA; Stable (27-Dec-22)	1)CARE AA+ (CE); Stable (08-Nov-21)
2	Fund-based - LT-Term Loan	LT	118.81	CARE AA; Stable	-	1)CARE AA; Stable (04-Oct-23)	1)CARE AA; Stable (27-Dec-22)	1)CARE AA+ (CE); Stable (08-Nov-21)
3	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	-	1)Withdrawn (27-Dec-22)	1)CARE AA- (08-Nov-21)
4	Fund-based - LT-Cash Credit	LT	500.00	CARE AA; Stable	-	1)CARE AA; Stable (04-Oct-23)	-	-
5	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	2000.00	CARE A1+	-	1)CARE A1+ (04-Oct-23)	-	-

LT: Long term; ST: Short term

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

Not applicable

Annexure-4: Complexity level of instruments/facilities rated

Sr. No.	Name of the Instrument/Bank Facilities	Complexity Level
1.	Fund-based - LT-Cash credit	Simple
2.	Fund-based - LT-Term loan	Simple
3.	Fund-based - ST-Bill discounting/ Bills purchasing	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:

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