NLC India Limited

October 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,650.00 (Reduced from 2,321.69)	CARE AAA; Stable	Reaffirmed
Long-term / Short-term bank facilities	772.00	CARE AAA; Stable / CARE A1+	Assigned
Commercial paper	6,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned on the bank facilities and commercial paper (CP) program of NLC India Limited (NLC) continues to derive strength from the company being a 'Navratna' Central Public Sector Enterprise (CPSE) with majority ownership by the Government of India (GoI, 72.2% as on June 30, 2024) and satisfactory operational track record of nearly six decades. The ratings continue to draw comfort from the assured offtake of power from its lignite and coal power projects on account of long-term power purchase agreements (PPAs) with power distribution companies (Discoms), on cost plus basis as per CERC tariff regulations leading to stable cash flows subject to company meeting normative operating parameters.

Moreover, the presence of captive lignite and coal mines for its thermal capacity at competitive rates mitigates the fuel price and availability risk to a large extent. The company has also set up renewable power projects with operational capacity of 1.4 GW and constructing around 2.0 GW capacities as on September 30, 2024, leading to diversification in terms of counter party and fuel source. The company continues to maintain strong financial profile with healthy cash accruals owing to cost plus nature of its thermal capacity and associated mines, moderate gearing and satisfactory debt coverage indicators. The ratings also favourably factor in significant liquidation of its built-up receivables in the recent past as states have cleared the past overdues as per the late payment surcharge (LPS) scheme.

However, CARE Ratings Limited (CARE Ratings), takes cognisance of counterparty credit risks emanating from exposure to discoms, which have weak-to-moderate financial profile; large-sized debt-funded capex plans, exposing the company to underlying project-implementation and stabilisation risks.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Not applicable

Negative factors

- Dilution of GoI's stake in NLC to below 51% or change in support philosophy and strategic importance of GoI towards NLC.
- Larger-than-envisaged debt-funded capex resulting in a significant increase in leverage levels and deterioration in projected coverage metrics.
- Significant elongation in receivables on a sustained basis
- Deterioration in operational metrics of the underlying power plants, resulting in lower-than-envisaged cash flows

Analytical approach: Consolidated

CARE Ratings has considered NLC's consolidated financials for arriving at the rating considering significant operational and financial linkages between the parent and subsidiaries due to similar line of business. Entities consolidated with NLC are listed under Annexure-6.

Outlook: Stable

The stable outlook on the long-term rating reflects CARE Ratings opinion that the company is likely to operate underlying capacity with operational parameters being in line with the past trends and receive payments in a timely manner from off-takers.

[1]Complete 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

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 72.20% stake as on September 30, 2024, 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 in coal mining from FY20 (refers to April 01 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 Jharkhand, Odisha, Uttar Pradesh and Assam by establishing power and mining projects in these states. For power sales, it has entered long-term PPAs with state discoms of Assam, Odisha, Rajasthan, Uttar Pradesh and all southern states.

As on March 31, 2024, 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). Production of lignite was satisfactory at 23.5 MMT in FY23 and 23.7 MMT in FY24, although the production from Mine II was impacted due to land acquisition issues, which were resolved in Q4 FY2024. 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 has ramped up production to 12.6 MMT in FY24 (10.0 MMT in FY23). 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). The company has also won North Dhadu (capacity 3 MMTPA) and Machhakata (capacity 30 MMTPA) via bidding, which will sell coal in open market.

On a consolidated basis, NLC operates six thermal power stations and renewable power plants with an aggregate power generation capacity of 6,071 MW, as on March 31, 2024, including NTPL's thermal power plant of 1,000 MW, solar power plants of 1,380 MW, and wind power plant of 51 MW. Renewable energy capacities provide healthy diversification and stability to earnings before interest, taxation, depreciation, and amortization (EBITDA). In FY24, NLC generated 27,106 million units (MUs) of power against 30,083 MUs in FY23 on a consolidated basis. Power sales stood at 24,457 MUs in FY24 (FY23: 26,806 MUs). Sale of power was lower mainly to lower plant availability. In FY24, weighted average plant availability factor (PAF) was lower at 65% compared to 75% in FY23 (normative PAF of 80% to 85% for plants) mainly due to land acquisition issue and TPS II expansion technology issue in plant. Lower PAF resulted in under recovery of capacity charges in the past. However, in Q1FY25 consolidated PAF improved to 75% due to resolution of long-pending land acquisition issue.

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

All the existing 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 comprises of capacity charges linked to plant availability and energy charges linked to generation. Capacity charges comprises of operation and maintenance, return on equity, interest on term loan, interest on working capital and depreciation and are paid if the plant meets normative parameters. Energy charges for lignite are determined by CERC on cost plus basis with post tax return on equity of 14%. 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. The renewable power projects have been awarded via competitive bidding and typically have a single part tariff linked to actual generation.

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, 2024. 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
In FY24, NLC's total operating income (TOI) decreased to ₹13,041 crore from ₹16,205 crore in FY23 on a consolidated basis mainly considering lower PAF and plant load factor (PLF). Its profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin decreased to 30.9% in FY24 (FY23: 43.4%) mainly due to higher under-recovery of fixed cost. In Q1FY25, TOI stood at ₹3,376 crore (Q1FY24: ₹3,316 crore) on a consolidated basis. In Q1FY25, the PBILDT margin stood at 32.05% (Q1FY24: 36.01%). On a consolidated basis, NLC's PAF declined to ~65% in FY24 pursuant to shortfall in lignite supplies due to land related issue, which led to under-recovery of fixed cost to the tune of ~₹915 crore in FY24 (₹473 crore in FY23) on a consolidated basis. By the end of FY24, the land acquisition issue was resolved, which is reflected in higher PAF for Q1FY25. In Q1FY25, weighted average consolidated PAF improved to 75% from 65% in FY24 and 66% in Q1FY24.
In FY24 end, NLC's overall gearing improved at 1.17 x (FY23: 1.28x), whereas its total debt (TD) to PBILDT and TD to gross cash accruals (GCA) stood at comfortable at 5.56x (FY23: 3.18x) and 7.37x (FY23: 3.28x) respectively on a consolidated basis.

Significant improvement in receivables
On a consolidated basis, NLC's total receivables reduced significantly from ₹7,522 crore as on March 31, 2021; ₹4,262 crore as on March 31, 2023, and further to ₹3,772 crore as on March 31, 2024, considering funds received from Discoms under the Atmanirbhar Bharat scheme and bill discounting facility availed by the company. Average collection period improved from 289 days in FY21 as 121 days in FY24.

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. One of the key counter party Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO which has weak financial profile leading to elongation of receivables in the past. 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, 2024, TANGEDCO accounted for ~71% of NLC's total outstanding receivables on a consolidated basis. As of June 30, 2024, from NLC's consolidated power generation capacity of 6,071 MW, ~55% was contracted with TANGEDCO, whereas ~53% of power sales in Q1FY25 were made to TANGEDCO. PPAs for all of NLC's upcoming thermal power plants are signed with off-takers having weak financial risk profile, due to which, its exposure to weak counterparties is expected to increase further.

Large-size debt-funded capex plans exposing to cost and time overruns and stabilisation risks
NLC's present power generation capacity and mining capacity is 6,071 MW and 50.10 MMTPA respectively. NLC has plans to increase its power generation capacity and mining capacity to 18,524 MW and 102.35 MMTPA respectively by FY30. It also plans for installing flue gas desulphurisation (FGD) in its thermal power plants. NLC has envisaged a capex of ~₹75,000 crore till FY28.

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. Ability of the company to arrange debt and equity for the under-construction projects on timely basis shall remain a key monitorable. The company has setup a separate special utility vehicle (SPV) for transfer of operational 1.4 GW renewable capacity which may be monetized for meeting funding requirement of future renewable capacity addition.
The overall gearing of the NLC on a consolidated basis has improved to 1.17x at FY24 end (FY23: 1. 28x). 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

NLC's liquidity is marked by strong cash accruals against its debt repayment obligations and availability of free cash and cash equivalents of ~₹414 crore as on September 30, 2024, on a consolidated basis. NLC also has total cash credit limit of ₹4,000 crore on a standalone basis, there was nil utilisation in 12-months ending July 2024. The company has access to capital market issuances with total CP limits of ₹6,000 crore on a standalone basis. In the next four years, the company has internal accruals requirement of capex in the range of ₹2,000-7,000 crore per annum. Being a 'Navratna' CPSE, the company has strong financial flexibility to raise additional debt at competitive rates.

Environment, social, and governance (ESG) risks

Environmental: Environmental risks in case of thermal power plants such as NLC emanate from high emission of polluting gases and significant consumption of water. To mitigate environmental risk, NLC is incurring capex towards installation of FGD. NLC also has rainwater harvesting on its premises. Apart from setting-up thermal capacities, NLC is also setting-up renewable power generation capacities.

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

Governance: From a governance point of view, NLC's Board is diversified with independent directors. The quality of financial reporting and disclosures is adequate.

Applicable criteria

Consolidation
Definition of Default
Factoring Linkages Government Support
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Thermal Power
Financial Ratios – Non financial Sector
Infrastructure Sector Ratings
Solar Power Projects
Short Term Instruments
Wind Power Projects

About the company and industry

Industry classification

Macroeconomic 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 (6,071 MW) as on March 31, 2024. 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 72.20% stake in NLC as on September 30, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	16,205	13,041	3,316
PBILDT	7,034	4,034	1,194
PAT	1,426	1,868	414
Overall gearing (times)	1.28	1.17	NA
Interest coverage (times)	6.95	4.75	5.71

A: Audited; UA: Unaudited; NA: Not available; Financials have been adjusted per CARE Ratings' criteria.
Note: these are latest available financial results

Status of non-cooperation with previous CRA: Vide its press release dated January 24, 2024, Brickwork Ratings continues to classify it under the issuer non-cooperating category considering inadequate information and lack of management cooperation.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: 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 and Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	Proposed	-	-	7 days to 1 year	6,000.00	CARE A1+
Fund-based - LT-Term Loan	-	-	-	September 30, 2029	1,650.00	CARE AAA; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	772.00	CARE AAA; Stable / 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	1,650.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Nov-23) 2)CARE AAA; Stable (04-Apr-23)	1)CARE AAA; Stable (27-Dec-22)	1)CARE AAA; Stable (08-Nov-21)
2	Commercial Paper-Commercial Paper (Standalone)	ST	6,000.00	CARE A1+	-	1)CARE A1+ (07-Nov-23) 2)CARE A1+ (04-Apr-23)	1)CARE A1+ (27-Dec-22)	1)CARE A1+ (08-Nov-21)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	772.00	CARE AAA; Stable / CARE A1+	-	-	-	-

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

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

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr. No.	Name of the Entity	Extent of Consolidation	Rationale For Consolidation
1.	NLC Tamil Nadu Power Limited	Full	89%
2.	NLC India Green Energy Limited (NIGEL)	Full	100%
3.	NLC India Renewables Limited (NIRL)	Full	100%
4.	Neyveli Uttar Pradesh Power Private Limited	Full	51%
5.	Coal Lignite Urja Vikas Private Limited	Moderate	50%
6.	MNH Shakthi Limited	Moderate	15%

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.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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