NLC India Limited

December 27, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	608.51 (Reduced from 937.90)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total bank facilities	**608.51 (₹ Six hundred eight crore and fifty-one lakh only)**		
Commercial paper	6,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**6,000.00 (₹ Six thousand crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities 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' and bill discounting facility availed by the company and consequent improvement in its liquidity profile and leverage.

The ratings are, however, constrained on account of the counterparty credit risks with rising exposure to financially weak Discoms and large-sized debt-funded capex plans, which exposes the company to the project implementation risks with possible cost overrun and stabilisation risks.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

Not applicable

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

- Dilution in the GoI's stake to below 51%.
- 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.

Detailed description of the key rating drivers

<u>Key rating strengths</u>

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. The company is majority owned by the GoI with 79.20% stake in the company as on September 30, 2022, 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 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 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 all the southern states and Rajasthan as well.

NLC is presently operating four opencast lignite mines (three in Tamil Nadu and one in Rajasthan) with aggregate capacity of 30.60 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'),

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

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, 2022, 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 FY22, on a consolidated basis, NLC generated 29,205 million units (MUs) of power against 24,613 MUs during FY21. Power sales stood at 25,894 MUs during FY22 (FY21: 21,624 MUs). The sale of power has increased due to full availability of NNTPS-II, which was commissioned in February 2021. NLC sold 1,278 MUs of power in FY22 (FY21: 1,536 MUs) in different market segments of the power exchange due to low variable cost which not only enabled the company to utilise the generation capacity more efficiently, but also monetised surrendered power during the day of operation. Power surrender by the Discoms during FY22 stood at 2,410 MU as against 3,738 MUs in FY21. 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 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 30.60 MMTPA as on March 31, 2022, 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 FY22, on a consolidated basis, NLC's total operating income (TOI) increased to ₹12,126 crore from ₹9,981 crore in FY21 on account of higher plant load factor (PLF) due to higher power demand and better realisation from its mining activities. Also, its PBILDT margin improved to 34.42% during FY22 as against 28.39% in FY21, partly on account of higher PAF and lower under-recoveries of fixed costs in FY22 as against FY21 (higher under-recoveries in FY21 were due to fire incidents in TPS-II units and technical issue in TPS-II Expansion plant). Average power sales realisation stood at ₹4.00 per unit in FY22 as against ₹4.36 per unit in FY21. However, late payment surcharge on sale of power decreased from ₹1,561 crore in FY21 to ₹451 crore in FY22 on a consolidated basis due to improved collections from the off-takers. This led to reduction in the profit after tax (PAT) to ₹1,116 crore in FY22 as compared with ₹1,314 crore in FY21. During H1FY23, on a consolidated basis, the TOI stood at ₹7,352 crore as against ₹6,130 crore in H1FY22 on account of increase in the PAF and PLF levels. In H1FY23, the PBILDT margin stood at 37.53% (H1FY22: 35.73%).
During FY22, due to improved collections from the off-takers, the utilisation of working capital bank borrowings and commercial paper (CP) of NLC declined leading to improvement in its overall gearing to 1.37x at the end of FY22 as compared with 1.80x in at the end of FY21 on a consolidated basis.

Significant improvement in the receivables:
On a consolidated basis, total power sales debtors 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. During FY22, NLC realised power dues of around ₹5,974 crore through bill discounting and around ₹7,762 crore under the Atmanirbhar Bharat scheme. Reduction in receivables has led to decline in the working capital borrowings (CP and fund-based Limits) from ₹6,283 crore as on March 31, 2021 to ₹1,592 crore as on March 31, 2022. The outstanding receivables have, however, increased to ₹4,892 crore at the end of H1FY23.
In Q1FY23, the Ministry of Power (MoP) vide notification dated June 03, 2022, notified Electricity (Late Payment Surcharge and Related Matters) Rules, 2022 allowing the Discoms to liquidate overdue amount in installments. Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) has availed the facility to repay the outstanding dues of ₹734 crore to NLC (Standalone) in 48 equally monthly installments. Also, TANGEDCO and GESCOM have availed the facility to repay the outstanding dues of ₹160.19 crore and ₹16.21 crore, respectively, to NLC's subsidiary NTPL in 48 equally monthly installments.

Key rating 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 increase in 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 September 30, 2022, on a consolidated basis, TANGEDCO alone accounted for around 65% of the total outstanding power debtors of NLC. As of September 2022, out of NLC's consolidated power generation capacity of 6,061 MW, around 55% of the capacity was contracted to TANGEDCO, whereas 46% of the power sales in H1FY23 were made to TANGEDCO. In addition, for the company's ongoing project, 1,980-MW thermal plant in NUPPL, PPA has been signed with Uttar Pradesh Power Corporation Limited (UPPCL), which also has weak credit profile. On commissioning of the above plant, the company's exposure to the Discoms with weak financial position is likely to increase further.

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

The company has envisaged capex of around ₹21,000 crore over the next three years. The capex would be spread amongst the thermal power plant housed under NUPPL, setting-up thermal power generation project in Odisha, setting-up renewable power generation capacities, mining capex and capex towards lignite to methanol project and flue gas desulphurisation (FGD) capex. The thermal power, mining projects, lignite to methanol projects and FGD capex 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 risk is expected to be limited. 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 the NLC on a consolidated basis has improved from 1.80x as on March 31, 2021 to 1.37x as on March 31, 2022. The management has articulated that it would calibrate its debt-funded capex programmes to keep the overall gearing under 2x. Any larger-than-envisaged debt-funded capex or acquisitions leading to an overall gearing of over 2x 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 ₹380 crore as on September 30, 2022. NLC also has total cash credit limit of ₹4,000 crore on a standalone basis and average utilisation of the same stood at around 5% during last 12 months ended November 2022. Also, the company has access to CP market with total CP limits of ₹6,000 crore on a standalone basis. During the next three years, the company has internal accruals requirement of capex in the range of ₹2,000-2,500 crore per annum. Furthermore, the company has a policy of maintaining unutilised fund-based and CP limits of at least ₹2,500 crore out of the total limits of ₹10,000 crore. Furthermore, the company being a 'Navratna' CPSE, has strong financial flexibility to raise additional debt at competitive rates.

Analytical approach: Consolidated

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.

Applicable criteria

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

About the company

NLC, formerly Neyveli Lignite Corporation Limited, is a CPSE with 'Navratna' status and is engaged in the mining of lignite (30.6 MMTPA) and generation of electricity (6,061.06 MW) as on March 31, 2022. 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, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
TOI	9,981	12,126	7,352
PBILDT	2,834	4,174	2,759
PAT	1,314	1,116	986
Overall gearing (times)	1.80	1.37	1.30
Interest coverage (times)	2.16	4.24	4.94

A: Audited; UA: Unaudited; The above financials have been adjusted as per CARE Ratings' criteria.

Status of non-cooperation with previous CRA: Not applicable

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 covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments/facilities rated for this company: Annexure-4

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, 2024	608.51	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Term loan	LT	608.51	CARE AAA; Stable	-	1)CARE AAA; Stable (08-Nov-21)	1)CARE AAA; Negative (05-Oct-20)	1)CARE AAA; Stable (05-Mar-20) 2)CARE AAA; Stable (14-Jun-19)
2.	Commercial paper-Commercial paper (Standalone)	ST	6.000.00	CARE A1+	-	1)CARE A1+ (08-Nov-21)	1)CARE A1+ (19-Feb-21) 2)CARE A1+ (05-Oct-20) 3)CARE A1+ (15-May-20)	1)CARE A1+ (02-Mar-20)

*Long term/Short term.

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

Not applicable

Annexure-4: Complexity level of various instruments/facilities rated for this company

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: Bank lender details for this company

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, 2022
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.

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About us:
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