NLC India Limited

January 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1,887 (Enhanced from Rs.481 crore)	**CARE AAA; Stable [Triple A; Outlook: Stable]**	Reaffirmed
Total Facilities	**1,887 (Rupees One Thousand Eight Hundred and Eighty Seven Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the long-term bank facilities of NLC India Limited (NLC) continues to derive strength from the company being a 'Navratna' Public Sector Enterprise with 89.32% stake held by Government of India (GOI), its long operational track record of around six decades, assured offtake of power (by virtue of being one of the lowest cost producers largely due to high operational efficiency and depreciated nature of its plants), presence of own lignite mines with adequate resources resulting in guaranteed fuel supply, its strong financial position characterized by highly favourable capital structure along with high profit margin and healthy internal accruals.

These credit strengths are offset to an extent by delay in realization of receivables from one of its major customers (TANGEDCO) leading to elongated working-capital cycle. In view of the large capex projected for the next three years, the ability of the company to complete the projects without any time and cost overrun would be the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of operations

NLC is presently operating 4 lignite mines (3 in Tamil Nadu and 1 in Rajasthan) with aggregate capacity of 30.6 Million Metric Tonnes Per Annum (MMTPA) and operating five thermal power stations and solar/wind projects with an aggregate power generation capacity of 4,431 MW. During FY17, on a consolidated basis, NLC generated 27,286 Million Units (MU) of power as against 22,838 MU during FY16. Out of total power generated, power exported was 23,526 MU in FY17 as against 19,417 MU during FY16.

Two part tariff structure coupled with presence of PPA ensuring steady profitability and revenue visibility

NLC is currently operating 5 thermal power plants, 1 wind power and 1 solar power plant and all the power plants are backed by the presence of PPA with most of the DISCOMS in South India. The tariff structure for the power plants is fixed by central electricity regulatory commission (CERC) and for lignite mines it is fixed by Ministry of Coal (MOC). The tariff structure for every power plants is broadly classified under two categories namely fixed capacity charges and variable charges. Fixed capacity charges ensure recovery of all the fixed overheads for each power plant along with a fixed return on equity. Energy charges for lignite is decided by MOC and incorporated by CERC in their tariff order and billed along with the power tariff. Generally a tariff order is valid for a period of 5 years and the current tariff period is from 2014 to 2019.

Strong financial position characterized by highly favorable capital structure coupled with high profit margins

NLC on a consolidated basis generated income of Rs.11,891 crore in FY17 from sale of power and lignite as against Rs.8,339 crore during FY16. It is to be noted that FY17 was the first full year of operations for NTPL plants which has resulted in improvement of the revenue to an extent. PBILDT margin during FY17 was 41.33% as against 35.32% in FY16. The overall gearing as on March 31, 2017 stood at 0.90x as against 0.63x as on March 31, 2016. During FY17, NLC had completed share buy-back resulting in outflow of Rs 1,476.50 crore and a large dividend payout which resulted in reduction of cash balance to Rs 79.93 crore as on March 31, 2017 as against Rs 3,237.74 cr as on March 31, 2016.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Key Rating Weaknesses

Large size capital expenditure plans

The total power generation capacity of NLC was 4,431 MW as on September 30, 2017 and NLC has planned to add 5,190 MW at an estimated cost of around 37,727 crore in the next three years. During FY17, NLC has incurred a capex of Rs.3,569 crore as against Rs.5,040 crore planned for the year. It is to be noted that only 71% of the capex planned for FY17 was achieved, the same is due to the delay in acquisition of 1200MW Raghunathpur plant of DVC which is pending for approval from Govt of India. Though NLC has aggressive plans for capex, achievement of same remains to be seen as the implementation of the project is subjected to completion of land acquisition & execution of long term PPAs with the Discoms. While the delay in execution of the projects will bring down the funding requirement in the short term, same may also result in time and cost overrun. The ability to implement the large capex plans without any time & cost overrun and timely receivable from the Discoms will be the key rating sensitivity.

Improved power supply scenario during FY17 in the south

As per the load generation balance report the power scenario in the southern region has witnessed continuous improvement for the past three years ended March 2017. It is expected that during FY18 the surplus power in Tamil Nadu (7.9% of demand) will be at 8,663 Million Units for FY18 and the peak surplus is estimated to be 14.7% (2,227 MW).

Analytical approach:

Consolidated

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies

About the Company

NLC, formerly Neyveli Lignite Corporation Limited is a Public Sector enterprise with 'Navratna' status and is engaged in mining of lignite (30.6 Million Metric tonnes per annum) and generation of electricity (4,431 MW as on September 30, 2017 on a consolidated basis) including 1000MW capacity of its subsidiary NLC Tamilnadu Power Limited (NTPL). The company, established in 1956 by Government of India (GoI) following the discovery of lignite deposits in Neyveli, Tamil Nadu, is one of the major power generating sources in South India. It operates under the administrative control of Ministry of Coal and GoI, who has 89.32% stake in NLC.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	8,279	11,736
PBILDT	2,924	4,851
PAT	80	2,430
Overall gearing (times)	0.63	0.90
Interest coverage (times)	6.26	8.25

A: Audited

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2022	1887.00	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	1887.00	CARE AAA; Stable	-	1)CARE AAA (08-Nov-16)	-	-

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