NLC India Limited

May 15, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper	5,000 (enhanced from Rs.2,000 crore)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**5,000 (Rs. Five thousand crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the commercial paper issue of NLC India Limited (NLC) continues to derive strength from the company being a 'Navratna' Public Sector Enterprise with 79.20% stake held by Government of India (GOI), its long operational track record of around six decades, assured offtake of power arising from long term power purchase agreements (PPA) with discoms, presence of own lignite mines with adequate resources resulting in guaranteed fuel supply, its financial position characterized by 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 and increasing debt levels on account of large sized debt funded capex plans. Overall gearing of the company has increased in FY19 (refers to period from April 01 to March 31) and 9mFY20 (refers to period from April 01 to December 31). Further, during FY19 receivable days (at consolidated level) increased from 149 days as on March 31, 2018 to 196 days as on March 31, 2019.

Rating Sensitivities

Negative Factors

- Dilution in the Government of India's stake to below 51.00%
- Significant delay in commissioning or stabilization of the future /ongoing projects
- Continuation of elongated debtor days on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of operations

NLC was established by Government of India (GOI) in the year 1956, following the discovery of lignite deposits in Neyveli, Tamil Nadu. NLC has entered into power purchase agreement with all the southern states and serves as an important source of power generation. NLC is presently operating the following four opencast lignite mines (3 in Tamil Nadu and 1 in Rajasthan) with aggregate capacity of 30.6 Million Metric Tonnes Per Annum (MMTPA). On consolidated basis, NLC is currently operating seven thermal power stations and solar/wind projects with an aggregate power generation capacity of 6,044 MW as on December 31, 2019.

Stable operational performance of power plants

During FY19, on a consolidated basis, NLC generated 26,163 Million Units (MU) of power as against 26,154 MU during FY18, of which power exported was 22,667 MU in FY19 as against 22,445 MU during FY18. The overall PLF during FY19 dropped to 70% from 74% during FY18. Moderation in PLF was on account of Unit II (500MW out of 1000 MW) of NTPL (subsidiary) which was temporarily shut down from January 16, 2019 due to fire damage to winding and other parts of the rotor which resulted in drop in overall power generation. Subsequently Unit II of NTPL resumed operations from August 2019. This apart, PLF in respect of Barsinagar TPS (BTPS) & TPS II Expn were low at 62% (PY: 75%) and 44% (PY: 46%) in FY19 on account of issues related to CFBC boilers which is a first of its kind. During 9mF20, PAF levels of BTPS improved and stood at 70.25% as against 59.46% in 9mFY19. Though there are issues with respect to BTPS & TPS II (Expn) plant, it is to be noted that both the plants together accounts for only 12% (750 MW) of the total installed capacity as on December 31, 2019 and hence the impact of the same is limited on power generation.

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

All the power plants of NLC 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 plant is broadly classified under two categories namely fixed capacity

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

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.

Presence of own lignite mines with adequate resources resulting in guaranteed fuel supply

Of the seven thermal power plants operated by NLC, six plants are lignite based power generation units and the remaining one plant (NTPL- NLC Tamil Nadu Power Limited) is coal based power generation. The lignite based power plants mostly operates as pit-head power station which has access to captive mines with reserve of 1,151 MT and capacity of 30.6 MTPA as on December 31, 2019 which ensures adequate fuel supply and enhances operational efficiency. With respect to coal based power plant, NTPL has entered into fuel supply agreement with Mahanadi Coal Fields and Eastern coal fields supply of 2.56 MT of coal per annum and 1.3 MT of coal per annum for a tenure of 25 years.

Financial position characterized by high profit margins and healthy internal accruals

During FY19, on a consolidated basis NLC generated total income of Rs.10,643 crore as against Rs.11,703 crore in FY18. On a standalone basis, revenue from Power sales declined by 19% from Rs.8,086 crore in FY18 to Rs.6,538 crore in FY19 on the back of 20% drop in the average selling price per unit. Selling price per unit of power dropped from Rs.4.64/unit in FY18 to Rs.3.73/unit in FY19 on account of i) Drop in lignite transfer price by Rs.300/tonne ii) Implementation of Ind AS115 (Rs.658 crore) and iii) Non-applicability of clean energy cess (Rs.220 crore pass through item) due to implementation of GST from July 2017.

During 9mFY20, on a consolidated basis NLC reported 4% growth in the total income on y-o-y basis to Rs.8,188 crore (PY: Rs.7,890 crore). However, on a standalone total income witnessed 13% growth to Rs.6,559 crore (PY: Rs.5,792 crore). Lower income growth on consolidated basis was on account of the shutdown of Unit II (500 MW) of NTPL during the period January 2019 to July 2019. It is to be noted that Unit II resumed operations from August 2019 and the PAF level improved from 48.73% in Q1FY20 to 66.23% in 7mFY20. PBILDT margin on a consolidated basis dropped to 28.88% during FY19 from 37.74% in FY18. The moderation was mainly on account of the drop in the lignite transfer price by Rs.300/tonne. During 9mFY20, PBILDT margin improved to 39.03% from 31.13% in 9mFY19 on account of increased generation from the recently commissioned solar plants where margins are relatively high.

Key Rating Weakness

Delay in realization of receivables from one of its major customers leading to elongated working-capital cycle

Total receivables (including unbilled revenue) on a consolidated basis as on March 31, 2019 stood at Rs.7,034 core as against Rs.6,517 crore as on March 31, 2018. Excluding unbilled revenue, total receivables stood at Rs.6,187 crore as on March 31, 2019 (PY: Rs.4,558 crore), of which receivables from TANGEDCO accounted for 59% of total receivables which exposes the company to counterparty credit risk. NLC has witnessed further increase in receivables since March 2020 on account of fall in realization of receivables from its customers. Receivables has increased to Rs.7,289 crore as on March 31, 2020 and is expected to increase further as payments from DISCOMs witnessed sharp drop post lock down due to COVID-19 as many of the DISCOMs relaxed timelines for payment of electricity bills by their ultimate customers. The collection period during FY19 increased to 196 days from 149 days in FY18. Creditor period during FY19 was 128 days as against 82 days in FY18 and inventory period stood at 92 days in FY19 as against 110 days in FY18. The operating cycle continues to be stretched with 160 days in FY19 as against 177 days in FY18. Timely realization of receivables is critical to improve liquidity position and reduce debt levels.

Large size debt funded capital expenditure plans

NLC has planned to increase its installed capacity from 6,044 MW as on December 2019 to 14,927 MW by 2025. The total capex incurred during FY19 on a consolidated basis was Rs.7,208 crore, of which around Rs.3,538 crore was spent towards Neyveli Uttar Pradesh Power Limited (NUPPL) and rest was spent mainly towards 500 MW solar project, 709 MW solar project and New Neyveli Thermal Power Station (NNTPS). The 500 MW solar project was commissioned in FY19. During 9mFY20, 709 MW solar project and Unit I (500 MW) of NNTPS were commissioned. Unit II of NNTPS is expected to be commissioned by end of FY20. Capex planned for FY20 is Rs.8,271 crore on consolidated level. Given that all projects are taken up post signing PPA for majority of the capacity, revenue risk is limited. However, timely stabilization of the commissioned plants will be a key rating sensitivity as any delay in stabilization of the plants is likely to constrain the cash flow position of NLC.

Stable power supply situation in southern region during FY19 with no major improvement

As per the load generation balance report (2019-20) the power scenario in the southern region has remained stable during FY19 on a y-o-y basis. The power supply scenario in Tamil Nadu during FY20 is expected to remain stable on y-o-y basis, whereas states like Karnataka & Andhra Pradesh are likely to turn energy surplus during the same period. Remaining states in the south including Kerala, and Puducherry is expected to face energy deficit in the range of 5% to 6%. It is expected that during FY20 the energy deficit in Tamil Nadu (0.2% of demand) will be at 203 Million Units for FY20 and the peak surplus is estimated to be 4.0% (631 MW).

Liquidity: Adequate

The liquidity of the company is adequate. Scheduled repayment obligations of NLC was Rs.1,831 crore for FY20 against GCA of Rs.2,278 crore achieved in 9mFY20. As on April 30, 2020, free cash and bank balance stood at Rs.14.3 crore. Sanctioned working capital limits is Rs.4,000 crore. The company's average working capital utilization was in the range of 76% for the 12-month period ended April 2020.

Prospects

With track record of around six decades and well established operations, the operational performance of NLC continues to remain strong. Installed capacity of NLC stood around 3,253 MW till March 31, 2015. Commissioning of various plants in NLC and its subsidiaries in the past four years has resulted in installed capacity of 6044 MW as on December 31, 2019. As per the corporate plan (2015-2025), NLC has announced large capex plan to add additional capacity of around 14,927 MW by end of 2025. During FY18 to FY20 solar project with combined capacity of 1,209 MW (500 MW & 709 MW) was commissioned and Unit 1 of NNTPS (500 MW) was commissioned. Unit II (500 MW) of NNTPS is expected to be commissioned during FY21. In view of the increasing debt level due to large sized capex plan, stabilization of the recently commissioned plants in timely manner will be a key rating sensitivity as any delay is likely to constrain the cash flow position of NLC. This apart, debtor days of NLC continued to be high on account of its significant exposure to TANGEDCO leading to elongated working capital cycle. Going forward, timely stabilization of the recently commissioned projects, improving the receivable position and ability to execute the projects without time or cost overrun will be crucial from credit perspective.

Analytical approach:

CARE 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/JV's due to similar line of business. Subsidiary/JVs companies which are consolidated are NLC Tamil Nadu power Limited (NTPL), Neyveli Uttar Pradesh Power Private Limited (NUPPL) and MNH Shakthi Limited.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Short Term Instruments
Financial ratios (Non-Financial Sector)
Rating Methodology - Infrastructure Sector Ratings
Rating Methodology - Private Power Producers

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 (6,044 MW as on December 2019 on a consolidated basis) including 1000MW capacity of its subsidiary NLC Tamil Nadu 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 79.20% stake in NLC as of March 31, 2020.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	11,703	10,643
PBILDT	4,417	3,073
PAT	1,957	1,537
Overall gearing (times)	0.96	1.57
Interest coverage (times)	8.06	4.39

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

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
Commercial Paper	-	-	7 days to 1 year	5000.00	CARE A1+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	2692.70	CARE AAA; Stable	-	1)CARE AAA; Stable (05-Mar-20) 2)CARE AAA; Stable (14-Jun-19)	1)CARE AAA; Stable (01-Mar-19)	1)CARE AAA; Stable (05-Jan-18)
2.	Commercial Paper	ST	5000.00	CARE A1+	-	1)CARE A1+ (02-Mar-20)	-	-

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.*

Contact us

Media Contact
Mradul Mishra
Contact no: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Mr. Sudhakar P
Contact no.: +91-44-2850 1000
Email ID: p.sudhakar@careratings.com

Relationship Contact
Mr. Pradeep Kumar
Contact no.: +91-44-2850 1001
Email ID: pradeep.kumar@careratings.com

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