NLC India Limited

June 14, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities	2,838.90 (enhanced from Rs.1,838.90 crore)	**CARE AAA; Stable [Triple A; Outlook: Stable]**	**Reaffirmed**
Total Facilities	**2,838.90 (Rupees Two Thousand Eight Hundred Thirty Eight Crore and Ninety Lakh 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 81.91% 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 strong financial position characterized by moderately leveraged 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, large cash outflow due to buyback of shares and declaration of dividend in the past three years and increasing debt levels on account of large sized debt funded capex plans.

In view of the large capex projected for the next few 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 was established by Government of India (GOI) in the year 1956, following the discovery of lignite deposits in Neyveli, Tamilnadu. 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 4 opencast lignite mines (3 in Tamil Nadu and 1 in Rajasthan) with aggregate capacity of 30.6 Million Metric Tonnes Per Annum (MMTPA). With respect to power generation, NLC is currently operating six thermal power stations and solar/wind projects with an aggregate power generation capacity of 4,935 MW.

Stable operational performance of power plants

During FY18, on a consolidated basis, NLC generated 26,154 Million Units (MU) of power as against 27,286 MU during FY17, of which power exported was 22,445 MU in FY18 as against 23,526 MU during FY18. The moderation in power generation was on account of high power surrender by DISCOMS which increased to 4,106 MU in FY18 from 2,198 MU in FY17. The same was on account of lesser demand conditions and availability of cheaper power in the market.

The overall PLF during FY18 dropped to 69.88% from 73.17% during FY17 on account of drop in PLF of TPS I & II . The PLF in respect of Barsinagar TPS (BTPS) & TPS II Expn though witnessed improvement on y-o-y basis continues to be low at 75% and 46% in FY18 as against 67% and 31% during FY17 on account of issues related to CFBC boilers which is a first of its kind. It is to be noted that both the plants together account for only 16% (750 mw) of the total installed capacity as on June 2018 and hence the impact of the same is limited on overall PLF.

During FY19, PLF of thermal power plants stood at 73.03%. The total power generation during FY19 was 20,677 MU and the total power exported was 17,505 MU.

TPS 1 which started operation in the year 1962 is the oldest power plant of NLC. In order to replace the same, a new power plant named New Neyveli Thermal Power Station (NNTPS) with a capacity of 2x500 MW is being setup by NLC. Power generated from TPS1 is supplied to TANGEDCO as per the Power Supply Agreement (PSA) which was valid till March 31, 2019 or till commissioning of NNTPS, whichever is earlier. Subsequently, PSA with TANGEDCO was expired on March 31, 2019. With respect to progress of NNTPS, unit 1 was lighted up in December 2018 and Unit 2 was lighted in the month of April 2019. On successful commissioning, NNTPS is expected to compensate for loss of production from TPS1.

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 charges and variable charges. Fixed capacity charges ensure recovery of all the fixed overheads for each power plant along

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

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.

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

Of the 6 thermal power plants operated by NLC, 5 plants are lignite based power generation units and the remaining 1 plant (NLC Tamilnadu Power Limited) is coal based power generation. The lignite based power plants mostly operates as pit-head power station which has access to four captive mine with reserve of 1,151 MT and capacity of 30.6 MTPA as on June 2018 which ensures adequate fuel supply and enhances operational efficiency. With respect to coal based power plant, NLC Tamilnadu Power Limited (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.

Strong financial position characterized by moderately leveraged capital structure coupled with high profit margins

During FY18, on a consolidated basis NLC generated total income of Rs.11,570 crore as against Rs.11,794 crore in FY17. Moderation in total income can be attributed to the non-applicability of clean environment cess and excise duty due to implementation of GST (pass through item). PBILDT during FY18 dropped to Rs.4,285 crore from Rs.4,851 crore in FY17 on account of increase in the employee cost due to implementation of pay revision for executives w.e.f. January 2017 and increase in the gratuity ceiling limit from Rs.0.10 crore to Rs.0.20 crore. However, it is to be noted that as per CERC regulation the increase in the employee is recoverable as part of the Annual fixed capacity charges (subject to true up/petition) and hence income to the tune of Rs.698.8 crore is booked as regulatory deferral income (after PAT) in FY18. The overall gearing as on March 31, 2018 stood at 0.96x as against 0.91x as on March 31, 2017. The moderation in the overall gearing was on account of increasing debt levels to fund the ongoing large sized capex plans.

During FY19, on a consolidated basis NLC reported PAT of Rs.1,537 crore on a total income of Rs.10,778 crore. Overall gearing stood at 1.48x as on March 31, 2019 on account of debt funded capex incurred in FY19.

Key Rating Weakness

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

Total receivables on a consolidated basis as on March 31, 2018 stood at Rs.4,558 core as against Rs.4,793 crore as on March 31, 2017, of which receivables from TANGEDCO accounts for around 65% of the receivables as on March 31, 2018 which exposes the company to counterparty credit risk. The collection period during FY18 stood at 151 days as against 137 days in FY17, creditor period during FY18 was 56 days as against 63 days in FY17 and inventory period stood at 110 days in FY18 as against 100 days in FY17. The operating cycle continues to be stretched with 204 days in FY18 as against 174 days in FY17. The total receivable outstanding as on March 31, 2019 stood at Rs.6,187 crore.

Large size debt funded capital expenditure plans

The total capex incurred during FY18 was Rs.4,352 crore, of which around Rs.4,124 crore was spent towards power projects and rest towards the mining projects. With respect to the progress of the various projects, 130 MW solar project in neyveli was commissioned on December 2017 and the entire 500 MW solar project in Tamilnadu was commissioned as on March 31, 2019. Unit 1 of NNTPS was lighted up in December 2018 and Unit 2 was lighted in the month of April 2019. The total CAPEX incurred during FY19 was around Rs.7,400 crore.

Major projects which are planned for the next few years are 1. Solar project (709 MW), 2.Talabira project – Odisha (4000 MW) and 3. NLC Uttar Pradesh Power Private Limited (NUPPL) at an estimated cost of Rs.37, 910 crore (cost of all the three projects) funded through debt equity ratio of 70:30

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 might result in 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.

Liquidity

NLC has completed the buyback of shares on December 04, 2018. It is to be noted that the entire 14.19 crore equity shares were bought at price of Rs.88/share aggregating to Rs.1,248.99 crore. In the past also NLC bought back shares and declared high dividend resulting in large cash outflow and moderation in the cash and bank balance. The cash and bank balance stood at Rs.531 crore as on March 31, 2019. NLC also has access to cash credit limit of Rs.4,000 crore where utilisation stood in the range of 60% to 89% in the last few months ended April 2019.

Prospects

With track record of around six decades and well established operations, the operational performance of NLC continues to remain strong. Commissioning of 1000 MW power plant by NTPL has boosted the income of consolidated entity during FY17 & FY18 to a major extent. With stable cash accruals from established & regulated return projects and moderate leverage levels, the credit risk profile of NLC remains strong. Going forward, in view of significant capex planned ability of the company to execute the projects without time or cost overrun will be critical.

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 Tamilnadu power Limited (NTPL), Neyveli Uttar Pradesh Power Private Limited (NUPPL) and MNH Shakthi Limited.
CARE has taken a limited review based on the key financials of NLC for the year ended FY2019 (Audited.) as reported in the stock exchange.

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 (4,935 MW as on March 2019 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 81.91% stake in NLC.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	11,794	11,570
PBILDT	4,851	4,285
PAT	2,457	1,957
Overall gearing (times)	0.91	0.96
Interest coverage (times)	8.25	7.82

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
Fund-based - LT-Term Loan	-	-	September 2024	2838.90	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	2838.90	CARE AAA; Stable	-	1)CARE AAA; Stable (01-Mar-19)	1)CARE AAA; Stable (05-Jan-18)	1)CARE AAA (08-Nov-16)

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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