NLC India Limited

October 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1,504.00 (reduced from 2,692.70)	**CARE AAA; Negative (Triple A; Outlook: Negative)**	**Reaffirmed and outlook revised from stable**
Commercial Paper	5,000.00 (Rs. Five thousand crore only)	**CARE A1+ (A One Plus)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instruments of NLC India Limited (NLC) continue to derive strength from the company being a 'Navratna' Central Public Sector Enterprise with majority ownership by the Government of India (GoI), long operational track record of nearly six decades, assured off-take of power arising from long term power purchase agreements (PPA) backed by cost-plus tariff mechanism with Discoms, presence of own lignite mines with adequate resources resulting in guaranteed fuel supply and its financial performance characterized by healthy profit margin and internal accruals.

The rating strengths, however, are offset to an extent by counterparty risks with rising exposure to financially weak Discoms and increasing debt levels on account of large debt-funded capex plans. The company's receivables position witnessed significant increase during FY20 and further elongated in the quarter ended June 30, 2020 as Discoms continued to delay payments due to lower collections from their ultimate customers on account of Covid-19 pandemic. In the last two years ended March 31, 2020, large size debt-funded capex, increase in working capital borrowings and cash outflows in the form of dividends & share buybacks have led to moderation in the capital structure. Consequently, overall gearing of the company increased from 0.96x as on March 31, 2018 to 1.87x as on March 31, 2020 and Debt-Equity ratio increased from 0.80x as on March 31, 2018 to 1.46x as on March 31, 2020.

Rating Sensitivities

Negative Factors

- Dilution in the Government of India's stake to below 51.00%
- Continuation of elongated collection period with average collection days of 150 days or above
- Further increase in share of revenue from weaker Discoms
- Significant delay in commissioning or stabilization of the on-going/future projects

Outlook: Negative

The revision in outlook from Stable to Negative is on account of expected increase in the company's exposure to financially weaker Discoms and leverage levels in the near-to-medium term. The company continues to remain exposed to high counterparty risks. On consolidated basis, the power debtors outstanding which stood at Rs.6,123 crore as on March 31, 2019 has increased to Rs.9,391 crore as on March 31, 2020 and further to Rs.11,483 crore as on June 30, 2020. One of the major customers – TANGEDCO, to which the company has contracted over 50% of its capacity, accounted for nearly 62% of the total outstanding power debtors as on June 30, 2020. The average collection period has increased from 196 days as on March 31, 2019 to 256 days as on March 31, 2020, with substantial receivables due from one of its major customers (TANGEDCO) leading to higher working capital requirements. TANGEDCO's financial risk profile has witnessed deterioration in the recent past with increase in operating loss, high accumulated losses & weak capital structure. Further, during H2FY21, NLC is expected to commission its NNTPS unit II (500 MW), wherein majority of the capacity is contracted to TANGEDCO. Besides, for the company's ongoing major project NUPPL (1,980 MW) thermal plant, PPAs had been signed with Uttar Pradesh (UP Discoms) which also has weak credit profile. NUPPL's Unit I (660 MW) is expected to be commissioned in March-April 2021, followed by Unit II and III in FY22. With the commissioning of above plants, the company's exposure to Discoms with weak financial position is likely to increase further, heightening the counterparty risks and relatively high receivables position. Given the announcement of Atmanirbhar Bharat package (Rs.90,000 crore) by GoI to boost liquidity of Discoms, the company's receivables position is expected to improve in the immediate term. However, receivables position of the company in the medium-to-long term is likely to be conditioned by financial position of its major customer TANGEDCO, which is very weak.

In addition to increase in working capital borrowings due to stretch in receivables, the company has multiple on-going/planned large debt-funded capex projects, which is expected to result in further increase in the leverage levels in the

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

near-to-medium term. Debt-equity ratio increased to 1.46 times as on March 31, 2020 and is expected to increase further with ongoing largely debt-funded capex.

Detailed description of the key rating drivers
Key Rating Strengths
Majority ownership by GoI and Navratna status
NLC was established by Government of India (GoI) in the year 1956, following the discovery of lignite deposits in Neyveli, Tamil Nadu. The company is majority owned by GoI holding 79.20% stake as on June 30, 2020, which provides financial flexibility to access banking and capital markets to raise funds at finer rates. The company was given 'Navratna' status in 2011, a status that gives greater autonomy to Central Public Sector Enterprises (CPSEs) in their investment decisions. Also, the company acts has Nodal Agency for lignite mining appointed by Ministry of Coal, 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. NLC serves as an important source of power generation in the southern India, as it has entered into long-term power purchase agreements (PPA) with all the southern states and Rajasthan as well. NLC is presently operating four opencast lignite mines (3 in Tamil Nadu and 1 in Rajasthan) with aggregate capacity of 30.6 Million Metric Tonnes Per Annum (MTPA). Further, in April 2020, the company began mining of coal at its Talabira II and III opencast mines (capacity 20 MTPA) in a phased manner and expected to achieve full mining capacity by 2027-28. These mines would supply coal to the upcoming Odisha Pit head TPS plants and the existing plant of NTPL.
As on July 31, 2020, on a consolidated basis, NLC was operating seven thermal power stations and renewable power with an aggregate power generation capacity of 5,661 MW including subsidiary's thermal power of 1,000 MW (NTPL), solar power of 1,370 MW and wind power of 51 MW. It is to be noted that NLC had commissioned the unit I of NNTPS (500 MW) and 709 MW solar power plants during FY20. The company has commissioned most of its renewable energy capacities during FY19-FY20, providing healthy diversification for the company in power generation mix.

Stable operational performance of power plants
During FY20, on consolidated basis, NLC generated 26,837 million units (MU) of power against 26,163 MU during FY19. Power sales stood at 23,404 MU during FY20 (PY: 22,667 MU). Power surrender by Discoms during FY20 stood at 3,699 MU as against 3,341 MU in FY19. The same was on account of lesser demand conditions and availability of cheaper power in the market.

During FY20, NLC's most of the plants' operating performance remained more or less in-line with CERC norms, except for TPS II Expn and Barsingsar plants. Further, PLF levels are well above All-India Thermal PLF of 56% in FY20. The overall thermal PLF of NLC during FY20 dropped to 67% from 70% during FY19. Moderation in PLF was on account of TPS II Expn and unit II (500 MW) of NTPL (subsidiary), which was temporarily shut down between January-July 2019 due to fire damage to winding and other parts of the rotor. With respect to TPS II Expn, the company faced operational challenges on account of issues related to Circulating Fluidized-bed Combustion Technology (CFBC) based boilers, which had led to major under-recovery of fixed costs during FY20. PLF in respect of TPS II Expn stood low at 37% (PY: 44%) in FY20. On account of relatively low PAF level achieved by few of its plants, under recovery of fixed capacity charges increased to Rs.567 crore in FY20.
TPS I (oldest plant) which was scheduled to be decommissioned by August 2018 continued to be operational during FY20. Its replacement NNTPS' unit I (500 MW) was commissioned in December 2019 and unit II is expected to be commissioned during H2FY21.

CARE also takes note of fire accidents at the units of TPS II Stage II (840 MW) in May and July 2020, which is expected to impact the company's operational performance in FY21 to a certain extent. The impact on revenue is expected to be partially offset by new capacities which became operational in H2FY20 and full operational capacity of NTPL in FY21 which was impacted in FY20 due fire damage to winding and other parts of the rotor.

Two part tariff structure coupled with presence of PPA ensuring steady profitability and revenue visibility
All the power plants of NLC are backed by 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 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) 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 June 30, 2020 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 and 1.3 MT of coal per annum, respectively, for a tenure of 25 years.

Financial performance characterized by healthy profit margins and internal accruals

For FY20, on consolidated basis, NLC's total income increased 8% y-o-y to Rs.11,517 crore from Rs.10,643 crore in FY19. On a standalone basis, NLC's total income increased 14% y-o-y to Rs.9,050 crore (FY19: Rs.7,929 crore) on the back of higher power sales on account of commissioning of solar plants (709 MW) and NNTPS unit I (500MW) during the year. Average power sales realization stood at Rs.3.84/unit against Rs.3.73/unit in FY19.

Further, surcharge on sale of power increased from Rs.606.11 crore in FY19 to Rs.1068.21 crore on account of significant delay in realization of receivables. PBILDT margin on a consolidated basis improved to 40.21% during FY20 from 28.88% in FY19, partly on account of increased generation from the recently commissioned solar plants where margins are relatively high & NNTPS I and increase in other income (surcharge on power sales).

Debt-equity ratio on consolidated basis has increased from 1.17x as on March 31, 2019 to 1.46x as on March 31, 2020. Overall gearing on consolidated basis stood at 1.87x as on March 31, 2020 as against 1.50x as on March 31, 2019. The moderation in the capital structure was on account of increasing debt levels to fund the ongoing large sized capex plans and increase in working capital borrowings (due to stretch in receivables position). During FY20, NLC has paid dividend of Rs.1,183 crore and repaid scheduled term debt amounting Rs.1,831 crore. With significant portion of GCA being utilized towards dividend and meeting debt repayment obligations, major portion of capex is funded through debt, resulting in further increase in leverage levels. It is to be noted that during last three years (FY18-FY20), the company has returned over Rs.4,020 crore in the form of dividends and share buybacks, limiting the improvement in net worth/capital structure.

During Q1FY21, on consolidated basis, total income grew 32% y-o-y to Rs.3,066 crore from Rs.2,331 crore in Q1FY20, driven by increase in power generation at standalone NLC and NTPL. NNTPS unit I (500 MW) and 709 MW solar project were operational for full quarter at standalone level. It is to be noted that NTPL's unit II was not operational due to rotor issues during Q1FY20. On standalone basis, total income grew 25% y-o-y to Rs.2,387 crore (PY: Rs.1,904 crore) in Q1FY21. During Q1FY21, NLC has reviewed outstanding debtors and compiled ageing analysis of the same. Based on the same, a sum of Rs.80.69 crore has been assessed as provision for debtors for the quarter. As on June 30, 2020, due to increase in working capital borrowings, the overall gearing of NLC consolidated stood at 1.93x (prov.).

Key Rating Weakness

Exposure to high counterparty credit risks

NLC remains exposed to counterparty credit risks on account of weak financial profile of state Discoms. On consolidated basis, total power sales debtors stood at Rs.11,483 crore as on June 30, 2020 as against Rs.9,391 crore on March 31, 2020. On standalone basis, total power sales debtors stood at Rs.8,841 crore on June 30, 2020 as against Rs.7,289 crore as on March 31, 2020. As on August 31, 2020, position improved marginally to Rs.8,806 crore.

Receivables remain elevated due to low collections from the Discoms as the Discoms have relaxed timelines for payment of electricity bills by their ultimate customers due to COVID-19 lockdown across the country during Q1FY21. Continued low collections from Discoms have led to increase in the working capital borrowings of the company.

Delay in realization of receivables from one of its major customers (TANGEDCO) has led to elongated working-capital cycle. The average collection period has increased from 196 days as on March 31, 2019 to 256 days as on March 31, 2020. As on June 30, 2020, on consolidated basis, TANGEDCO alone accounted for ~62% of the outstanding power debtors. TANGEDCO's financial risk profile has witnessed deterioration in the recent past with increase in operating loss, high accumulated losses & weak capital structure. As of July 2020, out of NLC's consolidated power capacity around 54% of the capacity is contracted to TANGEDCO (41% as on March 31, 2019). Further, the company is expected to commission NNTPS unit II (500 MW) during H2FY21, wherein majority of capacity is contracted to TANGEDCO. And, the company's ongoing major project NUPPL (1,980 MW) thermal plant, PPAs has been signed with UP Discoms, which also has weak credit profile. On commissioning of above plants, the company's exposure to Discoms with weak financial position is likely to increase further. NUPPL's unit I (660 MW) is expected to be commissioned in March-April 2021, followed by unit II and III in FY22.

In May 2020, GoI announced measures to improve liquidity of Discoms to clear power gencos dues (Rs.90,000 crore support package). At end of July 2020, NLC has received a portion of dues from few Discoms as part of the scheme and expects to receive balance in coming months. Though it may improve the receivables position in the immediate term, receivables position of the company in the medium-to-long term is likely to be conditioned by financial position of its major customer TANGEDCO, which is very weak.

Timely realization of receivables is critical to improve liquidity position and shall remain a key rating monitorable.

Large size debt-funded capital expenditure plans

NLC has planned to increase its installed capacity to 21GW by 2025 and has multiple projects under implementation. Recently, in July 2020, NLC signed an agreement with Coal India Ltd (CIL), a Maharatna CPSE, to form a JV company (50:50) for developing solar and thermal power assets to the tune of 5,000 MW across India. The total capex incurred during FY20 on a consolidated basis was Rs.6,470 crore, of which around Rs.3,525 crore was spent towards Neyveli Uttar Pradesh Power Limited (NUPPL) and rest was spent mainly towards solar projects and New Neyveli Thermal Power Station (NNTPS). During FY20, the company had commissioned 709 MW solar project and unit I (500 MW) of NNTPS. Also, by end of June 2020, the company commissioned remaining 17.5 MW out of total 20 MW solar project at Andaman Islands. Given the Covid19 pandemic, the execution of the ongoing projects has been slowed and the company expects delays in final commissioning. Unit II of NNTPS is expected to be commissioned during H2FY21.

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 FY20 with no major improvement

As per the load generation balance report (2020-21) the power scenario in the southern region has remained stable during FY20 on a y-o-y basis. The power supply scenario in Tamil Nadu, Karnataka, Andhra Pradesh & Puducherry is likely to turn energy surplus during FY21. The other states in the south including Kerala and Telangana are expected to face energy deficit in the range of 9%-11%. However, given the Covid-19 pandemic, demand for electricity witnessed a significant decline in the months of April and May 2020. With easing of restrictions since June 2020, the demand continues to gradually pickup.

Prospects

With track record of around six decades and well established operations, the operational performance of NLC continues to remain stable. 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 few years has resulted in installed capacity of 5661 MW as on June 30, 2020. 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 projects 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. Also, from April 2020, the company has commenced mining operations from its Talabira-II & III coal blocks, Odisha. 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. Going forward, improving the receivable position and timely completion of ongoing projects without cost overrun will be crucial from credit perspective.

Liquidity: Adequate

The liquidity of the company is adequate. The company had free cash balance of Rs.13 crore as on August 05, 2020. NLC also has cash credit limit of Rs.4,000 crore where average utilization stood at around 76% in the last twelve months ended July 2020. Further, the company has access to CP market. It is to be noted that the company being a Navratna CPSE has strong financial flexibility to raise additional debt at finer rates. Scheduled repayment obligations for FY21 is Rs.2,262 crore as against GCA of Rs.920 crore achieved in Q1FY21. The company had not availed any moratorium on its debt obligations as part of COVID-19 relief package announced by RBI. However, subsidiary NTPL has availed moratorium on principal obligations with respect to its short term loan during the period July-August 2020.

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 due to similar line of business. The subsidiary companies which are consolidated are NLC Tamil Nadu power Limited (NTPL, 89% stake held by NLC), Neyveli Uttar Pradesh Power Private Limited (NUPPL, 51% stake held by NLC) and associate company MNH Shakthi Limited (15% stake held by NLC).

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Infrastructure Sector Ratings
Rating Methodology - Thermal Power Producers
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Short Term Instruments
Financial ratios (Non-Financial Sector)
Rating Methodology: Consolidation and Factoring Linkages in Ratings

About the Company
NLC, formerly Neyveli Lignite Corporation Limited is a Central Public Sector enterprise (CPSE) with 'Navratna' status and is engaged in mining of lignite (30.6 Million Metric Tonnes per annum) and generation of electricity (5,661 MW) as on July 31, 2020. 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, GoI, which has 79.20% stake in NLC as on June 30, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	10,643	11,517
PBILDT	3,073	4,631
PAT	1,537	1,453
Overall gearing (times)	1.50	1.87
Interest coverage (times)	4.39	3.94

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	-	-	Sep 2024	1504.00	CARE AAA; Negative
Commercial Paper-Commercial Paper (Standalone)	-	-	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	1504.00	CARE AAA; Negative	-	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-Commercial Paper (Standalone)	ST	5000.00	CARE A1+	1)CARE A1+ (15-May-20)	1)CARE A1+ (02-Mar-20)	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple
2.	Fund-based - LT-Term Loan	Simple

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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