

NLC Tamil Nadu Power Limited

August 29, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term term bank facilities (i)	350.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long-term bank facilities (ii) @	650.00	CARE AA+ (CE); Stable (Double A Plus(Credit enhancement); Outlook: Stable)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Long-term/Short-term bank facilities (iii) @	200.00	CARE AA+ (CE); Stable /CARE A1+ (CE) (Double A Plus(Credit enhancement); Outlook: Stable / A One Plus (Credit enhancement))	Revised from CARE A+; Stable/CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)
Total Facilities	1,200.00 (Rupees One Thousand Two Hundred Crore Only)		

Details of instruments/facilities in Annexure-1

@Working capital facilities carries letter of comfort from NLC India Limited for Rs.850 crore which includes fund based of Rs.650 crore and Non fund based of Rs.200 crore

Detailed Rationale & Key Rating Drivers

The rating assigned to the **bank facilities [(i) above]** of NLC Tamil Nadu Power Limited (NTPL) factor in the benefits derived by NTPL from being subsidiary of NLC, relatively stable operational performance of its power plants since commissioning, revenue visibility on account of presence of long term PPAs with provision for recovery of fixed and energy charge and presence of fuel supply agreements (FSA) for supply of coal for its power plants.

The ratings are however, tempered by the limited track record of operations, counterparty credit risk, delay in realisation of receivables from its customers and lower pretax return on equity as truing up of final project cost is pending.

Going forward, ability of the company to maintain PAF at higher levels, timely realisation of receivables from its customers and approval of revised capital cost and revised fixed capacity charge by CERC will be the key rating sensitivity.

The revision in rating assigned to the **bank facilities [(ii) & (iii) above]** of NTPL factors in the credit enhancement extended by NLC India Limited (Rated – CARE AAA; Stable) to these bank facilities in the form of letter of comfort.

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 82.80% 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

Presence of long term PPA with provision to recover fixed and energy charges

The power generation of NTPL has been allocated to Southern states and NTPL has already signed Power Purchase Agreement for 25 years with respective states to whom power has been allocated. The terms and conditions of the tariff shall be determined by CERC as per tariff regulations in force from time to time. This enables recovery of annual fixed capacity charges and energy charges subject to achievement of certain operational parameters. The power generated by NTPL has been allocated to Tamil Nadu, Andhra Pradesh Karnataka, Kerala, Pondicherry & Telangana in the following proportion.

Presence of fuel supply agreement

Fuel Supply Agreement (FSA) signed with Mahanadi Coalfields Limited (MCL) for the supply of 2.57 Million Tons Per Annum of coal with a Gross calorific value (GCV) of around 4000 Kcal/Kg. The coal procured from MCL fields will be first transported to

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

Paradip port by rail and then transported to Tuticorin port by sea. There it is stored in a dedicated coal berth from which the required coal will be transported to the power plant. Further, NTPL has also entered into FSA with Eastern Coal field for supply of 1.3MTPA, of which 1MTPA is for supply of coal with high GCV of around 6300 KCal/Kg.

Satisfactory operational performance of NTPL

COD was declared on June 18, 2015 and August 29, 2015 for Unit I and Unit II. It is to worthwhile to note that FY17 was the first full year of operation for the power plant and the PAF stood at 80.72% in FY17. During FY18 & 9mFY19, PAF continued to remain stable at 80.08% and 85.46%. However during January 2019, unit 2 of NTPL was shutdown for repair work in the rotor due to which the PAF stood at 79.41% in FY19. It is to be noted that unit 2 has resumed operation from August 2019.

Demonstrated operational and financial support from NLC

COD for the project was revised twice. However, at the time of second revision of COD, NTPL had not opted for extension of repayment for the term loan availed. The repayment started in October 2015 even before stabilization of power plants. In view of the same, NLC has extended short term loans to fund the repayment of loans availed by NTPL in FY16. Amount of short term loan from NLC stood at Rs.680 crore as on March 31, 2019 as against Rs.750 crore as on March 31, 2018. Further, The total term loan outstanding as on March 31, 2019 stood at Rs.3,355.19, of which loans to the tune of around Rs.3,051.53 crore carries letter of comfort (LOC) from NLC. A team of NTPL employees (around 220 people) is supervising the plant and takes care of administration activities. Most of the employees of NTPL are from NLC. Given the track record of NLC in successfully running the power plants, O&M risk is expected to be relatively low.

Counterparty credit risk associated with sale of power to discoms

The higher level of Aggregate Transmission and Commercial (AT&C) losses, the rising power purchase costs and the absence of cost reflective tariff regimes have put a strain on the financial position of some of the state distribution utilities. NTPL is selling majority of power generated to Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) which has significant operating and accumulated losses, thus exposing it to credit risk associated with TANGEDCO. The amount receivable from various discoms stood at Rs.1,581 crore as on March 31, 2019 as against Rs.1,192 crore as on March 31, 2018.

Actual return on equity (ROE) lower on account of lower capital cost approved by commission; ROE is likely to improve post truing up of capital cost

The plant achieved COD on August 29, 2015 and the present tariff charges is based on the tariff order dated July 11, 2017 approved by the CERC. It is to be noted that the capital cost considered for calculation of tariff was based on the cost incurred on August 29, 2015 (COD) on a cash basis which stood at Rs.5,224 crore adjusting for undischarged liabilities, IDC & Excess fuel cost reduction. However, the revised cost approved by Govt of India (GOI) for the project was Rs.7,293 crore. On account of the same pretax profit achieved by NTPL in FY18 was Rs.85.92 crore (adjusting for prior period income of Rs.132.58 crore) which is lower than return on equity (pre tax profit) of Rs.230 crore as formulated in tariff order for FY18. NTPL in its petition to CERC dated June 5, 2018 has requested CERC to consider a review of the tariff order dated July 11, 2017. CERC upon reviewing the petition issued order on December 26, 2018 directing NTPL to put up its claim at the time of true up petition. It is to be noted that capital cost claimed by NTPL upon approval by CERC will result in additional Annual fixed capacity charges.

Prospects

Both the units I & II achieved COD and became operational during the year 2015-16 with an interval of 2 months. Considering that FY17 was the first full year of operations for NTPL, the plant achieved a satisfactory PAF of 80.22%. During FY18 PAF continued to remain stable at 80.08% due to limited availability of coal. Though PAF improved to 85.5% in 9mFY19, with shut down of one of the units for repair work in Q4FY19, PAF for full year dropped to 79.41. In the past, NLC has demonstrated its support to NTPL by way of extending financial assistance as and when required. While, presence of long term PPAs, Fuel Supply Agreements and demonstrated support from NLC provides comfort and minimize the various business risks, Going forward, ability of the company to maintain PAF at higher levels, timely realisation of receivables from its customers and approval of revised capital cost and fixed capacity charges by CERC will be the key rating sensitivity.

Liquidity

Cash and bank balance as on March 31, 2019 stood at Rs.5.16 crore. Repayment obligation during FY20 is Rs.493 crore as against GCA of Rs.803 crore (including regulatory deferral income) in FY19.

Analytical approach:

Standalone and Guarantor's assessment

CARE has taken a limited review based on the key financials of NTPL for the year ended FY2019 (Audited.)

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](#)
[Rating Methodology Factoring linkages in Ratings](#)
[Criteria for rating credit enhanced debt](#)

About the Company

NTPL is a joint venture company between NLC India Limited (NLC, rated CARE AAA; Stable) and Tamil Nadu Generation and Distribution Corporation (TANGEDCO). NTPL was set up consequent to a MoU entered into by NLC with Government of Tamil Nadu in 2003 and a joint venture agreement between NLC and TANGEDCO in June 2005. The shareholding of NLC in NTPL is 89% and the rest of the shares are held by TANGEDCO as on March 31, 2019.

NTPL runs conventional thermal power plant comprising two units of Pulverised Coal Fired Steam boilers with two units of steam turbine generators of 500 MW each. The first unit declared COD in the month of June 2015 followed by second unit in the month of August 2015.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2,611	2,768
PBILDT	953	862
PAT	78	146
Overall gearing (times)	2.41	2.37
Interest coverage (times)	2.08	2.09

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-4

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-Cash Credit	-	-	-	350.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	200.00	CARE AA+ (CE); Stable / CARE A1+ (CE)
Fund-based - LT-Cash Credit	-	-	-	650.00	CARE AA+ (CE); 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.	Term Loan-Long Term	LT	2279.27	CARE AAA (SO); Stable	-	1)CARE AAA (SO); Stable (04-Mar-19)	1)CARE AAA (SO); Stable (08-Jan-18)	1)CARE AAA (SO) (24-Oct-16) 2)CARE AAA (SO) (12-Apr-16)
2.	Fund-based - LT-Term Loan	LT	831.65	CARE AAA (SO); Stable	-	1)CARE AAA (SO); Stable (04-Mar-19)	1)CARE AAA (SO); Stable (08-Jan-18)	1)CARE AAA (SO) (24-Oct-16) 2)CARE AAA (SO) (12-Apr-16)
3.	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (08-Jan-18)	1)CARE AAA (SO) (24-Oct-16) 2)CARE AAA (SO) (12-Apr-16)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	-	1)Withdrawn (08-Jan-18)	1)CARE AAA (SO) / CARE A1+ (SO) (24-Oct-16) 2)CARE AAA (SO) / CARE A1+ (SO) (12-Apr-16)
5.	Fund-based - LT-Term Loan	LT	327.52	CARE A+; Stable	-	1)CARE A+; Stable (04-Mar-19)	1)CARE A+; Stable (08-Jan-18)	1)CARE A+ (08-Nov-16)
6.	Fund-based - LT-Cash Credit	LT	350.00	CARE A+; Stable	-	1)CARE A+; Stable (04-Mar-19)	1)CARE A+; Stable (08-Jan-18)	-
7.	Non-fund-based - LT/ ST-BG/LC	LT/ST	200.00	CARE AA+ (CE); Stable / CARE A1+ (CE)	-	1)CARE A+; Stable / CARE A1+ (04-Mar-19)	1)CARE A+; Stable / CARE A1+ (08-Jan-18)	-
8.	Fund-based - LT-Cash Credit	LT	650.00	CARE AA+ (CE); Stable	-	1)CARE A+; Stable (04-Mar-19)	1)CARE A+; Stable (08-Jan-18)	-

Annexure 3 - Detailed explanation of covenants of the rated facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
-	-
B. Non financial covenants	
I) Promoters share in the borrowing entity should not be pledged to any Bank/NBFC/Institution without the consent of Bank/lender	-
II) Borrowers shall not affect any change in borrower's capital structure where the shareholding of existing promoters gets diluted below current level of 51% of the controlling stake, without prior permission of the bank – for which 60 days prior notice shall be required.	-
III) Without prior consent of bank, the borrower should not repay monies brought in by the promoter/Directors/principal shareholders by way of deposits/loans/advances before repaying the entire dues to the bank	-
IV) Without prior consent of bank, borrower should not implement any scheme of expansion/diversification or capital expenditure if such investments breaches of financial covenants or diversion of working capital funds to financing of long term assets.	-

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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About CARE Ratings:

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