Press Release

NLC India Limited (NLCIL)
March 31, 2024

Ratings

Instrument / Facilities	**Amount (Rs. crore)**	**Ratings**	**Rating Action**	**Complexity Indicator**
Long Term Bank Facility	1260.44 (Reduced from 1428.51)	IVR AAA / Stable (IVR Triple A with Stable Outlook)	Reaffirmed	Simple
Total	**1260.44 (Rupees One Thousand two hundred and sixty crore and forty-four lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the rating assigned to the bank facility of NLC India Limited (NLCIL) factors in the Government of India's (GoI) majority shareholding (72.2%), NLCIL being a Navratna public sector undertaking and being strategically important to the GoI from mining and power generation perspective. The rating also draws comfort from long-term power purchase agreements (PPAs) with the state distribution utilities under two-part tariff structure which ensures steady offtake, cash flows and profitability leading to comfortable debt coverage metrics. Captive lignite and coal mining assures guaranteed fuel supply with a control on fuel costs. The financial profile of company is marked by healthy capital structure specially, considering its infrastructure nature of business. Healthy debt coverage ratio bolsters company's financial position. Coupled with GoI ownership, this provides superior financial flexibility to the company and ability to access funds at competitive rates. The rating strengths are however tempered by counterparty credit risks associated with weak to moderate credit profile off takers, large size debt-funded capex plans and project implementation risks associated therewith.

Key Rating Sensitivities:

Upward Factors: None

Downward Factors

- Divestment of shareholding of GoI in NLCIL below 51%.
- Delay in recovery of dues from counterparties/ weakening of credit profiles of off takers impacting liquidity position of the company.
- Larger than expected debt funded capex deteriorating overall gearing to more than 2.5 x.
- Deterioration in the performance of the operational units leading to under recovery of costs and impacting profitability.
- Large cost overruns for the under-construction projects are not allowed by the regulator.

List of Key Rating Drivers with Detailed Description

A. Key Rating Strengths

Strategic importance to the Government and Navratna status:

NLCIL is the nodal agency for lignite mining in India appointed by the Ministry of Coal, with majority market share in lignite mining in the country and is also a major provider of power for south India. NLC is majority owned by the GoI with 72.20% stake in the company as on March 31, 2024. The sovereign ownership provides financial flexibility to raise funds at competitive rates from the banking sector as well as the capital markets. The company was given 'Navratna' status in the year 2011. Further the GoI had provided guarantees for the foreign currency borrowing of the company in the past and is expected to continue to provide need-based support.

Long-term PPAs under two-part tariff structure ensures steady cash flows:

NLCIL has a consolidated installed capacity of 6,071.06 MW as on October 13, 2023. The entire capacity has been tied up with long-term PPAs with a regulated two-part tariff structure with the state distribution utilities of Tamil Nadu, Karnataka, Andhra Pradesh, Telangana, Kerala, Puducherry and Rajasthan, limiting demand risks. This ensures recovery of all fixed expenses including debt obligation and fixed return on equity based on the achievement of performance benchmarks mandated by the Central Electricity Regulatory Commission (CERC). Also, the under-construction project in Uttar Pradesh has been tied up with states Uttar Pradesh and Assam for the entire capacity.

Captive lignite and coal mines assure guaranteed fuel supply:

NLCIL operates six thermal power plants, five plants are lignite-based power generation plants and one plant of NLC Tamil Nadu Power Limited (NTPL) is coal-based. The lignite-based power plants are pit head plants and have access to captive lignite mines with capacity of 30.10 million tonnes per annum (MMTPA) as on March 31, 2023. This is sufficient to take care of the entire fuel requirement of the lignite power plants. With respect to coal-based power plant, NTPL has fuel supply arrangement from Talabira for 2.37 MT and 3.63 MT under coal swapping from Coal India Limited (CIL) The availability of captive mines reduces fuel availability risks and ensures stability of operations.

Healthy financial risk profile:

The financial risk profile of NLCIL is marked by robust capital structure, unutilised bank limit and sizeable cash accruals. Due to improved collections from the off takers, the utilisation of working capital bank borrowings and commercial paper of NLCIL declined leading to improvement in its overall gearing from 1.79 times as on March 31, 2021, to 1.36 times as on March 31, 2022, and further to 1.28 times as on March 31, 2023, despite on-going capex programmes. The company had unutilised fund-based bank limit of around Rs 3,750 crore with average utilisation of around 25% over the last 11 months ended February 29, 2024. However total debt/ EBITDA moderated to 6.09x in FY23 from 4.89x in FY22 owing to the decrease in EBITDA, due to the unfavourable tariff orders received by the company. Any larger than expected debt funded capex, adversely impacting cash flows, will remain a monitorable.

B. Key Rating Weaknesses

Moderate operating efficiencies leading to under recovery of fixed charges

The average plant availability for NLCIL's portfolio has remained below the normative level of 80-85% in FY22 and FY23, owing to the technical issues and lower fuel availability at TPS II expansion and TPS II plants. This has resulted in under-recovery of fixed charges for the company impacting profitability. Further, the disallowance of capital costs by the CERC for the operating projects has also impacted the company's profitability in FY23. The EBITDA moderated from Rs. 4507.79 crores in FY22 to Rs.3662.61crores in FY23.

Counterparty credit risks associated with weak off takers:

NLCIL is exposed to high counterparty credit risks as its off takers, the state distribution utilities have weak to moderate financial profiles. Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) accounts for ~73% of the debtors as of December 2023 on a standalone basis. The credit risk profile of TANGEDCO has been weak as poor operating performance and absence of periodic tariff revision leading to substantial losses in operations.
However, total debtors on a consolidated basis, reduced from Rs.7,522 crores as on March 31, 2021, to Rs. 5,696 crores as on December 31, 2023, on account of receipt of funds by the power distribution companies (discoms) under the Atmanirbhar Bharat scheme and bill discounting facility availed by the company. The company has been discounting bills of discoms, while this has moderated the debtors but the recourse to company remains in case of non-payment of dues to the lenders by the discoms under the bill discounting mechanism. Reduction in receivables has led to decline in the working capital borrowings (CP and fund-based Limits) from Rs.6,283 crore as on March 31, 2021, to Rs.1,498 crore as on March 31, 2023.
The Ministry of Power (MoP) vide notification dated June 03, 2022, notified Electricity (Late Payment Surcharge and Related Matters) Rules, 2022 allowing the discoms to liquidate overdue amount in instalments. TANGEDCO has availed the facility to repay the outstanding dues of Rs.734 crore to NLCIL in 48 equally monthly instalments. Further, the benefit of Letter of credit and a tripartite agreement between the GoI, the state governments and the Reserve Bank of India, is also available to NLC.

Large-size debt-funded capex plans and project implementation risks:

The company is planning a capital expenditure of Rs.46,339 crores over FY24-26. The major ongoing projects are the 1,980-MW power plant in Uttar Pradesh, 2,400-MW Talabira pit- head thermal power station, mining project in South Pachawar Coal block along with a ramp-up of Talabira mines to 20 MT per annum, and renewable projects like 50 MW solar plant in Neyveli, 600 MW in Gujarat and 810 MW solar plant in Rajasthan. Hence, the company may face risks related to time and cost overruns primarily due to delay in obtaining clearances, technical issues during stabilisation phase etc. Some of the projects have been delayed due to the Covid-19 pandemic. Delays can impact profitability depending on the extent of cost overrun allowed, as a pass-through by CERC. The completion of these projects on time and within budgeted costs and the subsequent approval of the tariffs by the CERC without any major disallowances will be a key rating monitorable. There are long term PPAs for majority of the capacity being added and availability of fuel mitigates any demand risk. NLCIL is also in advanced stages of starting a project to convert lignite to methanol. The company could incur a greater amount of capex on renewable projects over the medium term. Further, any larger than expected debt funded capex further moderating overall gearing of over 2.5 x would a key rating sensitivity.

Analytical Approach: Consolidated Approach with Government Support

Applicable Criteria:
Policy on default recognition
Criteria of assigning Rating Outlook
Rating Methodology – Infrastructure Companies
Financial Ratios & Interpretation (Non-Financial Sector)
Criteria on Government Support

Liquidity: Adequate
The liquidity of NLC is marked by healthy cash flow from operations, sufficient to meet its debt repayment obligations. The company has cash and cash equivalents of around Rs. 77.48 crore as on March 31, 2023. NLCIL also has total cash credit limit of Rs.3,750 crore on a standalone basis, largely undrawn providing sufficient liquidity buffer. Also, the company has access to Commercial Paper market. The funding for the capex programme is expected to be met through a mix of internal accruals and debt funding. Further being a 'Navratna' NLC has strong financial flexibility to raise additional debt at competitive rates.

About the company
NLC India Limited (erstwhile Neyveli Lignite Corporation Limited), a public sector undertaking incorporated in November 1956, is involved in lignite mining, coal mining, power generation and power trading. The company, at present, has a lignite mining capacity of 30.10 MMTPA, coal mining capacity of 20 MMTPA and installed power generation capacity of 6,071.06 MW

as on March 31, 2024. Its power stations cater to the five southern states of Tamil Nadu, Andhra Pradesh, Telangana, Kerala and Karnataka, the Union Territory of Puducherry, as well as Rajasthan through its thermal plant in Barsingsar. The GoI holds a 72.20 % stake in the company. It works under the administrative control of the Ministry of Coal, the GoI. In April 2011, the GoI declared the company as a Navratna enterprise.

Financials (Consolidated):

(Rs. crore)

For the year ended / As On*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	11947.94	16165.24
EBITDA	4507.79	3662.61
PAT	1115.65	1426.09
Total Debt	22058.37	22305.72
Tangible Net worth	16184.48	17446.14
Ratios		
EBITDA Margin (%)	37.73	22.66
PAT Margin (%)	8.89	8.20
Overall Gearing Ratio (x)	1.36	1.28

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: The rating continued to be in ISSUER NOT COOPERATING category by Brickwork Ratings as per press release dated January 24, 2024, due to unavailability of information for monitoring of the rating.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Bank Facility-Fund Based- Term Loan	Long Term	1260.44	IVR AAA/Stable	**(March 27,2023)** IVR AAA/Stable	-	-

Press Release

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Long Term Bank Facility-Fund Based- Term Loan	-	-	March 31,2031	1260.44	IVR AAA / Stable

Annexure 2: List of companies considered for consolidated analysis:

Name of the company	Ownership	Extent of consolidation	Rationale of consolidation
NLC Tamilnadu Power Limited	89.00%	Full	Subsidiary
Neyveli Uttar Pradesh Power Private Limited	51.00%	Full	Subsidiary
MNH Shakthi Limited	15.00%	Partial	Associate
Coal Lignite Urja Vikas Private Limited	50.00%	Partial	Joint Venture

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-NLCIndia-mar24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.