Press Release

NLC India Ltd

March 27, 2023

Ratings:

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	1428.51	IVR AAA/ Stable (IVR Triple A with Stable Outlook)	Assigned	Simple
Total	**1428.51 (Rupees One thousand four hundred and twenty-eight crore and fifty-one lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale:

The rating assigned to the long-term facility of NLC India Ltd (NLC) dervies strength from Government of India's (GoI) majority shareholding (79.2%), NLC 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 cash flows, profitability leading to comfortable debt coverage metrics. Captive lignite and coal mining assures guaranteed fuel supply and 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 flexibility. Coupled with GoI ownership, this provides strong financial flexibility to the company and ability to access funds at competitive rates.

The rating strengths are however constrained 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

- **Upward Factors:** Not applicable
- **Downward Factors**
  - Divestment of shareholding of GoI in NLC
  - 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 times.
  - Deterioration in the operating performance of the operational units impacting profitability.
  - Large cost overruns for the under-construction projects not allowed by the regulator.

Key Rating Drivers with detailed description:

Key Rating Strengths:

Navratna status and of strategic importance to the Government:

NLC 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. It is also a major provider of power for south India. NLC is majority owned by the GoI with 79.20% stake in the company as on December 31, 2022. 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:

NLC has a consolidated installed capacity of 6,061 MW as on December 31, 2022. The entire capacity has been tied up with long-term power purchase agreements (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 normative parameters mandated by the Central Electricity Regulatory Commission (CERC). Also, the under-construction project in Uttar Pradesh has been tied up with states of Uttar Pradesh and Assam for the entire capacity.

Captive lignite and coal mines assure guaranteed fuel supply:

NLC operates six thermal power plants, five plants are lignite-based power generation plants and one plant of NTPL is coal-based. The lignite-based power plants are pit head plants and have access to captive lignite mines with capacity of 32.10 MMTPA as on March 31, 2022. 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 started receiving coal from the captive Talabira mines of NLC. The availability of captive mines reduces fuel availability risks. Pending the availability of the railway siding, NTPL has entered into a MCL coal swapping arrangement of 2.40 MMTPA with NTPC Limited for a period of two years.

Healthy financial risk profile:

The financial risk profile of NLC is marked by robust capital structure, unutilised bank limit and sizeable cash accruals. During FY22, due to improved collections from the off-takers, the utilisation of working capital bank borrowings and commercial paper of NLC declined leading to improvement in its overall gearing to 1.36 times as on March 31, 2022, from 1.79 times as on March 31, 2021 despite on-going capex programmes. The company had unutilised fund-based bank limit of around Rs 4,000 crore with average utilisation of around 2% over the last 9 months ended December 31, 2022. However, any larger than expected debt funded capex, adversely impacting cash flows, will remain a monitorable.

Key Rating Weaknesses:

Counterparty credit risks associated with weak off takers:

NLC is exposed to high counterparty credit risks as its off takers, the state distribution utilities have weak to moderate credit profiles. Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) accounts for ~65% of the debtors as of December 2022 on a consolidated basis and is the major customer. The credit profile of TANGEDCO has been weak as poor operating performance and absence of periodic tariff revision leading to substantial losses in operations.

Total debtors on a consolidated basis, reduced significantly from Rs.7,522 crores as on March 31, 2021, to Rs. 3,710 crores as on March 31, 2022, on account of receipt of funds by the 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 from Rs.6,283 crore as on March 31, 2021, to

Rs.1,592 crore as on March 31, 2022. The debtors at the end of nine months December 31, 2022, are Rs.7445 crores, which continues to be high.

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 availed the facility to repay the outstanding dues of Rs.734 crore to NLC 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. 30,000 crores over FY23-25. The major ongoing projects are the 1,980-MW power plant in Uttar Pradesh, 2,400-MW Talabira pit-head thermal power station, Talabira and Pachwara coal mines in Odisha and Jharkhand, FGD capex for existing units and new renewable power projects. 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 fuel risk. Further, any larger than expected debt funded capex further moderating overall gearing of over 2.5x would a key rating sensitivity.

Analytical Approach: Consolidated basis, factoring in the Government support.

Applicable Criteria:

Criteria of assigning Rating Outlook

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria on Government Support

Policy on Default Recognition

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. 92 crore as on December 31, 2022 on a standalone basis. NLC also has total fund based cash credit limit of Rs.4,000 crore on a standalone basis, largely undrawn providing sufficient liquidity buffer. Also, with strong credit profile company has access to capital markets. 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 and power generation and power trading. The company, at present, has a lignite mining capacity of 32.1 million tonnes per annum (MTPA), coal mining capacity of 20 MTPA and installed power generation capacity of 6,061 MW as on date. 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 79.2% 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*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	9846.09	11947.94
EBITDA	3265.55	4507.79
PAT	1314.11	1115.65
Total Debt	27230.18	22058.37

For the year ended / as on*	31-03-2021 (Audited)	31-03-2022 (Audited)
Tangible Net Worth	15234.58	16184.48
Ratios		
EBITDA Margin (%)	33.17	37.73
PAT Margin (%)	11.14	8.89
Overall Gearing Ratio (x)	1.79	1.36

**As per Infomerics' standards*

Status of non-cooperation with previous CRA: Nil

Any other information: Not Appliable

Rating History for last three years:

Sr. No	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	1428.51	IVR AAA/ Stable	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the firm are extended to External Credit Assessment Institution (ECAI).

Adhering to best international practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of the investors and the banks.

Infomerics has a pan India presence with head office in Delhi, branches in major cities and representatives in several locations.

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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 Facilities	-	-	Repayable in 20 half-yearly instalments starting from 30.09.2021	1428.51	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-mar23.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 based on complexity and a note thereon is available at www.infomerics.com.