

## Press Release

### NLC Tamil Nadu Power Limited

August 18, 2020

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 2,000.00 Cr.
<b>Short Term Rating</b>	ACUITE A1+ (Assigned)

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned the short-term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 2,000.00 Cr Standalone Commercial Paper Programme of NLC Tamil Nadu Power Limited (NTPL).

NTPL is a subsidiary (89 per cent) of NLC India Limited (NLC). NLC is a Navratna public sector entity with 79.2 per cent stake held by Government of India. NLC has an established track record of more than 50 years in lignite mining and power generation. The rating considers the strong financial and operational support NTPL obtains from its parent company. The rating also takes into consideration the long-term cost-plus power purchase agreements (PPA) for a period of 25 years and long-term fuel supply agreements in place that assures availability of adequate coal availability for its entire capacity. However, the rating remains constrained on account of the stretch in the receivables from financially weak DISCOMs. Acuite however, takes into cognizance that the company holds letter of credit from these DISCOMs towards receivable of units supplied, the letter of credit will ensure payment in reasonable time from these DISCOMs to avert any invocation of LC by NTPL. Further, the rating considers that despite the company's relatively weak position in the merit order of dispatches, the PLF level has improved significantly to 62.55 per cent in FY2020 compared to 55.14 per cent in the previous year as compared to the national average of 55.19 per cent for FY2020. Improved position in merit order may result in improved PLF levels for the company, going forward. The company continues to generate adequate cash accruals to meet its long-term loan obligation, thereby assuring comfortable liquidity.

The above-mentioned strengths are partly offset by the moderate return indicators as truing up of final project cost is pending.

### About the Company - NTPL

NLC Tamil Nadu Power Limited (NTPL), incorporated in 2005, is a joint venture company of NLC India Limited and Tamil Nadu Generation and Distribution Company (TANGEDCO). The equity participation between NLC & TANGEDCO is in the ratio 89:11. The JV was incorporated with an idea of expansion devised by NLC to set up a 2x500 MW thermal power plant in Tuticorin, Tamil Nadu. The total cost of setting up the project was Rs.7293 Cr which was funded in a mix of debt and equity in the ratio 70:30.

### About the Parent Company – NLC India Limited

NLC India Limited, formerly Neyveli Lignite Corporation Limited, is a public sector enterprise engaged in mining of lignite and generation of power by using lignite as well as renewable energy sources. It is a Navratna entity established in 1956 by Government of India, operating under the administrative control of Ministry of Coal and Government of India. The company has a lignite mining capacity of 30.60 MTPA and power generating capacity of ~6000 MW (including JVs).

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of NTPL to arrive at the rating, while has factored equity support from the parent towards Flue Gas Desulphurization (FGD) capital expenditure of ~Rs.800 Cr to be incurred by NTPL.

### Key Rating Drivers

#### Strengths

- Strong parentage and established track record of operations

NLC Tamil Nadu Power Limited (NTPL), incorporated in 2005, is a joint venture company of NLC India Limited and Tamil Nadu Generation and Distribution Company (TANGEDCO). The equity participation between NLC & TANGEDCO is in the ratio 89:11. NLC India is a Navratna entity with 79.2 per cent stake held by Government of India. NLC India Limited has an established track record of operations of more than 50 years in lignite mining and power generation (both renewable and conventional) and the operational performance continues to remain healthy. The company has a lignite mining capacity of 30.60 MTPA and power generating capacity of ~6000 MW (including JVs). The company has several power plants set up in different regions in the country. NLC India has a track record of aiding NTPL both financially and operationally for setting up the plant and running the operations smoothly. The companies have a common set of directors and management team. Acuite believes that NTPL will continue to benefit from its strong parentage and the parent company's presence for more than 50 years.

- **Stable operations with the presence of long-term power purchase agreements and fuel supply agreements**

NTPL has a long-term power purchase agreement (PPA) of 25 years signed with multiple DISCOMs in the southern states of India for the entire quantum of power it generates. The company benefits from long term off-take agreement for 100.00 percent of the capacity. The power is sold mainly to Tamil Nadu (~40 per cent), Karnataka, Kerala, Andhra Pradesh & Telangana and Union Territory of Puducherry DISCOMs which mitigates the offtake risk and risk of delay in realization of receivables to a certain extent. The tariff, determined by CERC guidelines, is based on two-part tariff structure - fixed charge recoverable at normative availability factor of 85 percent, variable charge based on actual landed cost of coal and quantity of coal computed on the basis of net quoted heat rate of 2358 kCal/kWh. The company is able to maintain Plant Availability Factor (PAF) of 80 percent and PLF of 55 to 63 percent in the last two years, which mitigates demand risk. However, due to a relatively weak position in the merit order dispatch, the PLF has remained low. It is expected to go up on account of improvement in the position in the merit order dispatch. The same is a result of improvement in the cost of generation observed from the decreasing average ECR at Rs.3/kWhr in FY2020 against Rs.3.17/kWhr in FY2019.

The company has Fuel Supply Agreements (FSA) in place from Eastern Coalfields Limited (ECL) and Mahanadi Coalfield for a quantity of 1.3 MMTPA and 3 MMTPA respectively of required minimum fuel supply of 4.3 MMTPA to operate the plant at normative level ~ PAF of 85.00 percent. Further, based on the requirement, NTPL procures imported coal through a tendering process which however will cease to exist from the coming financial year. Since the company has been able to procure its major coal requirement domestically, its landed cost of coal is also relatively lower at Rs. 3000 to 3,500/MT. Acuite believes that the presence of cost-plus long term PPA and FSA in place will further support the business risk profile of NTPL and ensure uninterrupted generation.

- **Moderate financial risk profile with moderate coverage indicators**

NTPL's financial risk profile is moderate, marked by healthy net-worth, moderate gearing, total outside liabilities to tangible net worth (TOL/TNW) and above-average debt service coverage indicators. The net worth is comfortable at Rs. 2,491 Cr as on 31 March, 2020 as against Rs.2,480 Cr as on 31 March, 2019. NTPL has followed a moderately aggressive financial policy in the past as reflected by its peak gearing levels of 2.37 times over the last three years through FY 2020. Though the gearing has moderated to 2.11 times as on March 31, 2020, on account of moderate accretion to reserves and repayment of long-term debt. NTPL, however, plans to incur capital expenditure towards Flue Gas Desulphurization for a total cost of Rs.800 Cr, which is likely to impact the gearing levels over the medium term.

NTPL's debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.33 times and 0.10 times, respectively in FY2020. The debt service coverage ratio has stood at 1.03 times in FY2020 from 1.16 times in FY2019. Also, NTPL has generated adequate cash accruals of Rs.510 Cr to Rs.650 Cr for the last two years through FY2020 against debt obligations of about Rs.492.7 Cr for the same period. Acuite believes that the financial risk profile of the company is expected to remain moderate with comfortable net-worth and debt-funded capital expenditure plans and scheduled repayment of term loans.

## Weaknesses

- **Counterparty credit risk and receivable management**

The company has moderate working capital operations as evident from increased Gross Current Asset (GCA) days of 414 days in FY2020 as against 293 days in FY2019. The debtor days stood stretched at 275 days in FY2020 as compared to 186 days in FY2019. The inventory days stood at 75 days in FY2020 as compared to 47 days in FY2019. The stretch in GCA days is on account of elongation in receivable and higher inventory holding days on account of coal inventory. Due to exposure to the financially weak

DISCOMs, there has been a build-up of receivables in the last few years. The receivables stood high at Rs.1,837.4 Cr and unbilled revenue stood at Rs.276 Cr, which corresponds to ~68 per cent of its total revenue for FY 2020, against 48 percent in the previous year. Although it is noteworthy that due to the payment security mechanism introduced by the Ministry of Power in August – 2019 it is expected to ensure payment from the DISCOMs in a reasonable time, going forward. During Q1FY2021, NTPL has received ~Rs.682 Cr from the DISCOMs. Also, post the Finance Ministry's announcement of the relief package for DISCOMs for Rs 90,000 crore as loan through Power Finance Corporation (PFC) and Rural Electrification Corporation (REC), the receivables realization from the state DISCOMs is expected to improve over the medium term.

#### • Risks related to the power industry in India

The Indian Power sector is presently going through a major transformation with key initiatives undertaken by the Govt of India, particularly in the development of green energy. Over the years the power generated from renewable energy sources have increased manifold, however, it is anticipated that the power from fossil fuel would continue to be the dominant source of energy for the country for some more years. The overall demand-supply position has changed in the power sector in recent years with the improvement in the transmission network and the availability of cheap renewable power with a must-run status. This has resulted in DISCOMs increasingly surrendering high-cost thermal power, thereby impacting the position in merit order dispatch and PLF levels of thermal plants. NTPL has also witnessed power surrender from DISCOMs since its first full year of operations, which have resulted in moderate PLF levels in the range of 62.5 per cent in FY2020 from 55 per cent in FY2019.

With the outbreak of COVID – 19 and subsequent announcement of lockdown in the country, the power supply saw a decrease of 25per cent. The demand for electricity remained subdued over the few months during the lockdown. During the lockdown period, the coal stock with coal power plants has seen an increase. As of April 19, total coal-stock with the power plants in the country (in days) has risen to 29 days as compared to 24 days on March 24. This indicates that the supply of coal has not been constrained during the lockdown, at least to the extent of meeting the requirements of power plants. Moreover, power generation has been adjusted to compensate for reduced consumption; most of this reduction in consumption has been adjusted by reduced coal power generation. This shift may be happening due to various reasons including (i) renewable energy sources (solar, wind, and small hydro) have MUST RUN status, i.e., the power generated by them has to be given the highest priority by distribution companies, and (ii) running cost of renewable power plants is lower as compared to thermal power plants. Finances of the power sector to also remain impacted. Due to the lockdown and its further impact in the near term, the financial situation of DISCOMs is likely to be aggravated which is partly mitigated by Finance Ministry's announcement of the relief package for DISCOMs for Rs 90,000 Cr as loan through Power Finance Corporation (PFC) and Rural Electrification Corporation (REC). Acuite considers any significant change in the business and financial risk profile due to current industry trends will remain monitorable.

#### Rating Sensitivities

- Dilution of stake by NLC below 51 per cent
- Improvement in receivable management leading to improvement in working capital intensity or vice versa

#### Material Covenants

None

#### Liquidity: Adequate

NTPL has a demonstrated track record of adequate cash flow against the repayment obligations in the last three financial years with cash accruals ranging from Rs.510 Cr to Rs.650 Cr from FY2018 to FY2020 against repayment obligations of Rs.492.7 Cr for the same period. The company has a planned capital expenditure for implementation of the FGD (flue gas desulphurization) system that entails an expenditure of about Rs.450 Cr for FY2021 with an equity contribution of 30per cent. The liquidity of the company is adequate, marked by strong resource mobilisation ability basis its strong parentage and the continued support thereof. The current ratio of the company is low at 0.89 times as on March 31, 2020. The unencumbered cash and bank balances stood at Rs.4.41 Cr as on March 31, 2020. Acuite believes that liquidity is expected to remain adequate on account of sufficient cash accruals against its repayment obligations over the medium term.

#### About the Rated Entity - Key Financials

	Unit	FY2020 (Actual)	FY2019 (Actual)
Operating Income	Rs. Cr.	2,670.52	2895.59
PAT	Rs. Cr.	143.15	270.74
PAT Margin	(%)	5.36	9.35

Total Debt/Tangible Net Worth	Times	2.11	1.98
PBDIT/Interest	Times	2.33	2.76

**Status of non-cooperation with previous CRA (if applicable)**

None

**Any other information**

Not Applicable

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Commercial Paper - <https://www.acuite.in/view-rating-criteria-54.htm>

**Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

**Rating History (Upto last three years)**

Not Applicable

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Commercial Paper	Not Applicable	Not Applicable	Not Applicable	2,000.00	ACUITE A1+ (Assigned)

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**About Acuité Ratings & Research:**

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