Press Release

NLC Tamil Nadu Power Limited

August 13, 2021

Rating Withdrawn

Total Bank Facilities Rated*	Rs. 2,000.00 Cr.
Short Term Rating	ACUITE A1+ (Withdrawn)

** Refer Annexure for details*

Rating Rationale

Acuité has withdrawn its short-term rating of **'ACUITE A1+' (read as ACUITE A one plus)** on the Rs. 2,000.00 Cr standalone Commercial Paper Programme of NLC Tamil Nadu Power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. The rating is withdrawn basis request received from the issuer and nil outstanding on commercial paper confirmed by issuer and paying agent (IPA) as per Acuite's policy.

The rating reaffirmation is basis NTPL's 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. Acuité 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. The company continues to generate adequate cash accruals to meet its long-term loan obligation thereby assuring comfortable liquidity.

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

Acuité 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.

- **Stable operations with 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 percent of the capacity. The power is sold mainly to Tamil Nadu (~40per 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 approx. 2358 kCal/kWh.
  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 percent. The company is able to procure its major coal requirement domestically, its landed cost of coal is also relatively lower at Rs. 3000 to 3,500/MT.

- **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 strong at Rs. 2,781 Cr as on March 31, 2021 as against Rs. 2,491 Cr as on March 31, 2020. NTPL has followed a moderately aggressive financial policy in the past as reflected by its peak gearing levels of 2.11 times over the last three years through FY 2021. Though the gearing has moderated to 1.79 times as on March 31, 2021, 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 3.56 times and 0.15 times, respectively in FY2021. The debt service coverage ratio has stood improved at 1.29 times in FY2021 from 1.03 times in FY2020. Also, NTPL has generated adequate cash accruals of Rs. 742 Cr in FY2021 against debt obligations of about Rs.492.7 Cr for the same period.

Weaknesses

- **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 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. Demand of 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).

Rating Sensitivities
Not Applicable

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.742 Cr from FY2019 to FY2021 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 30 per cent. The liquidity of the company is adequate marked by strong resource mobilization ability basis its strong parentage and the continued support thereof. The current ratio of the company is low at 0.94 times as on March 31, 2021.The unencumbered cash and bank balances stood at Rs. 5.34 Cr as on March 31, 2021.

Outlook: Not Applicable

About the Rated Entity - Key Financials

	Unit	FY2021 (Actual)	FY2020 (Actual)
Operating Income	Rs. Cr.	2,958.02	2,670.52
PAT	Rs. Cr.	363.00	143.15
PAT Margin	(%)	12.27	5.36
Total Debt/Tangible Net Worth	Times	1.79	2.11
PBDIT/Interest	Times	3.56	2.33

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
Not Applicable

Any Material Covenants
None

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
18-Aug-2020	Commercial Paper	Short Term	2,000.00	ACUITE A1+ (Assigned)

***Annexure – Details of instruments rated**

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

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Sagarikaa Mukherjee Senior Analyst - Rating Operations Tel: 022-49294033 sagarikaa.mukherjee@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.