

Press Release

NTPC Vidyut Vyapar Nigam Limited

June 07, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 1,510.00 Cr*
Long Term Rating	ACUITE AA+/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A1+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE AA+**' (**read as ACUITE double A plus**) and the short-term rating of '**ACUITE A1+**' (**read as ACUITE A one plus**) on the Rs. 1,510.00 Cr bank facilities of NTPC Vidyut Vyapar Nigam Limited (NVVN). The outlook is '**Stable**'.

Rationale for rating assignment

The rating assigned derives comfort from the support extended by the parent company i.e. NTPC Limited which has been conferred a Maharatna status by the Government of India (GoI) and the same is holding 51.10 per cent stake in NTPC Limited as on March 31, 2021. The ratings also take into account the healthy business risk profile in view of "Nodal Agency" status of NVVN for cross-border power trading and for phase-I of Jawaharlal Nehru National Solar Mission (JNNSM), established relationships with counter-parties, recent developments in the e-mobility solution segment, healthy financial risk profile owing to absence of any long-term debt in the capital structure and undrawn working capital limits leading to superior liquidity position.

These rating strengths are partially offset by counter-party credit risk as discoms are currently ailing through liquidity crunch and highly competitive industry due to presence of 34 power trading licensees as on January 2021.

About the company

NVVN was incorporated in November 2002, as a wholly owned subsidiary of NTPC Limited which is under the ownership of GoI. NVVN is engaged in the business of sale and purchase of electric power and holds Category-I license issued by Central Electricity Regulatory Commission (CERC) of India permitting unlimited trading of power. NVVN is the sixth largest trader of electricity across the country in terms of volume transacted as on January 2021. The company also trade power on energy exchange in DAM (Day-Ahead Market), TAM (Term Ahead Market), RTM (Real Time Market) and Energy Saving Certificate (ESCert). NVVN is designated as nodal agency for cross-border power trading with Bangladesh, Bhutan and Nepal. Presently, power is being exported by the company to Bangladesh and Nepal. Furthermore, NVVN is also designated as nodal agency for Jawaharlal Nehru National Solar Mission (JNNSM) phase-I, which envisages setting up of 1000 MW solar capacity for sale of such power bundled with the power sourced from NTPC coal power stations in the ratio of 1:1, to State Discoms.

NVVN has also diversified into segments such as renewable projects, EMobility and Waste to Energy. As a recent development, NVVN has entered into MoU with Directorate of Transport (DoT), Andaman & Nicobar Islands and supplied 40 electric buses on hire along with associated infrastructure for contract duration of 10 years in ecologically sensitive zone.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of NVVN to arrive at the rating while taking into account the inherent backing of NTPC Limited, given its 99.99 per cent ownership in the company.

Key Rating Drivers

Strengths

• Demonstrated support from NTPC Limited

NTPC Limited, the parent company has extended operational, financial and managerial support to NVVN. NTPC Limited along with its subsidiaries also sells power to NVVN, which is further sold by the latter to various State Electricity Boards (SEBs), State Power Utilities (SPUs) and Discoms. The top management comprising experts drawn from NTPC Limited and strong parentage has enabled NVVN to establish healthy relationships with its customers. Apart from the equity support, the parent company has also extended a line of credit to the tune of Rs. 90.00 Cr to meet its operational expenses. However, the said limit remains undrawn as on date.

Acuité believes that NVVN will continue to leverage the strong market position of NTPC Limited and experience of its management in order to explore market opportunities in the recently added business segments and continue developing healthy relationships with its customers and suppliers.

• Established presence in the industry coupled with healthy business operations

NVVN has been into business of power trading since November 2002 and is the sixth largest power trader in terms of electricity transacted in India as on January 31, 2021. It holds Category-I power trading license wherein there is no trading limit. NVVN is designated as nodal agency for cross-border power trading with Bangladesh, Bhutan and Nepal. NVVN is also designated as nodal agency for Jawaharlal Nehru National Solar Mission (JNNSM) phase-I, which envisages setting up of 1000 MW solar capacity with a mandate for purchase of power from the solar developers and for sale of such power, bundled with the power sourced from NTPC coal power stations in the ratio of 1:1 to State Discoms. Solar capacity up to 733 MW is presently operational under the mission and solar power bundled with thermal power is being supplied by NVVN to 13 states in various power region.

Owing to the above-stated factors, the company has been able to operate at healthy scale marked by an operating income of Rs. 4,403.17 Cr in FY2020 and Rs. 2,303.62 Cr during 6MFY2021 despite Covid-19 pandemic. Profitability however remain lean due to inherent nature of trading industry and has deteriorated in FY2020 on account of higher provisioning for doubtful debts.

• Robust financial risk profile

The financial risk profile of NVVN is strong marked by debt-free capital structure, healthy net worth and healthy debt protection metrics. The net worth of the company stood healthy at Rs. 370.29 Cr as on March 31, 2020. The financial risk profile of the company is supported by healthy net cash accruals (adjusted of provisions) of Rs. 102.81 Cr and debt-free capital structure resulting in nil gearing levels as on March 31, 2020.

NVVN has plans to undertake capital expenditure over the medium term in the e-mobility segment and is also planning to undertake projects primarily in the renewable energy segments. Nevertheless, any significant debt-funded capital would remain a key monitorable.

Furthermore, company has considerable financial flexibility owing to negligible debt, largely undrawn bank lines and liquid funds of Rs. 289.62 Cr in the form of unencumbered cash & cash equivalents and bank deposits as on March 31, 2020. Liquidity is further supported by undrawn line of credit of Rs. 90.00 Cr extended by NTPC Limited.

Acuité believes the overall financial risk profile of NVVN is expected to remain strong over the medium term on account of continued support from parent company and absence of any debt-funded capital

expenditure.

Weaknesses

- **Counterparty credit risk**

NVVN is dealing with SEBs, SPUs and Discoms which exposes it to high counterparty risk and thus timely collection of receivables remains a key rating sensitivity factor. The receivables have decreased to Rs. 979.43 Cr as on March 31, 2020 as against Rs. 1,060.91 Cr as on March 31, 2019 i.e. to 81 days as of FY2020 from 87 days as of FY2019. Similarly, creditors' payment period reduced from 74 days as of FY2019 to 69 days as of FY2020. The increase in receivables is mostly covered by corresponding increase in payables, thereby partially setting off the risk. For the sales against JNNSM phase-1, there is a three-way payment security mechanism in the form of budgetary support from Ministry of New and Renewable Energy (MNRE), letter of credit issues by banks on behalf of its customers and bank guarantee (solar) encashment fund. Any adverse movement in the financial profile as well as liquidity position of counterparties, could lead to delay in realization of receivables and would remain a key monitorable.

Rating Sensitivity

- Significant weakening of operating performance
- Substantial debt-funded capital expenditure

Material Covenants

None

Liquidity: Superior

NVVN has superior liquidity profile marked by healthy net cash accruals against no significant debt obligations. The company generated net cash accruals (adjusted of provisions) of Rs. 102.81 Cr during FY2020, while there were no maturing debt obligations during the same period. The company's working capital operations are intensive marked by GCA of 123 days for FY2020. The increase in debtors is mostly covered by increase in creditors therefore funding the working capital operations significantly. This leads to lower reliance on its working capital limits. Liquidity is further supported by unutilized line of credit of Rs. 90.00 Cr extended by NTPC Limited. Moreover, NVVN maintains unencumbered cash and bank balances (including untied fixed deposits) of Rs. 288.62 Cr. Acuité believes that the liquidity of the company is likely to remain superior over the medium term on account of healthy operational cash accruals and absence of any significant debt over the medium term.

Outlook: Stable

Acuité believes that NVVN will maintain "Stable" business risk profile on account of strong parentage and healthy financial flexibility of the company. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its business risk profile and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile or delay in realization of receivables.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	4,403.17	4,481.24
PAT	Rs. Cr.	17.53	65.56
PAT Margin	(%)	0.40	1.46
Total Debt/Tangible Net Worth	Times	-	-
PBDIT/Interest	Times	12.01	51.35

Status of non-cooperation with other CRA

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Group and Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to previous three years)

Not Applicable

***Annexure 1 – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	400.00	ACUITE AA+/ Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE AA+/ Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE AA+/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A1+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	350.00	ACUITE A1+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A1+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A1+ (Assigned)

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About Acuité Ratings & Research:

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