Press Release
N L C India Limited
May 27, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1000.00	ACUITE AAA | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	1000.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of **'ACUITE AAA' (read as ACUITE t riple A)** on the Rs.1,000 Cr. bank facilities of NLC India Limited (NLCIL). The outlook is **'Stable'**.

Rational for Rating

The rating reaffirmation factors in the strategic importance of NLC India Limited (NLCIL), a Navratna public sector undertaking (PSU), to the Government of India (GoI) in the mining and power generation and the majority shareholding (72.4%) of the GoI. The rating also draws comfort from the NLCIL's strong business risk profile in lignite mining, coal mining and power generation. Further, the risk of fuel availability for its coal-based plants is also mitigated through long-term fuel linkages with the subsidiaries of Coal India Limited (CIL), Talabira coal mines and Pachwara South coal block in Odisha. The long-term power purchase agreements (PPAs) with the state discoms limit the demand risks for the power generation assets and the cost-plus tariff structure ensures steady profitability, resulting in comfortable debt coverage metrics. The rating also considers NLCIL's diversification into renewable power generation. 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.

About Company

Incorporated in November 1956, NLC India Limited (NLC; erstwhile Neyveli Lignite Corporation Limited), is an integrated power company having captive lignite and coalmines and a consolidated generation capacity of 6,061 MW. The company was awarded the 'Navratna' status in the year 2011, and it acts as a Nodal Agency for lignite mining appointed by the Ministry of Coal (MoC), with majority market share in lignite mining in the country. NLCIL serves as an important source of power generation to the states of Tamil Nadu, Andhra Pradesh, Karnataka, Kerala, Telangana, Rajasthan, and Union Territory of Puducherry. It operates four open cast lignite mines with current capacity of 30.1 MTPA, namely Mine I, Mine IA, Mine II and Barsingsar Mine. It also operates an open cast coalmine, Talabira II & III having current capacity of 20.0 MTPA. NLC has lignite thermal power generation capacity of 3640 MW, with 4 pithead power plants at Neyveli, Tamil Nadu, 1 pithead power plant at Barsingsar, Rajasthan and a 1000 MW coal plant through JV (NTPL) in Tamil Nadu. The company also has solar energy capacity of 1370 MW and wind energy capacity of 51 MW. NLC operates on a cost plus basis with electricity tariff determined by CERC and also the lignite transfer price is determined by CERC.

Unsupported Rating

Not Applicable

Extent of Consolidation

• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has combined the business and financial risk profiles of NLC and its joint ventures (JVs) —NLC Tamil Nadu Power Ltd (NTPL; 89% held by NLC) and Neyveli Uttar Pradesh Power Ltd (51% held by NLC)—due to the stated position of the management of providing complete financial and managerial support to the JVs.

Key Rating Drivers

Strengths

Navratna PSU with strategic importance to the government

NLC was established by the GoI in the year 1956, following the discovery of lignite deposits in Neyveli, Tamil Nadu. With 79.20% stake as on March 31, 2023, the GoI majorly owns the company. The tripartite agreement between the GoI, state governments and the Reserve Bank of India (RBI) provides financial flexibility to the company in raising funds at competitive rates. India had total measured proved lignite reserves of 7,374 million tonne (MT) of which NLC had 5,107 MT (~70%). The company is a major provider of power for south India.

Increased operational efficiency buoyed by presence of captive mines

NLCIL has recorded a growth in operating income by ~38 per cent in FY 2023 as compared to FY 2022, as the revenue increased to Rs.17,383 Cr. in FY 2023 from Rs.12,589 Cr. in FY 2022, on account of higher plant load factor (PLF) due to higher power demand, better realisation from its mining activities and lower under-recoveries in the power business on better fuel availability. The company recorded highest ever power generation of 30.08 BU in FY23. Revenue from sale from the Coal of Talabira has witnessed a jump of 93 percent and stood at Rs.1,774 Cr, aiding the profitability of the mining division as the company sold the excess capacity in open market as per the GoI's directive. Further, the fixed cost under-recoveries during FY23 reduced to Rs.507 Cr. as against Rs.784 Cr. in FY22. Acuite believes that the company has been able to maintain healthy EBITDA (prior adjustment of regulatory deferral account balances and extra ordinary item) of Rs. 7059 Cr. in FY23 vis-à-vis Rs. 4926 Cr. in FY22 as the tariff competitiveness of the projects are supported by the availability of captive mines. Further, commissioning of NUPPL (JV with Uttar Pradesh Rajya Vidyut Utpadan Nigam Ltd) plant of 1980 MW capacity during current year 2024, will augment the top line going forward.

Low demand risk supported by long-term PPA arrangement

All the power plants of NLC (thermal, wind and solar) have long-term PPAs of 25 years with the state power Discoms in southern India and Rajasthan with a regulated two-part tariff structure, mandated by the Central Electricity Regulatory Commission (CERC). The tariff structure of every thermal power plant of NLC is divided into two parts, i.e., capacity charges upon maintaining plant availability factor (PAF) ensuring recovery of all the fixed overheads for each power plant along with a fixed return on equity (RoE). Energy charges for lignite are decided by the CERC and incorporated by the CERC in its tariff order and billed along with the power tariff. Also, the under-construction project in Uttar Pradesh has tied up long-term PPAs with Uttar Pradesh and Assam for the entire capacity.

Limited fuel supply risk

The lignite-based power plants mostly operate as pithead power stations which have access to captive lignite mines with capacity of 30.10 MTPA as on March 31, 2023. Lignite from mines is used as fuel for pit- head thermal power plants, providing continuous demand for the mining segment and leading to low fuel risks for the thermal plants. While majority of NLCIL's thermal stations are pit-head power plants, the 1,000- MW coal-based power plant in Tuticorin and the upcoming 1,980-MW coal-based unit in Uttar Pradesh are non-pit head plants. The coal supply for these plants is secured through long-term fuel linkages with the subsidiaries of Coal India Limited (CIL) and the supply from the 20-MTPA Talabira coal mines in Odisha and the 9.0 MTPA Pachwara South coal block in Jharkhand. Fuel requirement for the coal-based NTPL plant is partly met through a coal swapping arrangement entered with NTPC Limited wherein

Mahanadi Coalfields Ltd supplies 2.4 million tonne per annum (MTPA) coal to NTPL in lieu of the coal from NLC's Talabira, Orissa mines.

Healthy financial Risk Profile

The financial risk profile of the company is healthy with robust net worth, moderate leverage ratios and comfortable coverage indicators. The net worth of the company increased in FY 2024 to Rs.19137.55 Cr as against Rs.17446.14 Cr. in FY 2023 and Rs.16184.48 Cr. in FY 2022, with healthy accretion of profits to its reserves. The leverage ratios of the company improved and remains moderate with debt-equity ratio of 1.17 times in FY 2024 as against 1.28 times in FY 2023 and TOL/TNW ratio of 1.86 times in FY 2024 as against 2.03 times in FY 2023. Further, the tripartite agreement between the GoI, state governments and the Reserve Bank of India (RBI) provides financial flexibility to the company in raising funds at competitive rates. Due to the on-going planned capex debt-EBIDTA remained above 4 times and stood at 4.03 times in FY2024 as against 4.59 times in FY 2023 and 3.99 times in FY 2022. The coverage indicators improved in FY23 supported by sufficient cash accruals, as interest- coverage-ratio improved and stood comfortable at 6.54 times in FY 2024 as against 4.81 times in FY 2023. Debt-service-coverage-ratio also improved to 1.84 times in FY 2024 as against 1.63 times in FY 2023. Acuité believes despite large capex plans and expected regular dividend pay-out, the financial risk profile, is expected to remain healthy over the medium term backed by robust networth level, un-utilized bank limit and sizeable cash accrual.

Weaknesses

Exposure to counterparty credit risk; increase in receivables in FY23

NLC remains exposed to the counterparty credit risks on account of the weak financial profile of the state Discoms. The company has a receivable outstanding of Rs.4,729 Cr. as on 31st March, 2023 as against Rs.3,709 Cr. as on 31st March, 2022 from various discoms. The debtors increased in FY23 on account of the conversion of receivables from TANGEDCO into 48-month instalments under LPS scheme. Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) is one of the major customers and accounts for ~76 per cent of the total debtors. In Q1FY23, 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. Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) has availed the facility to repay the outstanding dues in 48 equally monthly instalments.

Execution risks associated with large capex

NLCIL has sizeable expansion plans with a planned capex of ~Rs. 15,000 crore over FY2024-FY2025. The key 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 300 MW of Solar Power Project at Barsinsar, Rajastha and other new renewable power projects. These projects entail significant execution risks related to approvals, land acquisition and construction and are prone to delays and cost overruns. While the demand and fuel risks for these projects are low due to the long-term PPAs and captive fuel sources, the completion of the projects on time and within the budgeted costs remains a key rating monitorable.

Rating Sensitivities

- Timely completion of capex without cost overrun
- Disinvestments of stake by Government of India

Liquidity Position

Strong

The company has sufficient cash accruals of Rs. 3692.46 Cr. in FY24 against CPLTD of Rs.1620 Cr. giving sufficient legroom for additional capex and working capital requirement. Further, the company has unencumbered cash and bank balance of Rs. 745.49 Cr. in FY24 supporting the liquidity profile. The company has significant CAPEX in FY25 & FY26 however the fund tie up for the same is already done hence there is no pressure on liquidity position of the company. NLC's average utilisation of its fund-based working capital limit was under 23% over the 12 months ended February 2024. The company has large undrawn working capital lines of ~Rs. 4,000 crore as on May 2023. Furthermore, the company being a 'Navratna' CPSE, has strong financial flexibility to raise additional debt at competitive rates. Acuité expects cash accrual, cash and equivalent and unutilised bank lines will sufficiently cover debt obligation, incremental capex and working capital requirement of FY2025.

Outlook: Stable

Acuité believes that the NLCIL will maintain 'Stable' outlook over the medium term from its strategic importance to the GoI and experienced management. The outlook may be revised to 'Negative' in case of non recovery of DPS resulting in deterioration in their financial risk profile and liquidity position.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	12999.03	17383.22
PAT	Rs. Cr.	1867.57	1425.13
PAT Margin	(%)	14.37	8.20
Total Debt/Tangible Net Worth	Times	1.17	1.28
PBDIT/Interest	Times	6.54	4.81

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

Not Applicable

Any Other Information

None

Applicable Criteria

• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Service Sector: https://www.acuite.in/view-rating-criteria-50.htm

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on **www.acuite.in**.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Aug 2023	Proposed Long Term Bank Facility	Long Term	1000.00	ACUITE AAA | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1000.00	ACUITE AAA | Stable | Reaffirmed

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

1. NLC India Limited
2. NLC Tamil Nadu Power Limited
3. Neyveli Uttar Pradesh Power Limited

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.