Rating Rationale

30 Nov 2022

NLC Tamilnadu Power Ltd.

Brickwork Ratings revises the ratings for the bank loan facilities of Rs. 572.85 Crs. of NLC Tamilnadu Power Ltd. ("NTPL" or "Company")

Particulars

Facilities/ Instrument**	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous (29-Oct-2021)	Present
Term Loans	572.85	**572.85**	Long Term	BWR AA+ (CE)/Stable Conversion of provisional rating to a final rating	**BWR AA-/Stable Downgraded^**
Total	572.85	**572.85**	**Rupees Five Hundred Seventy Two Crores and Eighty Five Lakhs Only**		

*Please refer to BWR website **www.brickworkratings.com/** for the definition of the ratings
** Details of bank facilities are provided in Annexure-I

Note:

- Previously, Credit Enhancement (CE) was assigned on the basis of Letter of Comfort (LoC) issued by Parent Company - NLC India Ltd. Unsupported Rating: BWR AA-/Stable.
- ^Revision in analytical approach from CE to Standalone; (Refer to Analytical Approach section). Unsupported rating: Withdrawn in view of the revision in the analytical approach as above.

RATING ACTION/OUTLOOK

The rating factors in the comfort derived from the strong parentage, with NLC India Ltd. (NLCIL) holding 89% stake in the company and implicit support in the form of LoC issued by NLCIL. The company on a standalone basis has adequate liquidity to service its debt repayment obligations, presence of long term off-take agreements under two-part tariff structure, satisfactory operational track record for more than 5 years and timely realization of the receivables. BWR has also noted that the company will get a pass through for the cost-incurred for setting-up the FGD infrastructure by way of tariff escalation.

The rating is however, constrained, on account of the partial allowance of the project cost recovery in the tariff and counterparty risk associated with DISCOMs and timely realization of the receivables on a sustained basis will remain key monitorable.

Outlook - Stable:

The outlook is Stable as BWR believes that the credit risk profile of NTPL is expected to be maintained over the medium term.

KEY RATING DRIVERS

Credit Strengths-:

- **Strong Parentage and Demonstrated Support:** 89% stake in the company is held by NLCIL, which is a Government of India (GoI) undertaking and has been conferred upon the status of Navratna. NLCIL has a presence in lignite mining and thermal power generation, and the company recently entered the coal mining sector as well. NTPL also has strong operational, financial and management linkages with NLCIL, with the chairman and senior officials of NLCIL being a part of NTPL's board of directors. Additionally, NLCIL has also extended financial support to the company by way of providing an LoC for its existing debt.
- **Presence of Long-Term Off-take Agreements under Two-Part Tariff Structure:** The company has long-term PPAs in place with Southern Discoms. The tenure of these agreements is 25 years (residual tenure of ~ 20 years), lending adequate revenue visibility over the long term. The tariff is determined as per CERC guidelines and covers both capacity charge and variable charge. Furthermore, the company will also get a supplementary tariff for the cost to be incurred on setting-up the FGD infrastructure.
- **Operational track record for the last five years:** The company has shown its operational track record in the last five years. The company had reported consistent operating and net profits during the last five years, which helped the company to reduce its substantial debt.
- **Timely realization of the receivables during FY22 and H1FY23:** The Company has successfully realized the power dues through bill discounting to the tune of 1,310.93 crore (for TANGEDCO, TG DISCOMs, BESCOM and CESC). The outstanding power sales dues from the beneficiaries to the Company as on 31st March, 2022 was Rs. 630.73 crore as against Rs. 1,960.52 crore for the corresponding period of the year ended 31st March, 2021. The outstanding power sales dues beyond the 45 days limit as on 31st March, 2022 was 490.95 crore as against 1,752.71 crore for the corresponding period of the previous year ended 31st March, 2021. As on 04 Nov 2022, the O/s receivables were at Rs. 703.44 Crs.

Credit Risks-:

- **Decline in the profit margins:** The NPM of the company has substantially declined to 9.46% in FY22 as compared to 13.79% in FY21 on account of disruption in the coal supply in H2FY22. However in H1FY23, the OPM and NPM are assessed at 23.51% and 7.09% respectively.
- **Decline in operational performance:** The operational performance of the company declined in FY22 with PLF and PAF recorded at 66.06% and 66.37% respectively, whereas the same was recorded at 91.70% and 92% in FY21. However, in H1FY23, the PLF and PAF are recorded at 66.82% and 89.89% respectively.
- **Partial Allowance of Project Cost Recovery:** The company had incurred a total cost of Rs. 7293.49 Crs for the project construction; however, the CERC has disallowed the recovery of Rs. 1050 Crs under its tariff order for the company. The company has filed an appeal with the Appellate Tribunal, and an order in this regard is still awaited.

- **Counterparty Risks and timely realization of receivables:** As the credit profile of the counter parties are weak, the timely realization of the receivables, though improved, is a key monitorable.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has revised the analytical approach from CE to a standalone approach. The CE suffix, which was based on the LoC, has been removed in line with the RBI's April 2022 Circular on Bank Loan - Credit Enhancement (CE) Ratings

RATING SENSITIVITIES:

- **Upward:** The ratings can move upward if there is a substantial improvement in the revenues and profitability margins, continue to be the moderate debt equity levels, and timely completion of the ongoing capex without any cost overrun.
- **Downward:** The ratings can move downward if there is a significant moderation in the PLF impacting the company's cash generation leading to strain on the liquidity the weakening of support from NLCIL and/or a deterioration in NLCIL's credit profile

LIQUIDITY - Adequate:

The liquidity position is assessed at Adequate. The company is generating adequate cash accruals to meet the debt obligations. As against the repayment obligations of Rs. 492.78 Crs, the company had generated cash accruals of Rs. 710.21 Crs in FY22. For the H1FY23, the company had generated the cash accruals of Rs. 375.28 crs, as against the repayment obligations of Rs. 492.78 Crs for the entire FY23. In addition, the company is availing Commercial Paper(CPs) borrowings for the short term working capital requirements, wherein the obligations are met on the respective maturity dates. As of 04 Nov, 2022, the O/s CP's are at Rs. 700 crs, and the maturity of these CP's are in the next two months. Furthermore, the company's average working capital utilization is ~50% of the total sanctioned limits. BWR expects that the company would generate cash accruals of Rs. 559.47 Crs for FY23 for the repayment obligations of Rs. 492.78 Crs.

ABOUT THE COMPANY:

NLC Tamilnadu Power Ltd. (NTPL) is a joint venture between NLC India Ltd. (NLCIL) and Tamil Nadu Generation and Distribution Corporation Ltd. (TANGEDCO) (erstwhile Tamil Nadu Electricity Board (TNEB)) in the ratio 89:11. NTPL was incorporated in Nov 2005. Post the restructuring of the power sector, the shareholding of TNEB in the company was transferred to TANGEDCO. NTPL has set up a 1000 MW (2*500) coal based thermal power plant at Tuticorin, Tamil Nadu. The COD was achieved fully on 18 Jun 2015 for Unit - I and 29 Aug 2015 for Unit - II.

KEY FINANCIAL INDICATORS:

Key Parameters	Units	H1FY23	FY 21-22	FY20-21
Result Type		**Unaudited**	**Audited**	**Audited**
Operating Income	Rs. Crs	1689.90	2233.08	2631.40
EBIDTA	Rs.Crs	397.32	685.08	856.45
PAT	Rs. Crs	119.90	211.28	363.00
Tangible Net Worth	Rs. Crs	2742.64	2622.35	2781.61
Total Debt/TNW	In Times	1.28	1.24	1.79
Current Ratio	In Times	0.84	0.82	0.96

KEY COVENANTS OF THE FACILITY RATED:

The terms of sanction include standard covenants normally stipulated for bank loan facilities. For the rated facilities, the SBI has stipulated the Letter of Comfort from the parent company NLC India Limited as an additional security.

NON COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: NIL

RATING HISTORY FOR THE PREVIOUS THREE YEARS (Including withdrawal and suspended)

Sl. No.	Instrument	Current Rating (2022)			Rating History		
Commercial Paper		**Tenure**	**Amount (Rs.Crs.)**	**Rating**	**2021**	**2020**	**2019**
1.	CP Issue	Short Term	Nil	NA	Withdrawn (29 Oct 2021)	BWR A1+ (21 Oct 2020) BWR A1+ (11 Aug 2020)	NA
Total			**Nil**	**NIL**			
Bank Loans		**Tenure**	**Amount (Rs.Crs.)**	**Rating**	**2021**	**2020**	**2019**
1.	Term Loan - Outstanding	Long Term	572.85	BWR AA-/Stable	BWR AA+ (CE)/Stable (Conversion of provisional rating to final rating)	Provisional BWR AA+ (CE)/Stable (21 Oct 2020)	NA
Total			572.85	**Rupees Five Hundred Seventy Two Crores and Eighty Five Lakhs Only**			

COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple

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For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Infrastructure Sector**
- **Power Generation Projects**

For any other criteria obtain hyperlinks from website

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NLC Tamilnadu Power Ltd.
Annexure-I
Details of Bank Loan Facilities rated by BWR

S.No	Name of the Bank/ Lender	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	State Bank of India	Term Loan	572.85	--	572.85
Total			**572.85**		**572.85**
Total Rupees Five Hundred Seventy Two Crores and Eighty Five Lakhs Only					

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