February 15, 2022

Bhartiya Rail Bijlee Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	3864.01	5577.67	[ICRA]AA- (Stable), reaffirmed
Cash Credit	200.00	500.00	[ICRA]AA- (Stable), reaffirmed
Short-term Fund-based	1500.00	0.00	-
Bank guarantee/Letter of Credit^	(100.00)	(100.00)	[ICRA]A1+, reaffirmed
Long-term Unallocated	1435.99	922.33	[ICRA]AA- (Stable), reaffirmed
Total	**7000.00**	**7000.00**	

**Instrument details are provided in Annexure-1; ^ interchangeable with cash credit*

Rationale

The reaffirmation of the ratings factors in the satisfactory operating track record of the 1,000-MW thermal power project of Bhartiya Rail Bijlee Company Limited (BRBCL/the company) evident from the higher-than-normative plant availability of 85% in FY2021 and 9M FY2022, and the commissioning of the fourth unit of 250 MW on December 01, 2021.

The ratings continue to draw comfort from the company's strong parentage with NTPC Limited (rated [ICRA] AAA/Stable/[ICRA]A1+) holding a 74% stake, providing it with superior financial flexibility and operational expertise. The ratings also consider the long-term (25 years from the commercial operations date) power purchase agreements (PPA) for 100% project capacity, which mitigates the offtake risk. Of the 1000 MW plant capacity, 90% is tied up with the Indian Railways, also a minority shareholder (26%) in the company, while the remaining 10% is tied up with Bihar state discoms - North Bihar Power Distribution Company Limited (NBPDCL) and South Bihar Power Distribution Company Limited (SBPDCL). The PPAs are based on the cost-plus-tariff principle outlined by the Central Electricity Regulatory Commission (CERC), with pass-through of fixed and fuel costs and a fixed return on equity (RoE), leading to stable cash flows for the company. The recovery of the fixed costs and the RoE is linked to achieving normative plant availability of 85% and approval of the capital cost by the CERC, while the complete pass-through of fuel cost is linked to achieving normative operating efficiency level. ICRA notes that the tariff offered by BRBCL remains competitive for the Indian Railways, in relation to the procurement cost from state distribution utilities. The ratings also favourably factor in the company's comfortable debt coverage metrics, aided by the cost-plus tariff based on the long-term PPA, and the healthy operational performance.

The ratings, however, are constrained by the residual execution risks associated with the implementation of the flue gas desulfurisation (FGD) system within the regulatory timeline and budgeted cost. The project has witnessed significant cost and time overruns in the past due to land acquisition, Naxalite disruptions and law and order issues. Hence, securing approval for the cost overruns from the CERC in a timely manner in the final-tariff determination process, without any major disallowance, remains a monitorable. The tariff petition for Unit 1, Unit 2 and Unit 3 from the commercial operation date (COD) of the first unit till March 31, 2019, is pending with the the CERC and the final tariff order by the CERC is yet to be issued. Also, recently, the company has filed a provisional tariff petition for the control period during FY2020 to FY2024. BRBCL is currently billing fixed charges considering 85% of the actual capital cost. While the fuel supply agreement (FSA) is yet to be signed for the fourth unit, the letter of assurance (LOA) from Central Coalfields Limited (CCL) for the supply of 5 million metric tonnes per annum (MMTPA) for the entire capacity and the signing of the FSAs for the first three units mitigate the fuel supply risk. The ratings also factor in the counterparty credit risk pertaining to the offtakers, the Indian Railways and the Bihar state discoms -NBPDCL and SBPDCL. While the credit quality of NBPDCL and SBPDCL is weak, the discoms' combined offtake is limited to 10% of the plant capacity, which mitigates the risk to some extent. Further, timely payments by the Indian Railways so far, and the payment security mechanisms in the PPAs provide comfort.

The Stable outlook reflects ICRA's expectation that BRBCL will be able to maintain plant availability at or above the normative level of 85%, while meeting other normative-efficiency parameters, which along with timely payments from the Indian Railways, would lead to healthy cash flows for the company.

Key rating drivers and their description

Credit strengths

Strong sponsor profile – The sponsors of the project are NTPC Limited ([ICRA]AAA/Stable/[ICRA]A1+) with 74% shareholding and the Indian Railways holding the remaining 26% stake as on December 31, 2021. NTPC Limited is also responsible for the operations and maintenance (O&M) of the project, mitigating the operating risk to some extent.

Long-term PPAs with Indian Railways and Bihar state discoms mitigate offtake risk – BRBCL has signed long-term PPAs for 90% of the installed capacity with the Indian Railways and 10% of the installed capacity with BSEB for 25 years from the COD at tariff determined as per the CERC norms with pass-through of fuel costs. The long-term PPAs on cost-plus basis mitigate the offtake risk. The levelised tariff over the PPA tenure based on the estimated project cost and the availability of domestic coal through the FSA route is expected to be competitive compared with the Indian Railways' average power purchase cost in recent years.

Cost-plus PPAs allow normative return on equity, mitigate fuel price risk – The PPAs have been signed on a cost-plus basis as per the CERC norms, which allow normative return on equity, subject to the approval of capital cost by the CERC and the ability to maintain costs and efficiency norms, including plant availability at normative level. Moreover, the PPAs allow pass-through of any increase in fuel cost, subject to the plant meeting operational norms, mitigating fuel price risk.

Healthy performance of three operational units, fourth unit commissioned recently – BRBCL overcame past issues related to plant stabilisation, inadequate coal handling system and lower-than-required coal availability, and significantly improved the plant availability to 87.89% in FY2020 (higher-than-normative level of 85%) from 66.72% in FY2019, and 69.59% in FY2018. The plant availability remained healthy at 86.23% in FY2021 and 86.65% in 9M FY2022, ensuring full recovery of eligible fixed costs. Further, the under-construction unit (Unit 4) of 250MW capacity, which faced execution delays because of the lockdown restrictions, was completed recently and started commercial operations from December 01, 2021. This reduces the implementation risk of Unit 4 and provides incremental revenue visibility, going forward. While the commissioning of the fourth unit was delayed by ~eight months from the earlier expectation of April 2021, it has not led to any material cost overruns.

Low-funding risk – The total revised debt funding required for the project is Rs. 7,200.00 crore (68% of the total project cost, against the earlier expectation of 70%). The company has already sanctioned project-term loans of Rs. 6,261.75 crore and the remaining debt will be tied up in due course, as per the requirement. Further, Rs. 2,397.46 crore of the required equity of Rs. 3,366.33 crore was infused till December 31, 2021. The balance equity is expected to be funded by internal accruals over the progress of the project. BRBCL benefits from its superior financial flexibility as reflected in its demonstrated ability to tie up debt at cost-competitive rates.

Credit challenges

Significant cost and time overruns, approval by CERC without any major disallowances remains critical - The project has witnessed significant delays in the past because of issues related to land acquisition, Naxalite disruptions, and breakdown of law and order in the region. The delay has resulted in higher land cost and interest during construction. Consequently, the initially approved (in January 2008) project cost of Rs. 5,352.51 crore doubled to Rs. 10,566.33 crore (inclusive of additional scope related to installation of the FGD system). Any major disallowances by the CERC in the project cost could adversely impact the return on equity for the company.

Exposure to counterparty credit risk, though payments have so far been on time- BRBCL is exposed to counterparty credit risks pertaining to the offtakers, especially the Bihar state discoms, whose credit quality is weak. The risk is partly mitigated as their exposure is limited to only 10% of the plant capacity. While 90% of the company's revenues are concentrated towards the Indian Railways, there have not been any delays in receiving the payments, so far. The payment security mechanisms in the PPAs, such as LOC equal to 105% of monthly billing at normative availability, escrow arrangement (only in case of the Bihar discom PPAs) and third-party sale upon default by the procurers, also mitigate the counterparty credit risks.

Execution risk from residual project work pertaining to FGD capex – As on December 31, 2021, BRBCL incurred Rs. 9,325.28 crore of the project cost (including capital work-in-progress and capital advances). Of the remaining Rs. 1,241.04 crore, Rs. 733.78 crore pertains to installation of the FGD system, while the remaining is towards the construction of a township, payments to be made to equipment suppliers and erection vendors after evaluation of performance and guarantee tests, etc. The revised timeline for complying with the new emission norms for the company's units is December 31, 2024. While the debt funding required for the FGD capex (Rs 300 crore) has been secured, its timely completion within the budgeted cost remains to be seen and will be a key monitorable.

Liquidity position: Adequate

BRBCL's liquidity position is **adequate,** supported by healthy cash flows from operations and undrawn cash credit limits. As on December 31, 2021, the company had free cash of Rs. 29.29 crore, restricted cash of Rs. 8.99 crore and undrawn cash credit limit of Rs. 180.93 crore. The company's collection efficiency in the last four fiscals has remained strong, averaging ~95% of the monthly-billed amount, which has supported its liquidity. The company's cash flows are expected to be sufficient to meet its annual debt repayments. Further, the company has already tied up majority of the required debt funding for the project. The balance equity requirement is expected to be met through internal accruals. Also, the funding support from its sponsor should be forthcoming in case of any exigency.

Rating sensitivities

Positive factors

ICRA may upgrade the ratings if:

- the CERC approves the tariff without any major disallowances
- the plant is able to demonstrate a satisfactory operating performance allowing full recovery of the costs and RoE along with timely collections from customers
- the FGD system is implemented on time within the budgeted cost

Negative factors

Pressure on the ratings could emerge if there is:

- any significant and sustained deterioration in the key operating parameters like plant availability, heat rate or if the payments from the counterparties are stretched, impacting its liquidity
- a material delay in receiving the tariff order from the CERC or if there is any major disallowance in the project cost approval by the CERC adversely impacting the profitability
- any adverse change in the support philosophy/linkages with the sponsors or weakening in their credit profiles

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Thermal Power Producers](#) [Rating Approach – Implicit Parent or Group Support](#)
Parent/Group Support	Parent: NTPC Limited The ratings are based on the implicit support from parent. ICRA expects the sponsor to support the company in case of any funding requirements.
Consolidation/Standalone	Standalone

About the company

BRBCL is a joint venture (JV) between NTPC Limited (74%) and the Ministry of Railways (26%). It has set up a 1,000MW (4*250 MW) coal-based thermal power project at Nabinagar, Bihar, to meet the power requirements of the Indian Railways. The project's Unit 1, Unit 2 and Unit 3 were commissioned in January 2017, September 2017 and February 2019, respectively, while Unit 4 was commissioned on December 01, 2021. The project has witnessed significant cost and time overruns in the past. At present, the estimated cost of the project is Rs. 10,566.33 crore, which is being funded through debt and equity in the ratio of 68:32. The FSA has been signed for Unit 1, Unit 2 and Unit 3 (3.75 MTPA in total with Central Coalfields Limited, while it is under finalisation for Unit 4 (1.25 MTPA). A long-term PPA has been signed with the Indian Railways (90% of installed capacity) and the Bihar state discoms (10%) at cost-plus tariff based on the CERC norms.

Key financial indicators

Particulars	FY2020 (Audited)	FY2021 (Audited)	9M FY2022 (Provisional)
Operating Income (Rs. crore)	2318.74	2223.72	1823.82
PAT (Rs. crore)	258.46	282.48	203.32
OPBDIT/OI (%)	44.66%	47.05%	43.02%
PAT/OI (%)	11.15%	12.70%	11.15%
Total Outside Liabilities/Tangible Net Worth (times)	2.31	2.22	2.15
Total Debt/OPBDIT (times)	5.26	5.09	5.18
Interest Coverage (times)	2.29	2.57	2.74

Source: Company, ICRA Research; All ratios as per ICRA calculations; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

SN	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding * (Rs. crore)	Date & Rating on	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Feb 15,2022	Mar 16,2021	Sep 07,2020	Jul 22,2019	Jan 29,2018
1	Term Loans	Long-term	5577.67	4144.20	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Unallocated	Long-term	922.33		[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Cash credit	Long term	500.00		[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Stable)
4	Bank Guarantee	Short-term	-		-	-	-	[ICRA]A1	[ICRA]A1
5	Interchangeable (Bank Guarantee/Letter of Credit)	Short-term	(100.00)		[ICRA]A1+	[ICRA]A1+	[ICRA]A1	-	-
6	Unallocated	Short-term			-	-	-	[ICRA]A1	[ICRA]A1
7	Short-term Fund-based	Short-term	-		-	[ICRA]A1+	-	-	-

** as on December 31, 2021*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term loans	Simple
Cash Credit	Simple
Bank Guarantee/ Letter of Credit	Very Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Term Loan	FY2022		FY2036	1958.87	[ICRA]AA- (Stable)
NA	Term Loan	FY2019		FY2035	1268.80	[ICRA]AA- (Stable)
NA	Term Loan	FY2019		FY2035	850.00	[ICRA]AA- (Stable)
NA	Term Loan	FY2022		FY2035	1500.00	[ICRA]AA- (Stable)
NA	Unallocated				922.33	[ICRA]AA- (Stable)
NA	Cash Credit				200.00	[ICRA]AA- (Stable)
NA	Cash Credit				300.00	[ICRA]AA- (Stable)
NA	Interchangeable (Bank Guarantee/ Letter of Credit)				(100.00)	[ICRA]A1+

Source: *Company; NA: Not Applicable*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	BRBCL's Ownership	Consolidation Approach
Not Applicable	Not Applicable	Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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