NHPC Limited

February 08, 2021

Rating

Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Proposed Bonds (AC Series)	2,000	**CARE AAA; Stable (Triple A; Outlook Stable)**	**Assigned**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed bonds of NHPC Limited (NHPC) derives strength from its established position as India's largest hydro power producer with geographical diversity of sales, majority ownership by the Government of India (GoI) with financial and management support. The rating also factors in NHPC's sustained operational performance with healthy plant availability factor (PAF) ensuring recovery of fixed cost and robust generation levels. The rating also continues to take comfort from NHPC's comfortable financial risk profile characterized by a low overall gearing, strong liquidity and earnings protection attributable to long-term power selling arrangements with regulated return on equity on account of a cost-plus tariff mechanism.

The rating strengths, however, continue to remain constrained by counterparty risks with the company being exposed to various state electricity distribution utilities/departments with relatively weak credit profiles, risks associated with implementation of the ongoing projects, hydrological risks related to variability in river water flow and regulatory risks with respect to tariff revisions.

Rating Sensitivities

Negative factors - Factors that could lead to negative rating action/downgrade:

- *Significant change in the GoI's shareholding, leading to reduction in financial and strategic support.*
- *Deterioration in debtor collection period beyond 150 days on a sustained basis.*
- *Substantial delay in completion of the ongoing capex plans and/or substantial cost revisions of the under implementation projects.*

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by the GoI and its support: NHPC benefits substantially from its strong linkages with the GoI, with the Government not only holding a majority stake (70.95% as on December 31, 2020) but also providing financial and strategic support. Besides providing equity support, the GoI has provided support in the form of longer tenure subordinated debt to fund strategically important projects at concessional interest rates. The GoI is also involved in appointment of the Board and senior management as well as setting up NHPC's business plan annually. Furthermore, the GoI's recognition of NHPC as a Mini Ratna Category-I central public sector enterprise (CPSE) provides its management with significant autonomy in taking financial decisions.

Cost-plus tariff providing stable cash flow and assured returns: The tariff for each hydro power station of NHPC is determined by Central Electricity Regulatory Commission (CERC). It ensures recovery of cost along with stipulated return on equity on achievement of normative availability and generation meeting the design energy of that particular plant. NHPC has low sales risk on account of execution of long term PPA for its hydro projects. The average tariff of all the hydro power plants of NHPC was Rs. 3.34/unit for FY20 with 14 plants (out of 20) having tariff of Rs. 5.0/ unit or below in FY20. Further, the FY20 tariff was provisional and will be finalized as per CERC 2019-24 tariff regulations.

Healthy operational performance of power stations: NHPC is the largest hydropower generating company in India with total power generation (standalone) of around 17.46 billion units (BUs) during H1FY21 (H1FY20: 17.64 BU) through its 22 operating power stations (including one wind power plant and one solar power plant) located across different parts of the country. The company had achieved an aggregate PAF of 91.34% in H1FY21 (PY: 90.49%). Out of the total 20 operational hydro power stations, 16 power stations had registered higher PAF during FY20 than the normative availability prescribed by CERC. Furthermore, NHPC reported an incentive income of Rs. 386.64 crore during H1FY21 (H1FY20: Rs. 344.56 crore) driven by incentive on capacity, deviation charges and energy incentive on account of higher generation.

Comfortable leverage and coverage metrics: The overall financial risk profile of NHPC continued to remain comfortable characterized by low overall gearing and stable debt coverage metrics. The overall gearing marginally moderated to 0.80x as on March 31, 2020 (PY: 0.67x), though remaining at comfortable levels, on account of incremental debt raised for ongoing capital expenditure related to the projects, Subansiri Lower and Parbati-II. The coverage indicators remained comfortable as reflected by interest coverage of 7.05x in FY20 (PY: 6.00x). During the period H1FY21, interest coverage

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE Publications*

stood at 11.97x as against 7.51x during H1FY20. The debt levels of the company as on Jan 31, 2021 stood at Rs 22,662 crore as against total debt of Rs.23,853 crore as on March 31, 2020.

Key Rating Weaknesses

Execution risks pertaining to projects under implementation: The expansion plans of NHPC exposes the company to the project execution and funding related risks, which, however, is mitigated largely through company's favorable capital structure, consistent cash flows from operations with adequate cash and bank balance and extensive experience in implementation of various projects in past. Currently, the company has two major projects under implementation, namely Subansiri Lower (2000MW) and Parbati-II (800MW). Execution of the long stalled project Subansiri Lower has resumed subsequent to receiving the National Green Tribunal (NGT) clearance in July 2019. Parbati-II has faced geological complexities in the construction of the head race tunnel resulting in delays in construction progress. Out of the total cost estimate for Subansiri Lower and Parbati-II projects, the company has already incurred 60.49% and 82.91% of the total cost respectively as on May 31, 2020, with expected commissioning in FY24 and Q4FY22 respectively. As regards Dibang Multipurpose Project of 2880 MW, investment approval towards the pre-investment activities has been received by the company, and the company has started the process for the same. Going forward, implementation progress on these projects shall be a key monitorable.

Counterparty credit risk: The below average financial health of many of the state distribution utilities, which in turn affects the timely realization of revenue remains a cause of concern for power generating companies, including NHPC. During FY20 and 10MFY21, there has been accumulation of debtors, especially due from two of the beneficiaries – Jammu & Kashmir Power Corporation Limited and Uttar Pradesh Power Corporation Limited. However, as per the management, the company has already received Rs 1,300 crore from the distribution companies (discoms) as part of Tranche-1 of *Atmanirbhar Bharat DISCOM liquidity injection scheme* announced by the GoI, and expects to receive the balance Rs 1,200 crore under Tranche-2 over the next few months which shall aid in liquidation of debtors. NHPC's dominance in hydro power generation in India with fairly diversified off-taker base alleviates risk to a great extent. Nonetheless, timely receipt of payment from off-takers, shall remain a key monitorable going forward.

Liquidity: Strong

Liquidity profile of the company continued to remain comfortable backed by healthy cash accruals of ~Rs.4,500 crore expected for FY21. The total debt repayment obligation for the company during FY21 stood at Rs 2,118 crore out of which the company has already repaid Rs 1,864 crore as on Feb 02, 2021, while the remaining will be repaid in the next 2 months ending March 2021. NHPC has sanctioned working capital limits of Rs 475 crore as on February 01, 2021, of which Rs 370 crore remain unutilized. The company also had cash and bank balance of Rs 61 crore along with liquid investment of around Rs 810 crore as on February 01, 2021.

Analytical approach: Standalone

Applicable Criteria

CARE's criteria on assigning outlook to credit ratings
CARE's policy on default recognition
Rating Methodology - Power Generation Projects
CARE's rating methodology on financial ratios – Non-financial sector
Rating Methodology - Infrastructure Sector Ratings
Rating Methodology: Factoring Linkages in Ratings

About the Company

NHPC, a 'Miniratna Category-I' (since April'08) and Govt of India (GoI) enterprise, was incorporated in 1975 with an objective to plan, promote and organize an integrated and efficient development of hydroelectric power in the country. The company is the largest hydro power generating company in the country with an aggregate installed hydropower capacity (including subsidiaries) of 7,071 MW as on March 31, 2020 which is around 15% of installed hydro power capacity in India. NHPC is present across 11 states and currently operates 22 hydropower stations (including two through its subsidiary) with single largest capacity of 1,000 MW in Madhya Pradesh.

NHPC Limited has completed the formalities for the takeover of the 500 MW (125 MW X 4) Teesta Hydroelectric plant on Teesta River by remitting the resolution plan consideration of Rs 897.50 Crore to Lanco Teesta Hydro Power Limited (LTHPL). LTHPL is now a wholly owned subsidiary of NHPC Limited. Further, in December 2020, NCLT has approved NHPC's resolution plan for Jal Power Corporation Limited (120 MW Rangit Stage IV HE Project). The cost of acquisition is expected to be around Rs. 165 crore.

Key financial performance highlights of the company (standalone) are as under:

Brief Financials (in Rs. crore)	**FY19 (A)**	**FY20 (A)**
Income from Operations	9,099	9,909
PBILDT	5,374	5,660
PAT	2,631	3,007
Overall Gearing	0.67	0.77
Interest Coverage	6.00	6.48

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Attached as Annexure 2

Annexure-1: Details of Instruments/Facilities

Sl. No.	**ISIN Number**	**Bond Series**	**Bond Issue Date**	**Rated Amount (Rs Crore)**	**Coupon Rate**	**Maturity Date**	**Rating assigned along with Rating Outlook**
1	-	Proposed Bonds (AC Series)	-	2,000	-	-	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	**Name of the Instrument/Bank Facilities**	**Current Ratings**			**Rating history**			
		Type	**Amount Outstanding (Rs. crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2020-2021**	**Date(s) & Rating(s) assigned in 2019-2020**	**Date(s) & Rating(s) assigned in 2018-2019**	**Date(s) & Rating(s) assigned in 2017-2018**
1.	Bonds	LT	738.50	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-20)	1)CARE AAA; Stable (04-Jul-19)	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (17-Jul-17)
2.	Bonds	LT	1000.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-20)	1)CARE AAA; Stable (04-Jul-19)	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (17-Jul-17)
3.	Bonds	LT	732.50	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-20)	1)CARE AAA; Stable (04-Jul-19)	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (17-Jul-17)
4.	Bonds	LT	1352.01	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-20)	1)CARE AAA; Stable (04-Jul-19)	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (17-Jul-17)
5.	Bonds	LT	-	-	-	-	1)Withdrawn (05-Sep-18)	1)CARE AAA; Stable (17-Jul-17)
6.	Bonds	LT	900.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-20)	1)CARE AAA; Stable (04-Jul-19)	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (17-Jul-17)
7.	Bonds-Redeemable Non Convertible Unsecured Taxable	LT	1785.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-20)	1)CARE AAA; Stable (04-Jul-19)	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (17-Jul-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
	Bonds							
8.	Bonds	LT	1650.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-20)	1)CARE AAA; Stable (04-Jul-19)	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (11-Sep-17)
9.	Bonds	LT	1500.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-20)	1)CARE AAA; Stable (04-Jul-19)	1)CARE AAA; Stable (05-Feb-19)	-
10.	Bonds	LT	2017.20	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-20)	1)CARE AAA; Stable (04-Jul-19)	1)CARE AAA; Stable (19-Mar-19)	-
11.	Bonds	LT	2000.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-20)	1)CARE AAA; Stable (06-Feb-20)	-	-
12.	Bonds	LT	1000.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Jul-20) 2)CARE AAA; Stable (03-Apr-20)	-	-	-
13.	Bonds	LT	2000.00	CARE AAA; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company:

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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