North Eastern Electric Power Corpn Limited

December 15, 2022

Rating

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	500.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Assigned
Total bank facilities	**500.00 (₹ Five hundred crore only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the long-term bank facilities of North Eastern Electric Power Corporation Limited (NEEPCO) draws strength from its leadership position in terms of power supply to the North-Eastern (NE) states as well as the track record of several decades of developing and operating power plants in the region. The rating favourably factors in the low sales risk on account of its long-term power purchase agreements (PPAs) with various distribution companies (discoms) for approximately 83% of its installed capacity. The rating also factors in the mechanism of tariff determination for its plants (ie determined by the Central Electricity Regulatory Commission [CERC]), which ensures cost recovery along with return on equity, thus yielding stable cash flows. The rating draws comfort from NEEPCO's strong generation and healthy realisation in FY22 (refers to the period from April 01 to March 31) and H1FY23 (refers to the period from April 01 to September 30) from its largest and recently-commissioned Kameng hydro-electric plant (Ka-HEP). The rating also factors in the acceptable receivables level of NEEPCO as on September 30, 2022, coupled with improvement in the financial risk profile during FY22, characterised by comfortable leverage and coverage metrics.

The rating derives strength from the promoter – NTPC Limited (NTPC; rated 'CARE AAA; Stable'), the majority shareholder of NEEPCO. With NTPC's demonstrated track record of support to its subsidiaries and joint ventures (JVs) in the past, it is understood that NEEPCO will receive timely financial support from its parent if required. The rating also takes note of the steady operational performance of other large hydro plants – Ranganadi (R-HEP) and Pare (Pa-HEP) – during FY22, while the gas-based plants clocked a moderate plant availability factor (PAF) and plant load factor (PLF), which marginally improved from the FY21 level, yet continued to be low.

The rating strengths are, however, partially offset by the high counterparty credit risk emanating from the sale of power to financially-weaker discoms, project implementation risk, and sales risk associated with the untied capacity. The rating is also sensitive to the prevailing regulatory risk associated with pending tariff orders for several plants, most importantly for the Ka-HEP, which has witnessed a sizeable cost overrun during implementation.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant improvement in the credit profile of the off-takers.
- Significant improvement and sustenance of operational performance, leading to accelerated de-leveraging.

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

- Substantial elongation in the average collection period, thus weakening the liquidity profile.
- Deterioration in the credit profile of NTPC or dilution in its support philosophy towards NEEPCO.
- Significantly lower-than-envisaged operational profile or reduced tariff or increase in the borrowing cost or operating cost, leading to adverse impact on the coverage metrics.

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Strategic importance of NEEPCO to India's power sector in the NE region: With a total installed capacity of 2,057 MW, NEEPCO is the largest power producer in the NE region. By being a major infrastructure (ie power) provider to the NE states, NEEPCO has high strategic importance, underpinning support from the Government of India (GoI) indirectly and its parent (ie NTPC) directly.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Established track record in implementing power projects in Northeast India: NEEPCO has wide experience and expertise in implementing hydro projects in the northeast, which provides it significant competitive advantages over others. The company has a strong design and engineering base with in-house expertise in geology, geophysics, geo-technics, construction, and material surveys. NEEPCO's strong project management skills are demonstrated through its successful completion and operation of power projects in the toughest of terrains.

Revenue visibility, backed by assured returns based on the CERC-determined tariffs: The tariffs for each power station of NEEPCO are determined as per the tariff regulation notified by CERC. The tariff is determined by referring to annual fixed charges (AFC), which comprise interest on loans, depreciation, interest on working capital, operation and maintenance (O&M) expenses, and return on equity (RoE). Under the 'cost-plus tariff' mechanism, recovery of cost is subject to the achievement of normative operational parameters. Thus, as per CARE Ratings' expectations, subject to the operational performance of NEEPCO's power plants being in line with the normative benchmarks, the company will be able to generate stable earnings.

Healthy generation and realisation from Ka-HEP: Ka-HEP has been the highest revenue-contributing plant for the company in FY22. The plant, which was commissioned in phases during FY21, witnessed an issue in the labyrinth weir. Despite the prolonged outage for almost eight months during FY22, the plant clocked strong generation – a PAF of 71% and a capacity utilisation factor (CUF) of 49% during FY22. The PAF and CUF stood at 77% and 69%, respectively, during H1FY23.

Ka-HEP is currently selling 345 MW of its capacity on a short-term or merchant basis. The average realisation has been healthy during FY22 and H1FY23.

Comfortable collection from debtors: The collection efficiency of the company continued to remain healthy during H1FY23 after demonstration of more than 100% collection during FY22. The overdue receivables was 21% of the total receivables as on September 30, 2022 (vs 31% as on March 31, 2022). The management expects a healthy collection efficiency for FY23 as well.

Continued steady performance by R-HEP and Pa-HEP, moderate operational performance of gas-based plants and remaining hydro plants: The large hydro plants – R-HEP and Pa-HEP – demonstrated steady operational performance. Against a normative annual plant availability factor (NAPAF) of 88%, R-HEP clocked a steady PAF of 96% in FY22 (PY: 96%) while the actual CUF was 33% (PY: 39%) against the design energy equivalent CUF of 43% (ie lower on account of hydrology). Pa-HEP had similar hydrology characteristics, clocking a PAF of 98% in FY22 (PY: 91%) against an NAPAF of 85% with a lower CUF of 45% (PY: 54%) against the design energy equivalent CUF of 53%. D-HEP and Tr-HEP continued to have lower-than-NAPAF and below-design energy generation due to less availability of reservoir water and system constraints.

Despite improved gas availability in FY22, irregular supply continued to impact the PAF – the biggest plant in Assam having a PAF of 71% in FY22 (PY: 70%), followed by Agartala having a PAF of 82% (PY: 91%), and Tripura a PAF of 84% (PY: 63%), against the normative of 85%. As a result, the station heat rate continued to be moderate. NEEPCO has been largely insulated from gas availability and price volatility during H1FY23 due to its long-term gas supply agreements.

Improvement in the financial risk profile: Upon the commercialisation of Ka-HEP, the financial risk profile has substantially improved, characterised by a substantial increase in gross cash accruals (GCA). The interest coverage improved from 2.40x in FY21 to 2.81x in FY22; it is expected to further improve going forward.

The overall gearing and total debt (TD)/profit before interest, lease rentals, depreciation and taxation (PBILDT) improved to 1.15x and 4.44x, respectively, for the period ended FY22 (PY: 1.25x and 6.48x, respectively).

Entire shares held by NTPC; operational and financial support expected to be in place if required: Currently, NTPC holds the entire shares of NEEPCO. NTPC is the largest thermal power generation company, with a consistent track record of operating its thermal power station at better than the national average, broadly with respect to availability, reliability, and efficiency. The linkage with NTPC is symbiotic, as NEEPCO is expected to have better receivables management (as the NTPC group has higher bargaining power over discoms) and also from NTPC's experience in operating power plants. Moreover, NTPC gains from the advancement toward meeting its non-fossil energy generation through NEEPCO, revenue source diversification, and NEEPCO's propensity to provide regular dividends. Given the reputation risk associated with distress in the subsidiary, NTPC is expected to provide need-based financial support.

Key rating weaknesses

Significant counterparty credit risk: NEEPCO's off-takers include the discoms of all the seven states in Northeast India. The discoms typically have high aggregate technical and commercial (AT&C) losses as high ACS-ARR gap, leading to a weak financial risk profile. Going forward, given the weak financial health of the distribution utilities, the timely collection of the proceeds will remain a key rating sensitivity.

Project execution risk: NEEPCO has identified six hydropower projects of 2.7 GW for development from FY24 onwards. The process to obtain various clearances has been initiated. While the projected capex for FY23 (which includes renovation and modernisation of the Kopili and Khandong plants) is a little less than ₹1,500 crore, it is pegged up for FY24 and FY25 at a much higher level. As a result, the leverage, characterised by the overall gearing and TD/PBILDT is expected to increase. Given the less clarity on long-term tie-up of these capacities, the timely completion of the same within budget will be important to remain competitive.

Regulatory risk emanating from pending tariff approvals: For the FY19-24 period, currently, tariff order is pending for a few of the plants. Ka-HEP, which witnessed a sizeable cost overrun during implementation, has a high regulatory risk in terms of the quantum of tariff approved. The quantum of the annual fixed charge paid by NEEPCO is significant in comparison to the projected profitability of the company. Hence, any disallowance may impact the coverage metrics.

Sales risk associated with Ka-HEP: Only 42.5% of the capacity of Ka-HEP is tied up with a long-term PPA. The rest of the capacity is exposed to the vagaries of volatile merchant tariffs. Due to the healthy power demand, the tying up of power supply on a short-term basis at a remunerative rate has not been a challenge for Ka-HEP. Despite its high capital cost (at around ₹13.6 crore per MW), the CERC determined tariff is expected to be moderately competitive, given its ability to meet peaking power as well as hydropower purchase (HPO) obligations for its off-takers. Since Ka-HEP is a significant contributor to NEEPCO's overall revenue and PBILDT, the tying up of power at a remunerative tariff will be important going forward.

Delay in equity infusion by NTPC (earlier the GoI): Three hydro projects have undergone substantial time and cost overruns, which, therefore, requires necessary approvals from the government or regulator to arrive at the revised cost estimates, and resultantly, the absolute equity contribution figures from the GoI. While there has been a delay in receipt of the same, a phased release going forward can improve the coverage metrics for NEEPCO, such that it can also meet its capex initiatives, and hence, will be a key monitorable.

Liquidity: Strong

The liquidity profile of the company has improved due to a reduction in the average collection period – from 99 days in FY21 to 62 days in FY22. NEEPCO is a 100% subsidiary of NTPC and is expected to provide any need-based support. NEEPCO had fair access to overseas borrowing in the past. It is expected to continue enjoying its financial flexibility. Given the current overall gearing level, NEEPCO has fair headroom to further borrow and maintain liquidity. The debt service coverage ratio (DSCR) of the company is projected to remain marginal for the FY23-FY26 period on account of the sizeable debt repayment and capex commitments. However, the receipt of pending equity commitment for the three commissioned projects from the promoter will ease the liquidity profile. The cash levels in the company have been moderate in the past (₹43 crore as on March 31, 2022). The average working capital utilisation during the 12 months ended September 30, 2022, has been moderate at 19%.

Analytical approach

Standalone, while notching up the rating considering the financial and operational linkages with NTPC.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Infrastructure Sector Ratings
Power Generation Projects
Thermal Power

About the company

NEEPCO was incorporated in the year 1976 as a GoI undertaking with 100% holding. The entire stake of NEEPCO was later acquired by NTPC from the GoI and the transaction was completed on March 27, 2020. The company is currently engaged in the generation of power in the North-eastern region with a total installed capacity of 2,057 MW, making NEEPCO the largest power producer in the region. Of the total installed capacities, 1,525 MW (74.1%) pertains to hydro-based capacities, with eight operational capacities instituted across the states of Assam (three capacities), Arunachal Pradesh (three capacities), Nagaland (one capacity) and Mizoram (one capacity). The balance 527 MW (25.6%) pertains to its gas-based capacities, with three operational capacities – one in Assam and two in Tripura (Agartala and Monarchak), followed by a solar-based power plant of 5MW (0.2%) installed in Tripura.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (P)
TOI	2,522.92	3,190.86	2,322.27
PBILDT	1,222.65	1,633.17	1,193.53
PAT	47.90	212.29	363.02
Overall gearing (times)	1.25	1.15	1.05
Interest coverage (times)	2.40	2.81	4.54

A: Audited; P: Provisional.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

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

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	10-06-2030	500.00	CARE AA+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Debentures-Non-convertible debentures	LT	1500.00	CARE AA+; Stable	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA; Positive (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA (CWD) (14-Feb-20) 2)CARE AA; Negative (17-Sep-19)
2.	Debentures-Non-convertible debentures	LT	360.00	CARE AA+; Stable	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA; Positive (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA (CWD) (14-Feb-20) 2)CARE AA; Negative (17-Sep-19)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
3.	Debentures-Non-convertible debentures	LT	900.00	CARE AA+; Stable	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA; Positive (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA (CWD) (14-Feb-20) 2)CARE AA; Negative (17-Sep-19)
4.	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (07-Jul-20)	1)CARE AA (CWD) (14-Feb-20) 2)CARE AA; Negative (17-Sep-19)
5.	Debentures-Non-convertible debentures	LT	300.00	CARE AA+; Stable	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA; Positive (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA (CWD) (14-Feb-20) 2)CARE AA; Negative (17-Sep-19)
6.	Debentures-Non-convertible debentures	LT	500.00	CARE AA+; Stable	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA; Positive (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA (CWD) (14-Feb-20) 2)CARE AA; Negative (17-Sep-19)
7.	Debentures-Non-convertible debentures	LT	300.00	CARE AA+; Stable	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA; Positive (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA (CWD) (14-Feb-20) 2)CARE AA; Negative (17-Sep-19)
8.	Debentures-Non-convertible debentures	LT	150.00	CARE AA+; Stable	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA; Positive (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)	1)CARE AA (CWD) (14-Feb-20) 2)CARE AA; Negative (17-Sep-19)
9.	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (07-Jul-20)	1)CARE AA (CWD) (14-Feb-20)
10	Fund-based - LT-Term loan	LT	500.00	CARE AA+; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

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

Sr. No.	Name of Instrument	Complexity Level
1.	Fund-based - LT-Term loan	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please click here.

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

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About us:

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