THDC India Limited

December 19, 2022

Rating

Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Proposed long-term bonds	600.00	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Total long-term instruments	**600.00 (₹ Six hundred crore only)**		

Details of instruments in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the proposed long-term bonds of THDC India Limited (THDC) derives strength from the low sales risk by virtue of the long-term power purchase agreement (PPA) with various discoms for its projects (operational and under-construction). The rating also draws comfort from the mechanism of tariff determination for its large hydro projects (determined by the Central Electricity Regulatory Commission [CERC]), which ensures full cost recovery upon meeting the normative parameters thus yielding stable cash flows. The rating derives comfort from the healthy operational profile characterised by continued design energy and normative plant availability factor (NAPAF) exceedance by the large hydro plants during FY22 (refers to the period from April 1 to March 31) leading to incentive income, partially offset by continued subdued generation in solar/wind/small hydro plants and the steady generation profile maintained during H1FY23 (refers to the period from April 1 to September 30). The rating also takes note of the financial risk profile characterised by healthy gross cash accrual (GCA) leading to reasonable leverage and coverage metrics. The rating derives strength from THDC's project development and operating ability, which is further augmented by NTPC Limited (NTPC, rated 'CARE AAA; Stable/ CARE A1+', the majority shareholder of THDC). With NTPC's demonstrated track record of support to its subsidiaries/ joint ventures (JVs) in the past, it is understood that THDC will receive timely financial support from its parent if required.

However, the rating is constrained by the risks associated with the implementation of the ongoing large-sized projects, including Khurja Thermal Project (KSTPP), their overall size being significant relative to THDC's operational capacities and delay in the implementation of hydro projects, viz., Tehri PSP (TPSP) and Vishnugad Pipalkoti HEP (VPHEP), leading to significant escalation in the project cost, below-average credit profile of the company's power off-takers, though THDC has been able to realise substantial overdue receivables during FY22 along with maintenance of reasonable collection efficiency during H1FY23.

Rating sensitivities

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

- Execution of capex plans within time and cost estimates.
- Improvement in the collection period to less than 90 days.

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

- Significant delay in the receipt of payments from counter parties, weakening the liquidity profile of THDC.
- Significantly lower-than-envisaged operational profile or reduced tariff or increase in the borrowing cost or operating cost leading to adverse impact on coverage metrics.
- Deterioration in the credit profile of NTPC or dilution in its support philosophy towards THDC.

Detailed description of the key rating drivers

Key rating strengths

Off-take risk mitigated through PPAs with distribution utilities: For off-take of the power, THDC has entered into long-term PPA for the entire Tehri Hydro Power Complex of 2,400 MW with various beneficiary states. The PPA for Patan Wind Power Project (50 MW) and Devbhumi Dwarka Wind Power Project (63 MW) has also been signed with Gujrat Urja Vikas Nigam Limited for a period of 25 years. The PPA for Dhukwan 24-MW small hydro project has been signed up with Uttar Pradesh Power Corporation Limited (UPPCL), approved by Uttar Pradesh commission. The company has also signed a PPA with fixed tariff with Kerala State Electricity Board Limited for solar project of 50 MW in Kasargod, Kerala.

Regulated returns leading to steady operating cash flows: The tariff for each of the large hydro power stations of THDC is determined by CERC. The tariff is determined by referring to Annual Fixed Cost (AFC), which comprises interest on loan,

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

interest on working capital, depreciation and operation and maintenance (O&M) expenses and post-tax return on equity (ROE). 50% of AFC is recoverable upon achieving the design energy, while the balance is recoverable on achieving the NAPAF, which has been prescribed for each hydro power station by CERC.

Healthy operational profile: During FY22, actual generation from Tehri HEP (THEP) and Koteshwar HEP (KHEP) continued to be higher than the respective design energy, while both the plants continued to clock higher-than-NAPAF, leading to incentive income. Small hydro project Dhukwan of 24 MW has contributed 58 MUs in FY22 as against the potential of 98 MUs. While the Devbhumi Dwarka – 63 MW plant witnessed improvement in generation and above P-90 level in FY22, the Patan and the Kasargod plants continued to report lower-than-P-90 level. During H1FY23, the operational performance was observed to be steady.

Comfortable financial risk profile: The GCA has been broadly stable in FY22, if the effect of higher booking of late payment surcharge income in FY21 is excluded. The capital structure of the company is comfortable as depicted by the overall gearing of 0.80x as on March 31, 2022 (PY: 0.63x). The interest coverage ratio of the company stood comfortable at 3.07x in FY22 (PY: 4.56x). The total debt to GCA ratio stood at 6.69x as on March 31, 2022 (PY: 4.27x). The moderation is on account of additional debt drawl during FY22.

Majority ownership by NTPC: As on March 31, 2022, NTPC holds majority stake (74.496%) in THDC, while the balance is held by Government of UP (GoUP). NTPC is the largest thermal power generation company with consistent track record of operating its thermal power station at better than national average, broadly with respect to availability, reliability, and efficiency. The linkage with NTPC is symbiotic as THDC is likely to gain from NTPC's experience towards implementation of the 1,320-MW Khurja thermal project and better receivables management (as the NTPC group has higher bargaining power over discoms). Moreover, NTPC gains from the advancement towards meeting its non-fossil energy generation through THDC, revenue source diversification and THDC's propensity to provide regular dividend. Given the reputation risk associated with distress in subsidiary, NTPC is expected to provide need-based financial support.

Key rating weaknesses

Below average financial profiles of beneficiaries and high level of receivables: The company has exposure to weak/moderate discoms, such as Uttar Pradesh, Jammu & Kashmir and Uttarakhand. These discoms have higher level of aggregate transmission and commercial (AT&C) losses and high ACS-ARR gap, which puts a strain on the financial position.
There has been significant improvement in the average collection period for THDC to 179 days in FY22 (PY: 307 days). Moreover, collection efficiency of the company has remained comfortable during H1FY23 as well. The availability of payment security mechanism with the off-takers mitigates the counterparty risk to some extent.

Risk associated with projects under implementation: THDC is currently developing TPSP (1,000 MW), VPHEP (444 MW), KSTPP (1,320 MW) projects and Amelia Coal Mine, which are at various stages of development. As per the management, financial progress for TPSP is around 90%, while that of VPHEP is around 72% as on November 30, 2022.
The company has projected to incur more than ₹7,000 crore capex during FY23-FY24 period and a large portion of it will be for the KSTPP and Amelia project. Sufficient internal accrual committed for capex will have to be generated to keep debt level, cost and time overrun under control. Timely commissioning and ramp-up of TPSP will have bearing on the cash generation of THDC during the next financial year.
While project implementation and funding risk persist, THDC is expected to get adequate project management support from its strong parent that has vast experience of setting up large projects.

Industry risk: Hydro power provides many advantages in terms of grid balancing ability due to relatively quicker ramp-up/down, lower emission, lower raw material supply risk, etc. The hydro power installed capacity as well as generation is less than 15% of the overall share in the country currently. This is despite the substantial hydro power potential. Project implementation is a challenge due to legal, regulatory issues, evacuation and difficulties in financing. Moreover, difficult terrain, geological and climatic risks for construction and operation has been a challenge. The operational projects have also faced issues with respect to timely payment from financially weak discoms in the past.

Liquidity: Adequate

The company has adequate liquidity profile as evident from the projected cash generation for FY23 vis-à-vis the debt repayment. Cash and equivalent stood at ₹151 crore as on September 30, 2022. The utilisation of fund-based working capital limits stood lower at 54% for the trailing 12 months ending October 31, 2022. By virtue of its parentage, THDC enjoys financial flexibility in terms of debt capital access. This is partially offset by stretched collection from its off takers.

Environment, social, and governance (ESG) profile

Substantial business operation of THDC is through hydro and renewable power. The thermal project under implementation is expected to meet the stipulated emission norms. Given its parentage, THDC has demonstrated good governance practices in the past.

Analytical approach: Standalone, while notching up the rating considering the financial and operational linkage 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](#)
[Thermal Power](#)
[Power Generation Projects](#)
[Solar Power Projects](#)
[Wind Power Projects](#)

About the company

THDC India Limited (THDC; formerly known as Tehri Hydro Development Corporation Ltd.) was incorporated in July 1988 to develop, operate and maintain the 2400-MW Tehri Hydro Power Complex and other hydro projects. The 2400-MW Tehri Hydro Power Complex comprises Tehri Dam & HPP (1000 MW) Stage-I, Koteshwar HEP (400 MW) & Tehri PSP (1000 MW; under implementation). THDC has been conferred with the 'Mini Ratna – Category-I' status and Schedule 'A' PSU by the Government of India. It has obtained ISO 9001:2008 Certificate of Quality Management System for providing Designs, Contracting & related Techno-Economic support to hydro power projects/hydro power plants. THDC has a total commissioned power generation capacity of 1587 MW (Tehri Dam & HPP: 1000 MW, Koteshwar HEP: 400 MW, Dhukwan SHEP: 24 MW, Wind- Patan: 50 MW, Wind- Dev Bhumi: 63 MW and Solar- Kasargod: 50 MW).

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23(UA)
Total operating income	2,457	2,147	923
PBILDT	1,835	1,506	603
PAT	1,092	897	321
Overall gearing (times)	0.65	0.80	0.96
Interest coverage (times)	10.34	11.17	4.53

A: Audited || UA: Un-audited || NA: Not available

Status of non-cooperation with previous CRA: NA
Any other information: NA
Rating history for the last three years: Please refer Annexure-2
Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of 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
Bonds	NA	NA	NA	NA	600.00	CARE AA; Stable

NA – Not applicable since it is not placed

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	Bonds	LT	600.00	CARE AA; Stable	1)CARE AA; Stable (01-Jul-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20)	1)CARE AA (CW with Developing Implications) (07-Feb-20) 2)CARE AA; Stable (03-Dec-19) 3)CARE AA; Stable (19-Aug-19) 4)CARE AA+; Stable (03-Apr-19)
2	Fund-based - ST-Term loan	ST	-	-	-	-	-	1)Withdrawn (03-Dec-19) 2)CARE A1+ (19-Aug-19)
3	Fund-based - LT-Cash credit	LT	375.00	CARE AA; Stable	1)CARE AA; Stable (01-Jul-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20)	-
4	Bonds	LT	800.00	CARE AA; Stable	1)CARE AA; Stable (01-Jul-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (03-Jul-20)	-
5	Bonds	LT	750.00	CARE AA; Stable	1)CARE AA; Stable (01-Jul-22)	1)CARE AA; Stable (02-Jul-21)	1)CARE AA; Stable (07-Jan-21)	-
6	Bonds	LT	1200.00	CARE AA; Stable	1)CARE AA; Stable (01-Jul-22)	1)CARE AA; Stable (21-Jul-21)	-	-
7	Bonds	LT	800.00	CARE AA; Stable	1)CARE AA; Stable (30-Aug-22)	-	-	-
8	Bonds	LT	600.00	CARE AA; Stable				

*Long term/Short term.

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

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

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

Annexure-5: Bank lender details for this company

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

Note on 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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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