

## THDC India Limited

June 30, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	375.00	CARE AA; Stable	Reaffirmed
Bonds	600.00	CARE AA; Stable	Reaffirmed
Bonds	800.00	CARE AA; Stable	Reaffirmed
Bonds	750.00	CARE AA; Stable	Reaffirmed
Bonds	1,200.00	CARE AA; Stable	Reaffirmed
Bonds	800.00	CARE AA; Stable	Reaffirmed
Bonds	600.00	CARE AA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation of the rating assigned to the long-term bonds and bank facilities of THDC India Limited (THDC) continues to derive strength from the low sales risk by virtue of the long-term power purchase agreement (PPA) with various discoms for its projects along with the mechanism of tariff determination for its large hydro projects 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 FY23 (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. 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', 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.

While the rating takes note of significant financial progress in under-construction projects during FY23, the risk associated with implementation and the consequential increase in projected leverage metrics continue to constrain the rating. The rating continues to be constrained by the below-average credit profile of the company's power off-takers, though THDC has been able contain overdue receivables to some extent during FY23.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Completion of projects on timely manner with significant reduction in TD/PBILDT level.
- Improvement in the collection period to less than 90 days.

#### Negative factors

- Stretch in average collection period beyond 300 days, thus 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.

**Analytical approach** - Standalone, while notching up the rating considering the financial and operational linkage with its parent i.e NTPC Limited.

### Outlook: Stable

The stable outlook of the company reflects THDC's ability to maintain healthy operational performance, reasonable collection efficiency, steady physical and financial progress in terms of capex with maintenance of leverage at elevated level during the medium term.

### Detailed description of the key rating drivers:

#### Key strengths

#### Off-take risk mitigated through PPAs with distribution utilities

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

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 Electricity Regulatory 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. Thus, THDC has signed up long-term PPA's for its entire 4,351 MW (both commissioned as well as under construction) with various beneficiaries.

### **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, interest on working capital, depreciation and operation and maintenance 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 Normative Annual Plant Availability Factor (NAPAF), which has been prescribed for each hydro power station by CERC. Tariff visibility is further provided by receipt of tariff order for the control period of FY19-24 for both the large hydro plants during FY23.

### **Healthy operational profile of large hydro plants**

During FY23, 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. The Dhukwan small hydro project generated 82 MUs in FY23, much higher than FY21 and FY22 levels. The Devbhumi Dwarka, the Patan and the Kasargod plants reported lower-than-P 90 level of generation in FY23.

### **Healthy financial risk profile, albeit moderation expected in medium term**

The overall gearing, though increased, remained acceptable at 1.20x as on March 31, 2023 (PY: 0.80x). The total debt is increasing on account of implementation of capex. This has led to increase in TD/PBILDT to 10.07x in FY23 (PY: 5.51x). However, THDC's debt maturity profile is comfortable as chunk of the borrowing has long tenor bullet repayment structure, thus providing headroom to the projected debt service coverage ratio. Moreover, upon staggered commissioning of the under-construction projects is likely to improve the cash flows and hence lead to improvement in leverage metrics

### **Majority ownership by NTPC**

As on March 31, 2023, NTPC held majority stake (74.496%) in THDC, while the balance was 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. 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 weaknesses**

#### **Significant counterparty credit risk**

The company has exposure to financially weaker discoms in the state of Uttar Pradesh, Jammu & Kashmir, Rajasthan and Punjab. Due to the liquidity schemes for discoms, average collection period of THDC has witnessed significant improvement – from 307 days in FY21 to 179 days in FY22 and 129 days in FY23. 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 Tehri Pumped Storage Project (TPSP, 1,000 MW), Vishnugad Pipalkoti Hydro Electric Project (VPHEP, 444 MW) and Khurja Super Thermal Power Project (KSTPP, 1,320 MW) projects. It is also developing the newly commissioned Amelia captive mine. The execution of such large projects, with combined cost exceeding Rs. 22,000 cr, exposes the company to both funding and implementation risk.

THDC is expected to get adequate project management support from its strong parent that has vast experience of setting up large projects. Moreover, the company achieved impressive financial progress during FY23, exceeding Rs. 4,000 cr and highest among recent years. Units of TPSP are envisaged to be commissioned soon. As per the management, significant physical and financial progress has also been made in KSTPP. Thus, ramp up of operation of both TPSP and KSTPP during FY25 will be important from the perspective of cash generation and de-leveraging. Achievement of competitive cost of generation from both this pumped storage and thermal plant shall also be important.

### 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 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

Since sufficient internal accrual had been ploughed in the under-construction projects, the projected gross cash accrual for FY24 and FY25 less the balance equity portion for capex is likely to remain comfortable vis-à-vis the debt repayment. Further, the improvement in average collection days aids the liquidity profile. Cash and equivalent stood at ₹93.65 crore as on March 31, 2023. The utilisation of fund-based working capital limits stood lower at 55% for the trailing 12 months ending March, 2023. By virtue of its parentage, THDC enjoys financial flexibility in terms of debt capital access.

### Applicable criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

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[Wind Power Projects](#)

### About the company and industry

#### Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power Generation

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)	March 31, 2022 (Aud.)	March 31, 2023 (Abd.)
Total operating income	2,147	2,004
PBILDT	1,498	1,239
PAT	895	673
Overall gearing (times)	0.80	1.20
Interest coverage (times)	11.17	6.83

Aud.: Audited || Abd.: Abridged || Note: 'the above results are latest financial results 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 rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

**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	INE812V07039	24-July-2020	7.19%	24-July-2030	800.00	CARE AA; Stable
Bonds	INE812V07047	20-Jan-2021	7.45%	20-Jan-2031	750.00	CARE AA; Stable
Bonds	INE812V07054	25-Aug-2021	7.39%	25-Aug-2031	1200.00	CARE AA; Stable
Bonds	INE812V07062	14-Sep-2022	7.60%	14-Sep-2032	800.00	CARE AA; Stable
Bonds	INE812V08011	27-Dec-2022	7.88%	27-Dec-2032	600.00	CARE AA; Stable
Bonds	INE812V07013	03-Oct-2016	7.59%	03-Oct-2016	600.00	CARE AA; Stable
Fund-based - LT-Cash Credit		-	-	-	375.00	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 2023-2024	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
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)
2	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)
3	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)
4	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)
5	Bonds	LT	1200.00	CARE AA; Stable	-	1)CARE AA; Stable (01-Jul-22)	1)CARE AA; Stable (21-Jul-21)	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
6	Bonds	LT	800.00	CARE AA; Stable	-	1)CARE AA; Stable (30-Aug-22)	-	-
7	Bonds	LT	600.00	CARE AA; Stable	-	1)CARE AA; Stable (19-Dec-22)	-	-

\*Long term/Short term.

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

### Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds	Simple
2	Fund-based - LT-Cash Credit	Simple

### Annexure-5: Lender details

To view the lender wise details of 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](mailto:care@careedge.in) for any clarifications.

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