

North Eastern Electric Power Corpn Limited

July 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	500.00	CARE AA+; Stable	Reaffirmed
Non-convertible debentures	1,000.00 (Reduced from 1,500.00)	CARE AA+; Stable	Reaffirmed
Non-convertible debentures	240.00 (Reduced from 360.00)	CARE AA+; Stable	Reaffirmed
Non-convertible debentures	900.00	CARE AA+; Stable	Reaffirmed
Non-convertible debentures	300.00	CARE AA+; Stable	Reaffirmed
Non-convertible debentures	500.00	CARE AA+; Stable	Reaffirmed
Non-convertible debentures	150.00	CARE AA+; Stable	Reaffirmed
Non-convertible debentures	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the long-term instruments and bank facilities of North Eastern Electric Power Corporation Limited (NEEPCO) continues to draw 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 ratings favourably factor in the low sales risk on account of its long-term power purchase agreements (PPAs) with various power distribution companies (discoms) along with the recent signing of PPA of 345 MW with NTPC Vidyut Vyapar Nigam Limited (NVN). The ratings also factor in the mechanism of tariff determination for its plants (i.e., determined by the Central Electricity Regulatory Commission [CERC]), which ensures cost recovery along with return on equity, thus yielding stable cash flows. The ratings draw comfort from NEEPCO's strong generation and healthy realisation in FY23 (refers to the period from April 01 to March 31) from its largest plant, i.e., Kameng Hydro Power Station (Ka-HPS). The ratings also factor in the acceptable receivables level of NEEPCO as on March 31, 2023, coupled with improvement in the financial risk profile during FY23, characterised by comfortable leverage and coverage metrics.

The ratings derive 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 ratings also take note of the steady operational performance of other large hydro plants – Panyor Lower Hydro Power Station (formerly Ranganadi-HPS), Pare (Pa-HPS), Doyang (D-HPS), and Tuirial (Tr-HPS) – during FY23, while the gas-based plants clocked an improved plant availability factor (PAF), achieving the normative annual PAF (NAPAF) for two of its three gas-based plants in Assam and Tripura.

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

CARE Ratings Limited (CARE Ratings) has also withdrawn the outstanding rating on NCD (series XIX issue) with immediate effect, as the company has repaid the programmes rated by us and there is no amount outstanding as on date.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in the credit profile of the off-takers.

Negative factors

- 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.

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

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

Outlook: Stable

The stable outlook on the rating reflects CARE Ratings' expectation that NEEPCO will continue to have a steady operating performance which will be backed by the company's established track record along with strategic importance to India's power sector in the NE region along with reasonable collection efficiency.

Detailed description of the key rating drivers

Key strengths

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 (i.e., power) provider to the NE states, NEEPCO has high strategic importance, underpinning support from the Government of India (GoI) indirectly and its parent (i.e., NTPC) directly.

Established track record in implementing power projects in NE India

NEEPCO has wide experience and expertise in implementing hydro projects in the NE, 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.

Increased revenue visibility due to recently-signed PPA of 345 MW with MVN

During last review, it was noted that around 83% of NEEPCO's installed capacity is tied up with long-term PPA. NEEPCO has recently signed a 25-year PPA (with an option to terminate/replace the agreement after 5 years based on mutual agreement) for 345 MW. Tariff is remunerative while the ultimate beneficiaries have good financial risk profile.

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.

Healthy generation and realisation from Ka-HPS

Ka-HPS has been one of the highest EBITDA-contributing plants for the company in FY23. The plant, which was commissioned in phases during FY21, witnessed an issue in the labyrinth weir. Post the prolonged outage for almost eight months during FY22, the plant clocked strong generation – a PAF of 75% and a plant load factor (PLF) of 55% during FY23, up from 71% and 49%, respectively, in FY22.

Stable overdue debtors; albeit increase in total receivables

The collection efficiency of the company continued to remain healthy during FY23 after demonstration of more than 100% collection during FY22. Moreover, the overdue receivables reduced to 19% of the total receivables as on March 31, 2023 (vs 31% as on March 31, 2022). The management expects a healthy collection efficiency for FY24 as well.

Improved performance of hydro-based plants; moderate operational performance of gas-based plants

The hydro plants, except for Kopili HPS (which is undergoing R&M activities), plant availability factor (PAF) has improved marginally for all the other plants, ensuring better recovery of capacity charges. Similarly, all the hydro plants clocked higher than FY22 PLF (except Kopili HPS) ensuring higher recovery of energy charges.

Among the gas plants, two out of three plants clocked higher-than-normative PAF in FY23 (0 out of 3 in FY22). The extent of under-achievement in NAPAF was also minimal for Agartala gas-based power station (AgGBPS).

Improvement in the financial risk profile

Upon healthy sales on short-term basis from Ka-HEP, the financial risk profile has substantially improved, characterised by a substantial increase in gross cash accruals (GCA). The interest coverage improved from 2.77x in FY22 to 3.76x in FY23; it is expected to improve, going forward.

The overall gearing and total debt (TD)/profit before interest, lease rentals, depreciation and taxation (PBILDT) improved to 1.09x and 3.49x, respectively, for the period ended FY23 (PY: 1.15x and 4.52x, 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 weaknesses**Significant counterparty credit risk**

NEEPCO's off-takers include the discoms of all the seven states in NE 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. The process to obtain various clearances has been initiated. The projected capex for FY24 (which includes renovation and modernisation of the Kopili plant) is estimated to be around ₹1,000 crore. The management has indicated higher quantum of capex to be incurred during FY25-FY27 period. 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 control 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.

Delay in equity infusion by NTPC

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 average working capital utilisation during the 11 months ended March 31, 2023, has been minimal at 4%. NEEPCO is a 100% subsidiary of NTPC and is expected to provide any need-based support. It is expected to continue enjoying its financial flexibility. Average collection period continued to remain under control, i.e., 58 days in FY23 (PY: 62 days). The debt service coverage ratio (DSCR) of the company is projected to remain marginal for the FY24-FY27 period on account of the sizeable debt repayment and capex commitments. However, the receipt of equity commitment will ease the liquidity profile. The cash levels in the company have been moderate at ₹15 crore as on March 31, 2023.

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](#)

[Thermal Power](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

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

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 5 MW (0.2%) installed in Tripura.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	3,190.86	4,540.62
PBILDT	1,644.72	2,028.16
PAT	212.29	396.90
Overall gearing (times)	1.15	1.09
Interest coverage (times)	2.77	3.76

A: Audited; The above financials have been adjusted as per CARE Ratings' criteria.

Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for 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/Bank Facilities	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE636F07183	01-Oct-2014	9.60%	October 01, 2024	1000.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	INE636F07191	25-Mar-2015	9.15%	March 25, 2025	240.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	INE636F07209	30-Sep-2015	8.68%	September 30, 2030	900.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	INE636F07241	29-Nov-2018	9.50%	November 29, 2025	300.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	INE636F07225	15-Nov-2017	7.68%	November 15, 2025	500.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	INE636F07233	06-Mar-2018	8.75%	March 6, 2028	0.00	Withdrawn
Debentures-Non Convertible Debentures	INE636F07258	26-Sep-2019	8.69%	September 26, 2027	150.00	CARE AA+; Stable
Fund-based - LT-Term Loan	-	-	-	June 10, 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 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	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA; Positive (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)
2	Debentures-Non Convertible Debentures	LT	240.00	CARE AA+; Stable	-	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA; Positive (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)
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)
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (07-Jul-20)
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)
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)
7	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA+; Stable (04-Jul-22)	1)CARE AA; Positive (06-Jul-21)	1)CARE AA; Stable (07-Jul-20)
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)
9	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (07-Jul-20)
10	Fund-based - LT-Term Loan	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (15-Dec-22)	-	-

*Long term/Short term.

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

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument/Bank Facilities	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	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 for any clarifications.

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About us:

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