THDC India Limited

August 25, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,875.00	CARE AA; Stable	Reaffirmed
Bonds	800.00	CARE AA; Stable	Assigned
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 long-term rating 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 the 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 the continued subdued generation in solar, wind and small hydro plants.

The rating also takes note of the financial risk profile characterised by healthy gross cash accruals (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 and joint ventures (JVs) in the past, CARE Ratings notes that THDC will receive timely financial support from its parent if required.

While the rating takes note of the significant financial progress in the under-construction projects during FY23 and Q1FY24 (refers to the period from April 1 to June 30), 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, although THDC has been able to contain overdue receivables to some extent during FY23 and Q1FY24.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Completion of projects in a timely manner with significant reduction in the total debt (TD)/profit before interest, lease rentals, depreciation and taxation (PBILDT) level.
- Improvement in the collection period to less than 90 days.

Negative factors

- Stretch in the 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 an adverse impact on the 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 linkages with its parent, ie, NTPC Limited.

Outlook: Stable

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

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 an elevated level during the medium term.

Detailed description of the key rating drivers

Key strengths

Off-take risk mitigated through PPAs with distribution utilities

For offtake of power, THDC has entered into long-term PPAs for the entire Tehri Hydro Power Complex of 2,400 MW with various beneficiary states. The PPA for the 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 the Dhukwan 24-MW small hydro project has been signed with Uttar Pradesh Power Corporation Limited (UPPCL), approved by the Uttar Pradesh Electricity Regulatory Commission. The company has also signed a PPA with fixed tariff with Kerala State Electricity Board Limited for a solar project of 50 MW in Kasargod, Kerala. Thus, THDC has signed up long-term PPAs for its entire 4,351 MW (both commissioned as well as under construction) with various beneficiaries.

Regulated returns leading to steady operating cash flow

The tariff for each of the large hydro power stations of THDC is determined by the Central Electricity Regulatory Commission (CERC). The tariff is determined by referring to the annual fixed cost (AFC), which comprises interest on loan, interest on working capital, depreciation and operation and maintenance (O&M) expenses, and post-tax return on equity (ROE). Notably, 50% of the 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. 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, the 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 million units (Mus) in FY23, much higher than the 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 the medium term

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

Majority ownership by NTPC

As on March 31, 2023, NTPC held the majority stake (74.496%) in THDC, while the balance was held by the Government of Uttar Pradesh (GoUP). 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 the 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 the subsidiary, CARE Ratings expects NTPC to provide THDC with 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 and Kashmir, Rajasthan, and Punjab. Due to the liquidity schemes for discoms, the 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 the 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). It is also developing the newly-commissioned Amelia captive mine. The execution of such large projects, with a combined cost exceeding ₹22,000 crore, exposes the company to both, funding and implementation risks.

CARE Ratings expects THDC to receive adequate project management support from its strong parent that has a vast experience of setting up large projects. Moreover, the company achieved impressive financial progress during FY23, exceeding ₹4,000 crore, and the highest among recent years. The 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, the ramp-up of operations of both, TPSP and KSTPP during FY25 will be important from the perspective of cash generation and de-leveraging. The achievement of competitive cost of generation from both, pumped storage and thermal plant will also be important and CARE Ratings will continue to monitor the same.

Industry risk

Hydro power provides many advantages in terms of grid balancing ability due to the 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 the 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 GCA for FY24 and FY25 less the balance equity portion for the capex is likely to remain comfortable vis-à-vis the debt repayment. Furthermore, the improvement in the average collection days aids the liquidity profile. The cash and cash equivalents stood at ₹139.05 crore as on June 30, 2023. The utilisation of the fund-based working capital limits stood moderate at 50% for the trailing 12 months ending June 30, 2023. By virtue of its parentage, THDC enjoys strong financial flexibility in terms of access to the debt capital market.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Infrastructure Sector Ratings
Solar Power Projects
Thermal Power
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 2,400-MW Tehri Hydro Power Complex and other hydro projects. The 2,400-MW Tehri Hydro Power Complex comprises the Tehri Dam and HPP (1,000 MW) Stage-I, Koteshwar HEP (400 MW), and Tehri PSP (1,000 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 the ISO 9001:2008 Certificate of Quality Management System for providing designs, contracting and related techno-economic support to hydro power projects and hydro power plants. THDC has a total commissioned power generation capacity of 1,587 MW (Tehri Dam and HPP: 1,000 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 the 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 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: 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-2026	600.00	CARE AA; Stable
Bonds	NA	NA	NA	NA	800.00	CARE AA; Stable
Fund-based - LT-Cash credit		-	-	-	375.00	CARE AA; Stable
Fund-based - LT-Term loan		-	-	28-Feb-2035	2500.00	CARE AA; Stable

NA - Not Applicable since it is not placed

Annexure-2: Rating history for the last three years

		Current Ratings			Rating History			
Sr. No.	Name of the Instrument/Bank Facilities	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 (08-Aug-23) 2)CARE AA; Stable (30-Jun-23)	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 (08-Aug-23) 2)CARE AA; Stable (30-Jun-23)	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 (08-Aug-23) 2)CARE AA; Stable (30-Jun-23)	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 (08-Aug-23) 2)CARE AA; Stable (30-Jun-23)	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 (08-Aug-23) 2)CARE AA; Stable (30-Jun-23)	1)CARE AA; Stable (01-Jul-22)	1)CARE AA; Stable (21-Jul-21)	-
6	Bonds	LT	800.00	CARE AA; Stable	1)CARE AA; Stable (08-Aug-	1)CARE AA; Stable (30-Aug-	-	-

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
					23) 2)CARE AA; Stable (30-Jun-23)	22)		
7	Bonds	LT	600.00	CARE AA; Stable	1)CARE AA; Stable (08-Aug-23) 2)CARE AA; Stable (30-Jun-23)	1)CARE AA; Stable (19-Dec-22)	-	-
8	Fund-based - LT-Term loan	LT	2500.00	CARE AA; Stable	1)CARE AA; Stable (08-Aug-23)			
9	Bonds	LT	800.00	CARE AA; Stable				

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

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
3	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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