NHDC Limited

November 29, 2023

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term bank facilities	450.00	CARE AAA; Stable	Reaffirmed

Details of facilities in Annexure-1

Rationale & key rating drivers

The reaffirmation of the rating for the proposed term loan of NHDC Limited (NHDC) continues to derive comfort from low sales risk emanating from long-term power purchase agreement (PPA) for its operational 1,520 MW hydro power plants. The company receives steady cash flows with regulated return on equity, basis the cost-plus tariff mechanism applicable for its hydro-based power plants. The rating also considers the strong operational performance of the hydro plants characterized by exceedance of normative plant availability factor (NAPAF) and design energy consistently, leading to incentive income. Additionally, the actual generation during FY23 (refers to the period from April 01 to March 31) has been one of the highest at 5,437 MUs since the company's incorporation. The financial risk profile continues to be robust characterized by nil debt and strong liquidity position. The rating factors in the strong parentage and the operational linkage derived from NHPC Limited (NHPC, rated CARE AAA; Stable) which holds leadership position in hydro power capacity in India with several decades of successful operation of plants at various regions and supplying power to diversified counterparties are other credit positives. The rating also factors in the strategic importance of NHDC for NHPC and the government of Madhya Pradesh (GoMP) underpinning support.

The aforementioned rating strengths are however tempered by the counterparty credit risk posed in the form of off-taker concentration i.e MP Power Management Company Limited (MPPMCL) as well as its relatively weak financial health characterized by high aggregate technical and commercial losses and leveraged capital structure. The rating also factors in the risk associated with the renewable energy projects and hydrology risk in particular, associated with its plants.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: NA

Negative factors:

- Deterioration in the credit profile of NHPC or dilution in its support philosophy towards NHDC
- Material deterioration in the operational performance or aggressive debt-funded capex implementation leading to significant moderation in leverage and coverage metrics
- Significant increase in the average collection period or decline in liquidity buffer of the company to below ₹1,300 crore

Analytical approach: Standalone, while factoring strong operational and financial linkages with its parent i.e. NHPC Limited

Outlook: Stable

The 'stable' outlook of the company reflects its ability to maintain healthy operational performance and steady collection efficiency. Its financial risk profile is expected to remain strong characterized by low debt and large liquidity buffer.

Detailed description of the key rating drivers

Key strengths

Low sales risk due to existence of long-term PPA

The entire capacity of Indira Sagar Project (ISP-1000 MW) and Omkareshwar Sagar Project (OSP-520 MW) is tied up through 35 years power purchase agreement (PPA) with MPPMCL, assuring off-take of the entire power and revenue generation for significant time period. Moreover, NHDC has also executed PPAs with MPPMCL for a period of 25 years for the solar projects of 96 MW which as on October 31, 2023 are under implementation.

Steady cash flow with assured returns based on the CERC-determined tariffs

The tariffs for ISP and OSP are determined as per the tariff regulation notified by Central Electricity Regulatory Commission (CERC). The tariff is determined by referring to annual fixed charges (AFC), which comprise interest on loan, depreciation, interest on working capital, operation and maintenance expenses (O&M), and return on equity (ROE). Under the 'cost-plus tariff' mechanism, recovery of cost is subject to the achievement of normative operational parameters. Thus, subject to the operational performance of the power plants being in line with the normative benchmarks, the company will be able to generate stable earnings. The company is also eligible for incentive income in case of better-than-normative operational performance.

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

Furthermore, there is adequate regulatory clarity for both ISP and OSP by virtue of availability of tariff order for the period 2019-24 as notified by CERC.

Healthy operational performance
Generation from both the hydro plants in FY23 has been one of the highest since commissioning. NHDC exceeded NAPAF and design energy in FY23 resulting in high incentive income. The combined generation stood at 5,437 MU (PY: 2645 MU) while the average plant availability factor (PAF) increased from 92.76% in FY22 to 97.42% in FY23. The combined generation during H1FY24 (refers to the period from April 01 to September 30) has also exceeded target generation.

Strong financial risk profile
Financial risk profile of NHDC is strong characterized by nil debt vis a vis large networth base over several years given its conservative financial strategy. Due to its operating model for the two hydro projects, cash flow is stable. Improved incentive and interest income led to improvement in gross cash accrual (GCA) in FY23.
The company is projected to implement a solar project of 96 MW in the next 2few months. Moreover, it is expected to further bid for solar projects in the state thereby adding solar capacity to its portfolio. Additionally, the company plans to implement a 525 MW pumped storage plant which is likely to require capital outlay in excess of ₹4,000 cr. Accordingly, leverage profile is projected to moderate. However, peak overall gearing and TD/PBILDT is expected to still remain below 0.50x and 5.50x respectively in the projection, which is comfortable. Considering longer tenor of the proposed debt along with a reasonable moratorium period, the projected debt service coverage ratio is expected to remain strong.

Strong parentage with continued operational support
As on June 30, 2023, 51.08% stake in NHDC is held by NHPC Limited, a 'Miniratna' and Government of India (GoI) enterprise. NHPC is the largest hydro power generating company in the country with approximately 15% of installed hydro power capacity in India. NHPC has several decades of experience in operating hydro plants across various regions and supplying power to multiple counterparties. NHPC provides adequate operation support in terms of consultancy for all strategic decisions for NHDC as well as regular review of its operational and financial performance. There is adequate representation of NHPC in the board of NHDC with its Chairman also hailing from NHPC. Moreover, NHDC's employee strength include a sizable number of executives on deputation from NHPC having considerable experience in managing various functions. Due to NHDC's stable dividend payout in the past, potential to generate stable cash flow, diversification provided in terms of source of hydrology to the NHPC group's portfolio and the reputational risk associated with distress in subsidiary, adequate timely support from NHPC is envisaged if required.

Strategic importance of NHDC for Madhya Pradesh
ISP and OSP are multi-purpose projects meeting the requirement of power generation and irrigation, thus enabling agriculture and pisciculture in the nearby area. NHDC is one of the largest power suppliers to the state of Madhya Pradesh.

Key weaknesses

Counterparty credit risk due to off-take concentration and weak credit profile of off-taker
NHDC's entire generation from its capacity (operational (1,520 MW) and the renewable projects under construction (96 MW) is meant for the state of Madhya Pradesh which is sold through M. P. Power Management Company Limited (MPPMCL). The discoms of the state have weak operating performance marked by high Aggregated Technical and Commercial (AT&C) losses. They have weak capital structure.
While the receivables had significantly stretched during Covid'19 lockdown, it has shown improvement. Collection has improved significantly since February 2023, as payments were being recovered before the expiry of the credit period (i.e 60 days).
The significant counterparty credit risk is mitigated to some extent through maintenance of letter of credit by MPPMCL equivalent to one month of average billing, existence of a long-term tripartite agreement between NHDC, MPPMCL and GoMP (guarantor) which can be invoked in the event of default in payment by the beneficiary. Moreover, NHDC is also booking, late payment surcharge income (LPSC) for delayed payments by MPPMCL as per the provision of the PPA.

Implementation risk associated with renewable projects
NHDC is in the process of setting up an 88 MW AC floating solar facility post winning in Rewa Ultra Mega Solar Limited's [RUMSL] first phase of auction at a tariff of ₹ 3.22/unit on Build-Own-Operate (BOO) basis. Apart from the above, is also setting up an 8 MW AC ground mounted solar plant near Sanchi, Vidisha (M.P).
Moreover, there are plans to implement a 525 MW pumped storage plant at Indira Sagar, to meet the peak hour energy demand. As per the management, currently, the project is in nascent stage and no major cost is expected to be incurred during FY24-FY25 period. However, sizable construction activities will be carried out from FY26 onwards. NHDC is also exploring capacity expansion opportunities especially in renewable energy segment. Given its limited past experience in renewable energy generation, the execution of projects exposes the company to both funding and implementation risk. Also, satisfactory operational and collection

track record is crucial and remains to be seen. However, NHDC is expected to receive continued adequate project management support from its strong parent that has vast experience of setting up large projects.

Hydrological risk associated with power generation

The hydro power plants of NHDC are exposed to hydrology risk since the generation is dependent on precipitation and water level in the Narmada River. The plants generate much more power during times when seasonal river flows are high and has lower generation during drier months. In the event of flooding, it may be necessary to temporarily halt operations at the hydroelectric plant to avoid damage. This could result in an extended period of downtime for repairs and maintenance, although which is a rare possibility in the region.

Liquidity: Strong

NHDC has nil term debt nor any working capital limit currently. Due to its robust business profile, gross cash accrual generation from its existing hydro project is strong on annual basis. Average collection period has improved indicating efficient receivable management. NHDC had cash and equivalent of ₹1,640 cr as on June 30, 2023. Given its strong parentage and robust financial risk profile, financial flexibility of NHDC is expected to remain healthy going forward.

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
Solar Power Projects
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power generation

NHDC, formerly known as Narmada Hydroelectric Development Corporation Ltd., was incorporated in August 2000 as a 51:49 joint venture (JV) between NHPC and GoMP to complete and operate ISP (a multipurpose hydro-project for flood control, irrigation and hydroelectricity generation with a capacity of 1,000 MW) and OSP (a project downstream of ISP with hydro-electricity generation capacity of 520 MW). As on June 30, 2023, NHPC was holding 51.08% share in NHDC while GoMP and Narmada Basin Projects Company Limited (NBPCL, entirely held by GoMP) hold 26% and 22.92% respectively.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	901	1,330	201
PBILDT	547	951	122
PAT	513	774	167
Overall gearing (times)	0.00	0.00	0.00
Interest coverage (times)	NM	NM	NM

A: Audited || UA: Un-audited || Not meaningful || Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: NA

Any other information: NA

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 for this company: 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
Fund-based - LT-Term loan	-	Proposed	-	NA	450.00	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2023-2024	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT	450.00	CARE AAA; Stable	-	1)CARE AAA; Stable (01-Sep-22)	-	-

*Long Term / Short Term

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

Not Applicable

Annexure-4: Complexity level of 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 bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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