NHDC Limited

October 18, 2024

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

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 agreements (PPAs) for its operational 1,520-MW hydro power plants, 8 MW Sanchi Solar project and a 88 MW partly commissioned solar power project. The company earns steady cash flows with regulated return on equity, based on the cost-plus tariff mechanism applicable for its hydro-based power plants. The tariff for its operational and partly commissioned solar projects is fixed at ₹3.22/Kwh for 25 years from commercial operation date (COD). The rating also considers the strong operational performance of the hydro plants characterised by plant availability and generation higher than normative plant availability factor (NAPAF) and design energy, respectively, on a consistent basis, leading to incentive and secondary energy income. Additionally, the actual generation in FY24 (refers to April 01 to March 31) has been high at 4,471 Mus (PY: 5,437 Mus) as compared to design energy of 2,159 Mus. The financial risk profile continues to be robust characterised by nil debt as on date (₹43 crore as on March 31, 2024, which was repaid in April 2024) 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 a leadership position in the hydro power sector in India with several decades of successful operation of plants and supplying power to diversified counterparties. The rating also factors in NHDC's strategic importance for NHPC and the government of Madhya Pradesh (GoMP) underpinning support.

However, the company continues to remain exposed to counterparty credit arising out of its sole offtaker the MP Power Management Company Limited (MPPMCL), which has weak financial health characterised by high aggregate technical and commercial losses and leveraged capital structure. The rating also factors in the risk associated with the hydrology risk in its hydro projects, limited track record of operations of its 8-MW solar project and partly commissioned 88-MW solar project.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: NA

Negative factors

- Deterioration in the credit profile of parent company i.e. NHPC or any change in linkage/support philosophy between the parent and NHDC Limited.
- Material deterioration in the operational performance or aggressive debt-funded capex implementation leading to significant moderation in leverage and coverage metrics.
- Significant decrease in the average collection period.

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 characterised by low debt and large liquidity buffer.

Detailed description of 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 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 25 years from COD for the Sanchi Solar project of 8 MW and floating solar projects of 88 MW. The 8-MW Sanchi Solar project has been commissioned in March 2024 and 48.4 MW out of the 88-MW floating solar project was commissioned in June 2024. The remaining capacity is expected to be commissioned in FY25.

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

Steady cash flow with assured returns based on CERC-determined tariffs for hydro projects and competitively bid fixed tariff for solar projects

The tariffs for ISP and OSP are determined 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. The company is also eligible for incentive income in case of better-than-normative operational performance. The performance of the two hydro power projects has been satisfactory in the past leading to recovery of entire capacity charge, incentive income, and secondary energy income.
The company has also entered long-term power purchase agreements (PPAs) for 8-MW Sanchi Solar project and 88 MW floating solar project at a tariff of ₹3.22/kWh with MPPMCL for 25 years from COD, providing long-term revenue visibility.

Healthy operation performance

Generation from both the hydro plants in FY24 has been higher than design energy. The combined generation stood at 4,471 MU (PY: 5,347 MU), while the actual plant availability factor (PAF) stood at 96.45% in FY24 (higher-than-normative PAF of 87% for ISP and 90% for OSP). Hence, the company earned incentive and secondary energy income apart from entire recovery of capacity charges.

Strong financial risk profile

NHDC's financial risk profile is strong characterised by nil debt as on date (₹43 crore as on March 31, 2024) against large net worth base over several years given its conservative financial strategy. The company availed short-term loan in FY24, which was paid off within a month. Due to its operating model for the two hydro projects, cash flow is stable. Improved interest income led to improvement in gross cash accrual (GCA) in FY24.
The company is projected to implement the remaining capacity of its floating solar project of 88 MW in FY25. Additionally, the company plans to implement a 640-MW pumped storage plant, which is likely to require capital outlay in excess of ₹5,000 crore Per the management, the company may consider for reduction of dividend in future, if required, to meet equity requirement for the CAPEX of pumped storage plant. Accordingly, leverage profile is projected to moderate. However, peak overall gearing and TD/PBILDT is expected to still remain below 0.60x and 7.00x, respectively, in the projection, which is comfortable. The pumped storage project is at DPR stage and capital expenditure shall be in a phase manner.

Strong parentage with continued operational support

As on September 30, 2024, 51.08% stake in NHDC is held by NHPC Limited, a 'Navratna' 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 regions and supplying power to multiple counterparties. NHPC provides adequate operation support in terms of consultancy for all strategic decisions for NHDC and regular review of its operational and financial performances. There is adequate representation of NHPC in NHDC's board 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 functions. Owing to NHDC's stable dividend payouts in the past, its potential to generate stable cash flow, diversification provided in terms of hydrology sources to the NHPC group's portfolio, and the reputational risk associated with distress in its subsidiary, adequate and 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 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 (1520-MW hydro and 96-MW renewable projects) has exposure to M. P. Power Management Company Limited (MPPMCL), which exposes the company to counter party credit risk. The state discoms have weak operating performance marked by high Aggregated Technical and Commercial (AT&C) losses. They have weak capital structure. Despite that, the receivables have reported significant improvement in FY24. Collection has improved significantly in FY24, as payments were being recovered before the expiry of the credit period (60 days). The debtor days improved from 189 days in FY23 to 132 days in FY24.
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 for hydro power projects. Moreover, NHDC is also booking late payment surcharge income (LPSC) for delayed payments by MPPMCL 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. The project's 48.4-MW capacity was commissioned in June 2024, and the balance capacity is expected to be commissioned in FY25.
Moreover, there are plans to implement a 640-MW pumped storage plant, to meet the peak hour energy demand. Per the management, currently, the project is in DPR stage and no major cost is expected to be incurred in the near term. 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, CARE Ratings expects NHDC to receive continued adequate project management support from its strong parent that has vast experience of setting up large projects.

Hydrological risk and climate risks associated with power generation

NHDC's hydro power plants are exposed to hydrology risk since the generation depends on precipitation and water level in the Narmada River. The plants generate much more power in times when seasonal river flows are high and has lower generation in 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. The solar projects are exposed to the inherent risk of weather fluctuations, affecting the plant load factor (PLF). As tariffs are one part in nature, the company may book lower revenues in the event of non-generation of power due to variation in weather conditions and/or equipment quality.

Liquidity: Strong

NHDC has nil term debt as on date. Due to its robust business profile, GCA generation from its existing hydro project and solar power projects is strong on annual basis. Average collection period has improved indicating efficient receivable management. NHDC had cash and equivalent of ₹1,921 crore as on June 30, 2024. Given its strong parentage and robust financial risk profile, financial flexibility of NHDC is expected to remain healthy going forward

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Infrastructure Sector Ratings
Solar Power Projects

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, 2024, 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. As on September 31, 2024, the company also has commissioned a 8 MW ground solar and 48.4 MW floating solar out of total capacity of 88 MW.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	1,330	1,275	284
PBILDT	951	898	125
PAT	774	812	164
Overall gearing (times)	0.00	0.01	0.00
Interest coverage (times)	NM	NM	NM

A: Audited; UA: Unaudited; NM: Not meaningful; Note: these are latest available financial results || Financials reclassified per CARE Ratings' internal standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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
Fund-based - LT-Term loan	-	Proposed	-	NA	450.00	CARE AAA; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term loan	LT	450.00	CARE AAA; Stable	-	1)CARE AAA; Stable (29-Nov-23)	1)CARE AAA; Stable (01-Sep-22)	-

LT: Long term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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