Hinduja National Power Corporation Limited

November 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	7,775.95 (Enhanced from 7,125.95)	CARE A-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of the rating assigned to long-term bank facilities of Hinduja National Power Corporation Limited (HNPCL) continues to derive strength from strong financial flexibility of Machen Holdings SA (MHSA, the ultimate holding entity of HNPCL and the support provider) as reflected by a satisfactory cover of 5.0x as on June 2024, against 4.3x in December 2023. CARE Ratings Limited (CARE Ratings) computes market cover as the value of investments across listed companies against combined debt. The rating also takes cognisance of HNPCL's strong parentage by it being part of the Hinduja group, which has reputed stature and well-established track record.

The rating continues to favourably factor in promoter support undertaking to bring/ arrange necessary funds in the company for repayment of debt. It also considers operational expenses in case of shortfall in project cash flows and demonstrated track record of fund infusion in the past for meeting operating expenses and debt servicing. The rating also factors in refinancing previously outstanding term loan at favourable lending terms. CARE Ratings has not withdrawn the rating on the repaid term loan facility as no dues certificate (NDC) is yet to be received.

The rating further continues to derive comfort from HNPCL's low sales risk and long-term revenue visibility due to its power purchase agreement (PPA) with discoms of Andhra Pradesh for the entire capacity at a cost plus tariff determined by the Andhra Pradesh Electricity Regulatory Commission (APERC) and presence of a long-term fuel supply agreement (FSA) with Mahanadi Coalfields Limited (MCL) for 4.624 MTPA, which is sufficient to meet coal requirement at PLF of ~75%, mitigating fuel risk to some extent. Improvement in operational performance in FY23 and FY24 with plant availability factor (PAF) above normative parameters and plant load factor (PLF) above 50% is a credit positive.

However, the rating is constrained by disallowance of capital cost by ~₹2,000 crore by APERC in its order dated August 2022, leading to lower annual fixed charge (AFC). HNPCL's review petition for disallowance of capital cost was dismissed by APERC in June 2023, and the company has subsequently filed an appeal with the Appellate Tribunal for Electricity (APTEL) for review of the order and judgement is awaited. The company is exposed to counterparty credit risk as Andhra Pradesh discoms account for the full off-take and their credit profile is weak. The company's receivable cycle is elongated as reflected by receivables of 292 days as on FY24 end. CARE Ratings notes that, HNPCL may have to incur expenditure on flue gas desulfurization (FGD), which may result in deterioration of capital structure and would be a key monitorable. CARE Ratings expects that the company would depend on the parent company/group for meeting its debt obligations in the near term, till stabilisation of its operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Higher-than-envisaged liquidation of regulatory assets leading to an improvement in the financial risk profile.
- Improvement in credit profile of counterparties with collection period remaining below 90 days on a sustained basis.

Negative factors

- Significant deterioration in promoter's credit profile or dilution in its support philosophy towards HNPCL.
- Substantial decline in the market cover to below 3.5x on a sustained basis.
- Weakening financial performance as reflected by increase in debtors and/or non-realisation of regulatory assets.
- Unfavourable regulatory outcome in reference to disapproval of the capital cost or deficit in pass-through of energy charges by December 2025, adversely impacting the company's cash accruals.

Analytical approach: Standalone, factoring linkages with MHSA, the group's ultimate holding company owning 91.33% interest in HNPCL through sub hold-cos including Hinduja Energy (India) Limited.

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

Outlook: Stable

Operational risk is likely to remain moderate due to regulatory uncertainty leading to partial recovery of claimed capital cost, offset by existence of long term PPA and FSA. This is expected to limit improvement in its financial risk profile in the medium term. However, stable outlook factors in linkages with Hinduja group and support extended to the company in the past for meeting operational and/or debt obligations, which is expected to continue in the future.

Detailed description of key rating drivers

Key strengths

Long-term power off-take arrangement for 25 years approved by APERC

HNPCL has long-term PPA for its entire capacity of 1,040 MW with AP discoms on cost plus basis for 25 years from commercial operations date (COD; April 30, 2016) leading to revenue visibility. Cost-plus nature of tariff ensures recovery of cost and fixed return subject to normative parameters. Actual fuel cost shall be pass-through for determination of energy charges per APERC regulations. However, capital cost approved by APERC was lower by ₹2000 crore leading to under recovery of fixed costs despite plant availability being higher than normative PAF (NAPAF) of 85%.

FSA with Mahanadi Coalfields Limited (MCL)

HNPCL has fuel supply agreement with MCL with annual contracted quantity (ACQ) of 4.624 million tonne per annum (MTPA), which is sufficient to meet coal requirement at PLF of ~75%. While the plant is in proximity to two well-developed ports (Gangavaram Port and Vizag Port), it has plans to set up railway siding. The company is in discussion with the Indian Railways for the same under the Gati Shakti Scheme. Its commissioning will reduce the landed cost of coal and improve the plant's competitiveness.

Improvement in operational performance

Beneficiaries had stopped scheduling power from HNPCL's plant since August 2020, which resumed only post the Hon'ble Supreme Court's judgement in February 2022. PLF has improved to 60% in FY24 (PY: 53%). PAF continued to remain above normative in these periods ensuring full recovery of capacity charge at the capital cost approved by APERC. However, the company's station heat rate and auxiliary consumption has been inferior to the normative level set by APERC. HNPCL has raised invoices for part loading compensation, which will offset losses due to part loading.

Part of reputed and resourceful promoter group with proven financial support in the past

HNPCL belongs to the Hinduja Group, which is one of the largest diversified groups in the world with direct presence in 38 countries and activities spanning across 100 countries. The group has presence across sectors, automotive, banking and finance, energy & chemicals, power, healthcare, information technology, real estate, and media and entertainment among others. MHSA is HNPCL's ultimate holding company. MHSA has majority stake in Hinduja Automotive Limited – United Kingdom (HAL-UK, the holding company of Ashok Leyland Limited [ALL, rated 'CARE AA; Stable/ CARE A1+']). As the flagship company of the Hinduja group, ALL is a prominent manufacturer of commercial vehicles in India. MHSA has majority stake in Hinduja Capital Limited – Mauritius (HCL-M, the holding company of GOCL Corporation Limited [GOCL]). GOCL's multi-division businesses include energetics, commercial explosives and realty.

The management has articulated that there is adequate financial flexibility of MHSA due to fungibility of cashflows between MHSA and its subsidiaries, HAL-UK, HCL-M and the Hinduja Energy holdcos. The market value of investments in listed instruments of these sub-holdcos against their external debt outstanding as on June 30, 2024, is 5.0x, which is satisfactory. CARE Ratings has observed improvement in the market value of these holdings against total debt in the energy hold-cos/sub-hold-cos since last review. CARE Ratings expects that the group will continue to provide need-based financial support to HNPCL given the existing headroom available in leveraging these holdcos.

Promoter supporter towards meeting HNPCL's financial obligations

MHSA and Hinduja Energy (India) Limited (HEIL), HNPCL's promoters, have extended Promoter Support Undertaking to the lender for the facilities availed by HNPCL. HEIL shall maintain minimum stake of 51% of total equity share capital, management control and majority board representation. Promoters undertake that i) bring necessary funds into the company for repayment of the debt and operational expenses in case of shortfall in project cash flows for entire tenor of the loan ii) increase in project cost due to impact of change in regulations or levying of charges by regulatory/statutory body above the Project Cost shall be borne by Promoter iii) liability considering LDs under PPA or Project Documents shall be responsibility of the Promoters iv) in case of APERC/APTEL/Supreme Court not approving capex incurred towards FGD, which shall be funded by Promoters without recourse to the project among others. The company's promoters have been regularly infusing funds in HNPCL by inter corporate deposit (ICD)/loan.

Going forward, timely extension of support from promoter group will continue to be a key rating monitorable.

Refinancing existing term loan
The company has got its entire term loan refinanced by Power Finance Corporation on September 30, 2024, with decline in interest rate and increase in tenor of bullet repayment of ₹450 crore, which was repayable in FY25. Hence, debt servicing obligations in FY25 and FY26 are lower, which supports the company's financial profile to some extent.

Favourable order from APERC on energy charges
Per the order dated April 02, 2024, from APERC, revised base variable cost comes to ₹3.03 per unit plus 15% ceiling on it to be applicable from April 01, 2023, against ₹3.16 claimed by the company. AP discoms were directed to deduct ₹0.58 per unit from the claims of HNPCL, while paying the energy charges on August 01, 2023, considering pending railway corridor work. However, HNPCL has obtained a stay on it from the High Court.

Key weaknesses

Approved capital cost is lower than incurred capital cost, tightening normative parameters
Vide its order in August 2022, capital cost approved by APERC was lower by ₹2,000 crore compared to actual capital cost incurred for setting up the project. The tariff was determined from August 2022 to March 2024 and interim tariff for previous period were considered as final leading to under recovery for the project. APERC has also approved stricter station heat rate, auxiliary consumption, specific fuel oil consumption, which may lead to under-recovery in energy charge, which is expected to offset to some extent with part-load compensation permitted under the PPA. HNPCL had filed review petition with APERC with justification for relaxation, which was dismissed in June 2023. Thereafter, HNCPL filed an appeal in Appellate Tribunal for Electricity (APTEL) to review the tariff order received from APERC and the judgement from APTEL is awaited. Timely resolution of the issue favourably without major disallowance in capital cost shall be a key rating monitorable.

Leveraged capital structure
HNPCL's term debt has been increasing year on year considering moratoriums availed by the company in line with the RBI guidelines and stood at ₹9,892 crore (including ₹ 3248 crore advances from group companies) as on March 31, 2024 and ₹ 9,410 crore (including ₹ 2263 crore advances from group companies) as on March 31, 2023. While the external debt (excluding advances from group companies) has declined on y-o-y basis, the debt coverage metrics of the company remain weak and support from group companies is critical for debt servicing and meeting operating expenses

High counterparty credit risk as evident from deterioration in collection efficiency in FY2024
The company is exposure to counter party credit risk considering weak operational and financial profile of AP discoms characterised by high leverage and stretched payable and collection period. Average collection period remained high at 290 days in FY24 in line with FY23 and the debtors increased to ₹3,647 crore as on March 31, 2024 (PY: ₹2,578 crore). The collection efficiency stood at 75% in FY24 (FY23: 90%)

Liquidity: Adequate
The company's liquidity has been supported by timely infusion of funds from promoters and access to fund-based working capital limits. Lead working capital lender has appraised enhancement of working capital limit by ₹650 crore to ₹1940 crore. Average utilisation of fund-based working capital limit in FY24 was 82%. The company had a cash and bank balance of ~₹16 crore and DSRA of ₹367 crore (one quarter of debt servicing) as on October 10, 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power generation

HNPCL is part of Hinduja Group. The company operates coal-based sub-critical thermal power project of 1,040 MW (2 x 520) in Village Palavalasa, Vishakhapatnam, Andhra Pradesh. The company is promoted by HEIL (holds 51.05% stake), Hinduja Energy (Mauritius) Limited (holds 40.27% stake), Machen Development Corporation (holds 4.84% stake) and balance is held by Steag Energy Services GmbH. The project was commissioned in April 2016. The company has signed long-term PPA with AP discoms on cost plus basis.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	2,391	3,285
PBILDT	695	955
PAT	-325	998
Overall gearing (times)	3.20	5.45
Interest coverage (times)*	0.94	1.23

**Does not include interest on Intercorporate Deposits as same is subordinated to primary debt*

*A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results; *analytically adjusted per CARE Ratings' methodology*

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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	1940.00	CARE A-; Stable
Fund-based - LT-Term Loan*		-	-	March 2039	244.94	CARE A-; Stable
Fund-based - LT-Term Loan*		-	-	March 2039	4439.95	CARE A-; Stable
Fund-based - LT-Term Loan*		-	-	March 2025	900.00	CARE A-; Stable
Non-fund-based - LT-Bank Guarantee*		-	-	-	251.06	CARE A-; Stable

*The entire loan has been refinanced by Power Finance Corporation. However, since 'No Dues Certificate' (NDC) has not been provided by previous lenders, the rating has not been withdrawn.

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-Cash Credit	LT	1940.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Jan-24)	1)CARE A-; Stable (06-Jan-23) 2)CARE A- (RWN) (27-Dec-22)	1)CARE A- (CW with Negative Implications) (07-Oct-21)
2	Fund-based - LT-Term Loan	LT	244.94	CARE A-; Stable	-	1)CARE A-; Stable (05-Jan-24)	1)CARE A-; Stable (06-Jan-23) 2)CARE A- (RWN) (27-Dec-22)	1)CARE A- (CW with Negative Implications) (07-Oct-21)
3	Fund-based - LT-Term Loan	LT	4439.95	CARE A-; Stable	-	1)CARE A-; Stable (05-Jan-24)	1)CARE A-; Stable (06-Jan-23) 2)CARE A- (RWN) (27-Dec-22)	1)CARE A- (CW with Negative Implications) (07-Oct-21)
4	Fund-based - LT-Term Loan	LT	900.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Jan-24)	1)CARE A-; Stable (06-Jan-23) 2)CARE A- (RWN) (27-Dec-22)	1)CARE A- (CW with Negative Implications) (07-Oct-21)
5	Non-fund-based - LT-Bank Guarantee	LT	251.06	CARE A-; Stable	-	1)CARE A-; Stable (05-Jan-24)	1)CARE A-; Stable (06-Jan-23) 2)CARE A- (RWN) (27-Dec-22)	1)CARE A- (CW with Negative Implications) (07-Oct-21)
6	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (05-Jan-24)	1)CARE A-; Stable	-

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
							(06-Jan-23) 2)CARE A- (RWN) (27-Dec-22)	
7	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (05-Jan-24)	1)CARE A-; Stable (06-Jan-23) 2)CARE A- (RWN) (27-Dec-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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT-Bank Guarantee	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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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