Hinduja National Power Corporation Limited

April 27, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities – Term Loan	5985.00	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long term Bank Facilities – Cash Credit	1290.00	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Assigned**
Total Facilities	**7275.00 (Rupees Seven Thousand Two Hundred and Seventy Five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Hinduja National Power Corporation Ltd. (HNPCL) continues to factor in the well-entrenched experience and resourcefulness of the promoters (Hinduja Group), mitigation of project risk with achieving of project COD, presence of fuel supply agreement (FSA) and long term PPA with enabling clauses for pass-through of fixed costs, fuel cost, O&M contract with Steag energy (German entity) and assured ROE for determining the energy charges.

The rating strengths are however constrained by counter party risk due to relatively weak financial risk profile of off takers and pending final tariff approval by APERC, however, adhoc tariff has been approved.

The continuance of need-based promoter support and the performance of the project post the stabilization phase are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters: HNPCL belongs to the multibillion dollar Hinduja Group, a conglomerate with diversified operations spanning 20 countries. The Group has presence across various sectors viz. Automotive, Banking and finance, Energy & Chemicals, Power, Healthcare, Information technology, Real Estate, Media and entertainment amongst others.

Moderate operational performance of the plant: The Plant has achieved COD of Unit 1 on January 11, 2016 and of Unit 2 on April 30, 2016. Average PLF for the period July 2016 to Feb 2017 stood at 40.72% with Average Plant Availability at 76.29%. The Plant Availability and the Plant Load Factor have been on the lower side since the plant is still in the stabilization phase.

Long term PPA agreement: On April 28, 2016, HNPCL has entered into a continuation agreement with APDISCOMs (Southern and Eastern DISCOMs of AP) for continuation of PPA dated April 15, 1998. Major highlights of the agreement are as follows:

- DISCOMs will pay the tariff as determined by the Andhra Pradesh Electricity Regulation Commission (APERC) based on the project capital cost approved by APERC;
- Actual fuel cost will be completely passed through for determination of energy charges as per APERC regulations. In case of short supply of domestic coal, HNPCL will be allowed to procure coal from other alternate sources;
- Project cost shall be reviewed and approved by APERC.
- As per APERC regulations, assured return in equity is 15.5%.
- DISCOMs shall have the exclusive right and the obligation to purchase 100% power generated by HNPCL.
- APERC is in the process of approving the capital cost and final tariff.
- APERC has already approved Adhoc tariff of Rs. 3.61 per unit which has been increased to Rs. 3.82 per unit effective August 01, 2016. Approval of final tariff (retrospectively w.e.f January 11, 2016) by APERC is awaited.

Availability of coal linkages: The annual requirement of coal for the project is about 4.624 MTPA (assumed at 80% PLF). The GCV (Gross Calorific Value) of coal specified is for 'G10-G13' grade coal (GCV of 3400 – 4600 kcal/kg on 5% moisture

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

basis) and guaranteed station Heat rate of 2269.82 kcal/ kWh. HNPCL has signed fuel supply agreement with MCL in August 2011 for supply of 4.624 MTPA [Annual contracted quantity (ACQ)] 'G10-G13'grade coal. The price of coal would be as notified by Coal India Limited (CIL) from time to time. The plant is near two well-developed ports (Gangavaram Port, Vizag Port) and company can use imported coal to meet the short fall, if any.

Coal transportation - Permission to use NTPC's railway network: HNPCL had plans to connect its plant to the nearest railway station (Jaggayyapalem) through railway siding route. The total distance is 23 KM to be constructed in two stages. i.e. Stage 1- NTPC intersection point to HNPCL plant site which is 5 Km and in Stage 2- Jaggayyapalem to NTPC Intersection plant which is 19 Km. HNPCL had placed order to construct the railway sliding (5km) which would be completed in the next 6 months. Currently, HNPCL is transporting coal via road from Bayyavaram/ Kantakapali railway station which is 50 km from the plant location. On implementation of the railway sliding, cost per unit is likely to be lowered by approx. 20-24 paisa per unit. .

Key Rating Weaknesses

Counter party Risk

HNPCL may be exposed to risk due to the weak financial health of state power distribution utilities in the state of AP. Following table gives a brief snapshot of APDISCOMs:

Rs in crore

Particulars (based on FY16 financials)	**EPDCL**	**SPDCL**
Total Income	8796.41	14928.67
PAT	-471.8	-3429.89
Aggregate Technical and Commercial losses	5.48%	8.48%

EPDCL = Eastern Power Distribution Company of Andhra Pradesh Limited
SPDCL = Southern Power Distribution Company of Andhra Pradesh Limited

However, going forward, with Andhra Pradesh being a part of UDAY scheme which involves financial restructuring of debt of power distribution companies it is likely that the payments from the offtakers would be received in timely manner to an extent.

Demand supply mismatch

In addition to the off-taker risk, there exists demand supply mismatch with respect to power demand and availability. As per the order of retail supply tariffs for FY17 from Andhra Pradesh electricity regulatory commission (APERC), based on the pre-arranged supply sources, the energy availability in Andhra Pradesh for FY17 is computed at 66838 MU as against requirement of 57564 MU indicating surplus for the year FY17.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology: Factoring Linkages in Ratings]
[Financial ratios – Non-Financial Sector]
[Rating methodology for private power producers]

About the Company

HNPCL, a Special Purpose Vehicle (SPV) promoted by Hinduja Group, has developed a coal based sub-critical thermal power project of 1,040 MW (2 x 520) in Village Palavalasa, Dist. Vishakhapatnam, Andhra Pradesh (AP). Hinduja Group Companies viz. Hinduja Energy India Ltd. (holding company in the energy vertical of the Hinduja Group), Hinduja Energy Ltd. – Mauritius and Machen Development Corporation, have contributed over 95% of the equity stake in HNPCL.
The total project cost estimated has increased by 55% from Rs.5,545 crore to Rs. 8,580 crore primarily on account of the damage caused due to the cyclone (Hudhud) which hit Vishakhapatnam in October, 2014 implementation of design changes/ additional packages as recommended by Expert Appraisal Committee (EAC) of MoEF (Ministry of Environment and Forest), duty and taxes pending receipt of final MPP status (earlier taxes were not being projected on account of Mega Power Project status expected to be received) and increase in IDCs on account of delay in the project etc.
Initially, HNPCL had envisaged six months gap between the project COD of Unit 1 and Unit 2. The COD of Unit 1 was achieved on January 11, 2016 and of Unit 2 on April 30, 2016. The entire project cost is funded in Debt: Equity ratio of 70:30 (changed from 75:25). The total project cost has been incurred except the EPC contract retention money to be given in next year (Rs. 479 crore) and the cost for railway sliding construction of Rs. 190 crore which would be funded through debt which is expected to be completed by March 31, 2018.
For FY16 (refers to the period April 1 to March 31), HNPCL reported a total income of Rs. 217.19 crore (Rs. 0.17 crore in FY15) and Net Loss of Rs. 157.88 crore (Rs. 12.01 crore in FY15).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	March 2027	5985.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	1290.00	CARE BBB+; 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	5985.00	CARE BBB+; Stable	-	-	1)CARE BBB+ (18-Jan-16)	1)CARE BBB+ (30-Mar-15)
2.	Fund-based - LT-Cash Credit	LT	1290.00	CARE BBB+; Stable	-	-	-	-

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