NHPC Limited

September 11, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Proposed Long –term Bonds (W Series)	2,250 (Rupees Two Thousand Two hundred and Fifty crore only)	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to proposed bond issue of NHPC Ltd. (NHPC) continues to derive strength from its majority ownership by the Government of India (GoI), NHPC's established position as India's largest hydro power producer with geographical diversity of sales, and healthy operational efficiency of its power stations. The rating also factors in NHPC's strong financial performance and earnings protection attributable to long-term power selling arrangements with regulated return on equity, improved collection period, its comfortable capital structure and healthy liquidity position. The rating also takes cognizance of the risks associated with implementation of the ongoing projects and the weak credit profile of the company's power off-takers.

Going forward, timely completion of the ongoing capex plans within the estimated cost and timely receipt of dues from its off-takers shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Government support and majority ownership by GoI: The GoI holds 74.50% stake as on March 31, 2017. The GoI has consistently supported the company which is evident from share capital of Rs. 10,259 crore as on March 31, 2017.

Strong operational efficiency of power stations: NHPC's total power generation (standalone) stood at 23,275 Million Units (MUs) (including 18 MUs from wind power station) as against the very good target of 23,000 MUs during FY17 (refers to the period April 1 to March 31). The Plant Availability Factor (PAF) for operating hydro power stations continued to remain healthy and stood at 82.70% in FY17 (PY: 81.60%). Out of the total 19 hydro power stations, 16 power stations registered higher PAF than the Normative PAF (NAPAF) prescribed by Central Electricity Regulatory Commission (CERC). Auxiliary consumption has declined from 1.13% in FY16 to 1.01% in FY17. The improved performance continued in Q1FY18 and company achieved total operational revenue of Rs. 2,327.51 cr. (Q1FY17: Rs. 2,196.79 cr.).

Healthy collection efficiency: Total debtors has reduced to Rs. 1,459 crore as on 31st March, 2017 from Rs. 1,956 crore as on 31st March, 2017 thus showing improvement in collection. The improvement was largely attributable to improving performance of DISCOMs on account of financial support provided by Govt. of India by way of schemes like UDAY.

Comfortable financial risk profile with healthy liquidity position: The overall financial risk profile of NHPC continued to remain comfortable characterized by an overall gearing of 0.74x as on March 31, 2017. The total debt to GCA improved from 5.19x in FY16 to 4.48x in FY17. The company's interest coverage ratio improved from 4.65x in FY16 to 4.84x during FY17 on account of increase in operating profit. The liquidity position of the company continued to remain comfortable as reflected by free cash balances of Rs. 1,182 crore as on March 31, 2017.

Key Rating Weaknesses

Counterparty credit risk: The poor financial health of many of the state distribution utilities continues to remain a cause of concern for the power generating companies including NHPC thereby affecting timely realization of revenue. However, the performance is now likely to improve attributing to financial support provided by Govt. of India by way of schemes like UDAY.

Risks related to projects under implementation: NHPC is currently implementing 3 hydro projects with an aggregate installed capacity of 3,130 MW in the states of J&K, Himachal Pradesh, Arunachal Pradesh and Assam. The work on Subansiri lower project (2000 MW) on border of Arunachal Pradesh and Assam is also suspended on account of agitation launched by various activists (petitioners) in the area w.r.t. the concerns on safety of dam and downstream impacts of dam. The matter has now been heard under NGT and resolution is likely to come shortly. Further, the expansion plans of NHPC exposes the company to the project execution (delays in land acquisition and obtaining clearances) and funding related risks. However, the company's favorable capital structure and consistent cash flows from operations with high levels of cash balance and company's ability to raise funds in efficient and quick manner provides reasonable comfort in terms of availability of funds for meeting the capex requirements.

Analytical approach: Standalone

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

Applicable Criteria
CARE's criteria on assigning outlook to credit ratings
CARE's policy on default recognition
Rating Methodology - Infrastructure Sector Ratings
CARE‘s methodology for private power producers
CARE's rating methodology on financial ratios – Non-financial sector

About the Company
NHPC Limited, a ‘Miniratna’ and Govt of India (GoI) enterprise, was incorporated in 1975 with an objective to plan, promote and organize an integrated and efficient development of hydroelectric power in the country. The company is the largest hydro power generating company in the country with an aggregate installed hydropower capacity (including JVs) of 6,667 MW (FY16: 6,507 MW) as on 31st March, 2017 which is around 15% of total Hydro Power Production in India. NHPC currently operates 21 hydropower stations (including 2 JVs) and 1 wind power station in country. Standalone capacity of NHPC from its 19 hydro power stations is 5,121 MW and 1 wind power station is 50 MW as on March 31, 2017. The company has consistently been rated ‘Excellent’/‘Very Good’ as per MOU with Ministry of Power for achieving the power generation.
Key performance highlight of the company is as under:

Brief Financials (Rs. crore)	**FY16 (A)**	**FY17 (A)**
Income from Operations	8,313	8,693
PBILDT	4,987	5,194
PAT	2,433	2,803
Overall Gearing	0.69	0.74
Interest Coverage	4.65	4.84

A: Audited

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
Proposed Bonds (W-series)	-	-	-	2,250	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 2018-2019	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.	Bonds (Q-series)	LT	1055.00	CARE AAA; Stable	1)CARE AAA; Stable (17-Jul-17)	1)CARE AAA; Stable (02-Feb-17) 2)CARE AAA (28-Jun-16)	1)CARE AAA (15-Jul-15)	1)CARE AAA (15-Oct-14)
2.	Bonds (Tax free bonds)	LT	1000.00	CARE AAA; Stable	1)CARE AAA; Stable (17-Jul-17)	1)CARE AAA; Stable (02-Feb-17) 2)CARE AAA (28-Jun-16)	1)CARE AAA (15-Jul-15)	1)CARE AAA (15-Oct-14)
3.	Bonds (S-series)	LT	952.00	CARE AAA; Stable	1)CARE AAA; Stable (17-Jul-17)	1)CARE AAA; Stable (02-Feb-17) 2)CARE AAA (28-Jun-16)	1)CARE AAA (15-Jul-15)	1)CARE AAA (27-Nov-14)
4.	Bonds (T-series)	LT	1474.92	CARE AAA; Stable	1)CARE AAA; Stable (17-Jul-17)	1)CARE AAA; Stable (02-Feb-17) 2)CARE AAA (28-Jun-16)	1)CARE AAA (15-Jul-15)	-
5.	Bonds (O-series)	LT	57.00	CARE AAA; Stable	1)CARE AAA; Stable (17-Jul-17)	1)CARE AAA; Stable (02-Feb-17) 2)CARE AAA (28-Jun-16)	1)CARE AAA (31-Aug-15)	-
6.	Bonds (U-series)	LT	900.00	CARE AAA; Stable	1)CARE AAA; Stable (17-Jul-17)	1)CARE AAA; Stable (02-Feb-17) 2)CARE AAA (28-Jun-16)	-	-
7.	Bonds-Redeemable Non-Convertible Unsecured Taxable Bonds (V series)	LT	2250.00	CARE AAA; Stable	1)CARE AAA; Stable (17-Jul-17)	1)CARE AAA; Stable (02-Feb-17)	-	-

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