

NHPC Limited

February 05, 2019

Ratings

Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term instruments – Proposed Bond programme (X Series)	2,000 (Rs. two thousand crore only)	CARE AAA; Stable (Triple A; Outlook Stable)	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating of NHPC continues to derive strength from its majority ownership by the Government of India (GoI) with financial and management support, 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 comfortable financial risk profile characterized by low overall gearing and adequate liquidity and earnings protection attributable to long-term power selling arrangements with regulated return on equity. The ratings also take 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

Govt support and majority ownership by GoI: The GoI (which held 73.67% stake in NHPC as on December 31, 2018) is instrumental in providing financial and strategic support. Apart from providing equity support, the GoI has provided support in the form of longer tenure subordinated debt to fund the strategically important projects at concessional interest rate. The GoI is also involved in appointment of the Board and senior management as well as setting up NHPC's business plan annually.

Cost-plus tariff providing stable cash flow and assured returns: The tariff for each hydro power station of NHPC is determined by Central Electricity Regulatory Commission (CERC). It ensures recovery of cost along with stipulated return on equity on achievement of normative availability and generation meeting the design energy of that particular plant. NHPC has low sales risk on account of execution of long term PPA for its hydro projects.

The average tariff of all the hydro power plants of NHPC was Rs. 3.38/unit (PY: Rs. 3.34/unit) with 13 plants having tariff of Rs. 5.0/ unit or below in FY18.

Healthy operational performance of power stations: NHPC's total power generation (standalone) stood at 22,975 Million Units (MUs) during FY18 through its 22 operating power stations (including one wind power plant and one solar power plant) located in different parts of the country. NHPC achieved highest ever aggregate PAF of 85.32% in FY18 (PY: 83.41%). Out of the total 19 operational hydro power stations, 15 power stations registered higher PAF than the Normative Availability prescribed by CERC.

Healthy collection efficiency: Collection efficiency improved from ~83% in FY17 to ~87% in FY18 along with reduction in debtors holding period to 72 days (PY: 76 days). The improvement was largely attributable to higher GoI support to state-DISCOMs and recovery mechanism initiated on a DISCOM having long pending overdues.

Comfortable leverage and coverage metrics: The overall financial risk profile of NHPC continued to remain comfortable characterized by low overall gearing (despite regular dividends) with stable coverage metrics. Overall gearing was 0.68x as on March 31, 2018 (PY: 0.74x), through reduction of LT-debt and profit plough-back. Despite lower generation and revenue on account of it in FY18, GCA remained stable on account of lower interest cost. TD/GCA improved to 4.30x in FY18 (PY: 4.48x) and interest cover strengthened to 5.52x in FY18 (PY: 4.84x).

Adequate liquidity: NHPC's liquidity position is strengthened by consistently healthy accruals, sizable cash balances and undrawn credit facilities. The company had free cash balance of Rs. 1,309 crore as on September 30, 2018. The utilization of working capital limits of the company had been low.

Key Rating Weaknesses

Risks related to projects under implementation: The expansion plans of NHPC exposes the company to the project execution and funding related risks, which however is mitigated largely through company's favorable capital structure and consistent cash flows from operations with adequate cash and bank balance.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE Publications

The execution of the long-stalled Subansiri lower project (2,000 MW) got a significant impetus recently when the National Green Tribunal rejected appeal filed by social activists against its construction. Going forward, implementation progress of this project shall be a key monitor able.

Counterparty credit risk: The below average 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 collection from DISCOMs has gradually improved.

Analytical approach: Standalone

Applicable Criteria

CARE's criteria on assigning outlook to credit ratings

CARE's policy on default recognition

CARE's methodology for private power producers

CARE's rating methodology on financial ratios – Non-financial sector

Rating Methodology - Infrastructure Sector Ratings

About the Company

NHPC, a 'Miniratna' (since April'08) 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 subsidiaries) of 6,971 MW as on September 30, 2018 which is around 15% of installed hydro power capacity in India. NHPC is present across 11 states and currently operates 22 hydropower stations (including two through its subsidiary) with single largest capacity of 1,000 MW in Madhya Pradesh. The company has consistently been rated 'Very Good' as per MOU with Ministry of Power for achieving the power generation targets. Key performance highlight of the company is as under:

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Income from Operations	8,693	8,418
PBILDT	5,194	5,089
PAT	2,796	2,759
Overall Gearing	0.74	0.68
Interest Coverage	4.84	5.52

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instrument

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Long term instruments – Proposed Bond programme	-	-	February 2029	2,000.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Bonds	LT	949.50	CARE AAA; Stable	1)CARE AAA; Stable (05-Sep-18)	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)
2.	Bonds	LT	1000.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Sep-18)	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)
3.	Bonds	LT	915.50	CARE AAA; Stable	1)CARE AAA; Stable (05-Sep-18)	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)
4.	Bonds	LT	1474.92	CARE AAA; Stable	1)CARE AAA; Stable (05-Sep-18)	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	LT	-	-	1)Withdrawn (05-Sep-18)	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	LT	900.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Sep-18)	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	LT	2095.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (17-Jul-17)	1)CARE AAA; Stable (02-Feb-17)	-
8.	Bonds	LT	2250.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (11-Sep-17)	-	-
9.	Bonds	LT	2000.00	CARE AAA; Stable	-	-	-	-

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