NHPC Limited

February 06, 2020

Rating

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Bonds (AA 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 assigned to the proposed bond of NHPC 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 ratings 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 rating takes cognizance of revenue diversification initiatives of NHPC including foraying into power trading and setting up plants in wind and solar energy sector. The rating also takes cognizance of the completion of the acquisition of Lanco Teesta Hydro Power Limited (500 MW) and NHPC qualifying as a successful applicant by the Committee of Creditors of Jal Power Corporation Limited (120 MW Rangit Stage IV HE Project).

These rating strengths are however, constrained by counterparty risks by being exposed to various state electricity distribution utilities/boards with relatively weak credit profile, risks associated with implementation of the ongoing projects, hydrological risks implying dependence on river water flow and regulatory risks with respect to tariff revisions.

Rating Sensitivities

Negative Factors

- Significant change in GoI shareholding, leading to reduction in financial and strategic support.
- Deterioration in debtor collection period beyond 150 days on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Govt support and majority ownership by GoI: The GoI (which held 73.33% stake in NHPC as on March 31, 2019) 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 for FY19 (PY: Rs. 3.38/unit) with 14 plants (out of 20) having tariff of Rs. 5.0/ unit or below in FY19. Further, the FY19 tariff is provisional and yet to be finalized as per CERC 2019-24 tariff regulations.

Healthy operational performance of power stations: NHPC's total power generation (standalone) stood at ~24 Billion Units (BUs) during FY19 (FY18: 23 BU) through its 22 operating power stations (including one wind power plant and one solar power plant) located across different parts of the country. The company had achieved an aggregate PAF of 84.84% in FY19 (PY: 85.32%). Out of the total 20 operational hydro power stations, 16 power stations (PY: 15) registered higher PAF than the Normative Availability prescribed by CERC. Further, NHPC reported ~23% growth in incentive income to Rs. 789 crore during FY19 (FY18: Rs. 643 crore) driven by higher incentive on capacity, deviation charges and energy incentive on account of higher generation. During H1FY20, the generation levels improved to 17.87 BUs (H1FY19: 16.63 BUs) due to better hydrology. This led to improvement in the total operating income by ~7.8% to Rs. 5,613 crore vis-à-vis Rs. 5,208 crore in H1FY19. Profit after Tax and cash accruals stood at Rs. 2,174 crore and Rs. 2,472 crore respectively in H1FY20. The generation levels further improved in 9MFY20 to 22.15 BUs in comparison to 20.69 BUs in 9MFY19.

Comfortable leverage and coverage metrics: The overall financial risk profile of NHPC continued to remain comfortable characterized by low overall gearing with stable debt coverage metrics. Overall gearing stood at 0.68x as on March 31, 2019 (PY: 0.68x), through reduction in net LT-debt and profit plough-back. The coverage indicators remained comfortable as reflected by interest coverage of 6.04x in FY19 (PY: 5.52x). The overall gearing remains comfortable at 0.69x in H1FY20

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

although it increased marginally from 0.65x in H1FY19. The slight increase is driven largely due to increase in debt levels related to ongoing capex expenditure related to Subansiri Lower and Parbati-II projects.

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, consistent cash flows from operations with adequate cash & bank balance and extensive experience in implementation of various projects in past. The execution of the long-stalled Subansiri lower project (2,000 MW) is expected to get impetus soon post the National Green Tribunal's (NGT) order on validity of Expert Advisory Committee's report on the appeal filed by social activists against its construction. Further, the management is also planning to undertake modernization of plants which are older than three decade. Going forward, implementation progress of these projects shall be a key monitorable.

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. During H1FY20, there has been significant accumulation of debtors, especially due from the DISCOMs of Jammu & Kashmir and Uttar Pradesh. However, NHPC's dominance in hydro power generation in India with fairly diversified off-taker base alleviates risk to a great extent.

Liquidity: Strong

NHPC has a strong liquidity profile marked by healthy cash generation vis-à-vis scheduled debt repayments. The company is expected to generate gross cash accruals of ~Rs 4500 cr. against which it has repayment obligations of ~Rs 1608 cr. during FY20. As on December 31, 2019, the company has already repaid principal amount of ~Rs. 969 crore, with ~Rs. 639 crore remaining for Q4FY20. The liquidity profile of the company is also supported by the cash and bank balance of Rs. 471 crore as on December 31, 2019 and largely unutilized working capital limits of Rs 925 cr.

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

Rating Methodology: Factoring Linkages in 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 7,071 MW as on September 30, 2019 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. NHPC has also been selected as aggregator for Ministry of Power's pilot scheme – 2 for allotment of short term PPAs of 2500 MW. As per the scheme, PTC Consulting limited (PTC) will act as consultant in order to help the stressed thermal power plants in the country which do not currently have PPAs in place.

NHPC Limited in October 2019 has completed the formalities for the takeover of the 500 MW (125 MW X 4) Teesta Hydroelectric plant on Teesta River by remitting the resolution plan consideration of Rs 897.50 Crore to the account of Lanco Teesta Hydro Power Limited (LTHPL). LTHPL is now a wholly owned subsidiary of NHPC Limited. Further, NHPC has also been declared as a successful resolution applicant by the Committee of Creditors of Jal Power Corporation Limited (120 MW Rangit Stage IV HE Project). The cost of acquisition is estimated to be around Rs. 160 crore.

Key financial performance highlights of the company (standalone) are as under:

Brief Financials (in Rs. crore)	FY18 (A)	FY19 (A*)
Income from Operations	8,418	9,085
PBILDT	5,089	5,406
PAT	2,759	2,631
Overall Gearing	0.68	0.68
Interest Coverage	5.52	6.04

A: Audited; A: Abridged financials*

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Attached as Annexure 2

Annexure-1: Details of Instruments/Facilities

S. No.	ISIN	Bond Series	Bond Issue Date	Rated amount (Rs. Cr.)	Coupon	Maturity	Rating assigned along with Rating Outlook
1	-	Proposed Bond (AA Series)	-	2000	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1	Bonds (Q Series)	LT	844	CARE AAA; Stable	1)CARE AAA; Stable (04-Jul-2019)	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (17-Jul-17)
2	Bonds (1A/ 2A/ 3A/ 1B/ 2B/ 3B series)	LT	1000	CARE AAA; Stable	1)CARE AAA; Stable (04-Jul-2019)	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (17-Jul-17)
3	Bonds (S series)	LT	824	CARE AAA; Stable	1)CARE AAA; Stable (04-Jul-2019)	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (17-Jul-17)
4	Bonds (T series)	LT	1475	CARE AAA; Stable	1)CARE AAA; Stable (04-Jul-2019)	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (17-Jul-17)
5	Bonds (O series)	LT	-	-	-	1)Withdrawn (05-Sep-18)	1)CARE AAA; Stable (17-Jul-17)
6	Bonds (U series)	LT	900	CARE AAA; Stable	1)CARE AAA; Stable (04-Jul-2019)	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (17-Jul-17)
7	Bonds (V series)	LT	1940	CARE AAA; Stable	1)CARE AAA; Stable (04-Jul-2019)	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (17-Jul-17)
8	Bonds (W series)	LT	1950	CARE AAA; Stable	1)CARE AAA; Stable (04-Jul-2019)	1)CARE AAA; Stable (05-Sep-18)	1)CARE AAA; Stable (11-Sep-17)
9	Bonds (GOI fully serviceable)	LT	2017	CARE AAA; Stable	1)CARE AAA; Stable (04-Jul-2019)	1)CARE AAA; Stable (05-Feb-19)	-
10	Bonds (X series)	LT	2000	CARE	1)CARE	1)CARE AAA;	-

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				AAA; Stable	AAA; Stable (04-Jul-2019)	Stable (19-Mar-19)	
11	Proposed Bonds (AA series)	LT	2000	CARE AAA; Stable	-	-	-

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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