NHPC Limited

December 14, 2018

Summary of rated instrument:

Instrument	Rated Amount (Rs. crore)	Rating Outstanding
Long term bonds programme	6250.00	[ICRA]AAA (stable)
Total	6250.00	

Material Event

As per the BSE filing dated December 6, 2018 by the company, NHPC Limited has been declared as the Successful Resolution Applicant by the Committee of Creditors (CoC) of Lanco Teesta Hydro Power Limited subject to the final approval by Adjudicating Authority.

Lanco Teesta Hydro Power Limited is developing a 500 MW (4*125 MW) hydro power project on the Teesta river in Sikkim. The project is a part of six hydro-electric projects developed/ under development on the Teesta river by the Government of Sikkim. The project is still under construction. Further details regarding the transaction are awaited from the company.

Impact of the Material Event

The ratings remain unchanged at [ICRA] AAA (Stable).

ICRA's rating reflects NHPC's established position in India's hydropower generation industry, its sizeable operating projects and its strategic importance to the Government of India (GoI) as reflected by the consistent support from the GoI in terms of low-cost subordinate debt for some of its projects. ICRA also notes the competitive tariffs of NHPC's plants with an average tariff of Rs. 3.38/kwh for hydro power projects in FY2018 and strong operating efficiencies as reflected by the average plant availability factor (PAF) of 83.4% in FY2017 and 85.3% in FY2018. The rating continues to reflect the low business risks arising out of the cost-plus tariff mechanism applicable for its hydel-based power generating stations. Further, the rating continues to factor in the healthy track record of power generation from the operational hydel-based power projects due to favourable hydrology of the rivers on which these projects are located. The credit profile is also supported by a conservative capital structure and strong liquidity despite the large size of the projects under construction as reflected in a debt-to-equity ratio of 0.65 times (standalone basis) as on March 31, 2018 (which is very low in comparison to the capital-intensive nature of the business) and long tenure of debt including subordinate debt from the GoI at low interest rate for some projects in Jammu and Kashmir (J&K). The company has announced buyback of 21.43 crore shares at a price of Rs. 28 per share for an aggregate consideration of ~Rs. 600 crore on November 15, 2018. However, the buyback is not expected to have a significant impact on the capital structure of the company going forward.

ICRA, however, takes cognisance of the execution risks including cost and time overruns inherent in greenfield hydropower projects. Several of NHPC's recent and ongoing hydropower projects have witnessed significant cost and time overruns and further overruns cannot be ruled out. The Presence of Letter of Credit as per terms of PPAs signed with distribution utilities and the extension of tripartite agreement with 29 states/UTs (as on September 30, 2018) beyond October 31, 2016 for payment security will help in timely collections in the future. The ability of the company to demonstrate satisfactory operational performance, collection cycle from state distribution utilities and completion of under construction projects without significant time and/or cost overrun shall be the key rating sensitivities.

The previous detailed rating rationale is available on the following link: Click here

Key financial indicators on Standalone basis (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	7,271	6,934
PAT (Rs. crore)	2,796	2,759
OPBDIT/OI (%)	54.5%	55.2%
RoCE (%)	13.4%	14.3%
Total Debt/TNW (times)	0.71	0.66
Total Debt/OPBDIT (times)	4.86	4.86
Interest Coverage (times)	5.59	6.48

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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