June 24, 2022

North East Transmission Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	1,120.00	897.59	[ICRA]AA+(Stable); reaffirmed
Long-term – Unallocated Limits	520.31	222.41	[ICRA]AA+(Stable); reaffirmed
Total	**1,640.31**	**1,120.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in the North East Transmission Company Limited's (NETCL) stable revenue profile linked to transmission line availability as per the cost-plus tariff framework norms of the Central Electricity Regulatory Commission (CERC). The tariffs are to be paid by the beneficiaries under the point of connection (PoC) framework applicable for inter-state transmission system (ISTS) licensees. The transmission line owned by NETCL is a critical link for power transmission in the northeastern region, and despite a difficult terrain, the company has achieved a minimum availability of 99.7% in the last four years.

ICRA draws comfort from the low counterparty credit risk arising out of diversification under the PoC framework wherein the Central Transmission Utility (CTU) is responsible for collecting the transmission charges from the beneficiary users and disbursing the same to ISTS licensees. This is evident from the superior collection efficiency levels so far, a trend that ICRA believes is likely to continue. ICRA notes that the CERC has approved the entire capital cost petitioned by the company (additional capital expenditure to be reviewed at the time of true-up). A well-defined regulatory framework, low operating risks in a transmission line project and a strong collection efficiency are expected to result in stable cash collections for the company.

Comfort is drawn from the company's strong liquidity position, driven by sizeable cash and liquid funds maintained by the company. While the company is not contractually obligated to maintain any cash reserve for debt servicing, ICRA notes that the company has historically maintained adequate liquid funds and is expected to continue to maintain it in the future as well.

A moderation in the liquidity profile due to a sizeable dividend payout is a key challenge for the assigned rating. The rating is also constrained by the higher-than-normative operating and maintenance (O&M) costs, given the single-asset operations in a difficult terrain, which exert pressure on the realised returns. Moreover, NETCL's operations remain exposed to the regulatory risk pertaining to the changes in the CERC's cost-plus tariff norms.

The Stable outlook on the rating reflects ICRA's opinion that NETCL will continue to benefit from its cost-plus tariff operations, ability to maintain higher-than-normative transmission line availability and strong collection efficiency.

Key rating drivers and their description

Credit strengths

Approval of the entire capital cost incurred – The CERC has approved the entire capital cost petitioned by the company (additional capital expenditure to be reviewed at the time of true-up). This removes any uncertainty over the company's ability to realise the regulated returns (which cover all costs and allow for 15.5% return on regulated equity base), subject to maintaining the normative levels of T/L availability (98%) as the tariff is of cost-plus nature.

Superior transmission line availability – The transmission line availability has remained superior, with a minimum availability of 99.6% against the normative availability requirement of 98% since commissioning. This bodes well because if the availability of the line remains above 98.5%, the company will not only be able to recover its entire fixed charges but will also be eligible for incentive income. NETCL has earned an incentive of Rs 4.5 crore in FY2022.

Healthy collection efficiency, aided by POC framework applicable for inter-state transmission licensees – The company's average collection efficiency remained satisfactory at 97% in 9M FY2022. The asset developed is an inter-state transmission system (ISTS) line. Hence, it is the responsibility of CTU to bill and collect payments on behalf of NETCL. While the collection has been impacted in Q1 FY2022 on account of delays in payments by beneficiaries (80% in Q1 FY2022) during the pandemic, it has improved subsequently to 96% for full year FY2022.

Credit challenges

Ability to sustain T/L availability for the tenure of the line – The company's ability to continue to earn regulated returns that ensure an adequate coverage of its costs hinges critically on its ability to maintain T/L availability. As the asset is expected to remain in operation over a long period, NETCL will have to ensure that it maintains the T/L availability on a sustained basis, considering that the T/L passes through a difficult terrain and this is its only asset. ICRA notes that the company maintains a self-insurance reserve (Rs. 41 crore as on March 31, 2022; increased by 0.25% every year) which mitigates the risk of disruption in the operations of the transmission line from unforeseen events. NETCL's returns, at present, remain low due to the higher-than-normative O&M charges. However, NETCL filed a review petition which is pending with the appellant tribunal. NETCL's operations also remain exposed to the regulatory risk pertaining to changes in the applicable norms under the CERC's cost-plus tariff framework.

Higher dividend payouts affecting liquidity – Significant dividend payments can moderate the company's strong liquidity profile. As the lender has not stipulated any condition to maintain a debt service reserve account or minimum cash balances for each year, NETCL's ability to maintain minimum unencumbered cash balances each year (six months of debt servicing) will be critical for its liquidity profile and present rating level.

Liquidity position: Strong

NETCL's liquidity is **strong**, supported by the sizeable cash and liquid funds maintained by the company (Rs 239.9 crore as on March 31, 2022). While the company is not contractually obligated to maintain any cash reserve for debt servicing, ICRA notes that the company has historically maintained adequate liquid funds and is expected to continue to maintain it in the future as well. The regulated nature of operations, superior transmission line availability and the strong collection efficiency should ensure adequate cushion for the company's debt servicing (annual debt repayments of Rs 102.7 crore).

Rating Sensitivities

Positive factors – ICRA may upgrade the rating if there is a significant improvement in the company's liquidity position, led by sustained higher-than-normative T/L availability or more-than-expected reduction in debt.

Negative factors – Negative pressure on NETCL's rating could arise if the debt service coverage indicators deteriorate, led by lower-than-normative T/L availability on a sustained basis or delays in collecting payments under the PoC mechanism.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Power Transmission Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the Company

NETCL is a joint venture (JV) of Power Grid Corporation of India Ltd (PGCIL), ONGC Tripura Power Company Ltd (OTPC, a JV of ONGC, IL&FS and Government of Tripura) and northeastern states. It was formed to build, own and operate a 662.8-km 400-KV double circuit transmission line from Palatana, Tripura, to Bongaigaon, Assam, to evacuate power from the 726.6-MW gas-based power plant of OTPC at Palatana. The transmission line passes through the forests and hilly terrain of Tripura, Assam and Meghalaya. The first segment of the line, Palatana–Silchar, was commissioned in September 2012 and the last phase was commissioned in February 2015. The project cost of ~Rs. 2,200 crore has been funded in a debt to equity ratio of 77:23. The tariff is payable as per the CERC tariff norms. Being an ISTS line, the CTU is responsible for the billing, collection and disbursement of transmission charges for NETCL.

Key financial indicators (audited)

NETCL Standalone	FY2021	FY2022
Operating income (Rs. crore)	314.3	311.6
PAT (Rs. crore)	75.2	69.6
OPBDIT/OI	94.3%	93.7%
PAT/OI	23.9%	22.3%
Total outside liabilities/Tangible net worth (times)	2.6	2.4
Total debt/OPBDIT (times)	3.6	3.1
Interest coverage (times)	2.3	4.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					June 24, 2022	-	March 19, 2021	September 07, 2020	July 29, 2019
1	Term loans	Long-term	897.59	897.59	**[ICRA]AA+ (Stable)**	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Unallocated Limits	Long-term	222.41	--	**[ICRA]AA+ (Stable)**	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term – Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
	Term Loan	Dec 2020	-	FY2030	897.59	[ICRA]AA+(Stable)
	Unallocated limits	NA	NA	NA	222.41	[ICRA]AA+(Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 61143441
girishkumar@icraindia.com

Siddhartha Kaushik
+91 124 4545323
siddhartha.kaushik@icraindia.com

Peeush Middha
+91 124 4545330
peeush.middha@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches