March 06, 2024

North Eastern Electric Power Corporation Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture – XIIIth issue	29.00	-	[ICRA]AA+(Stable); reaffirmed and withdrawn
Non-convertible debenture – XIVth issue	1,500.00	500.00	[ICRA]AA+(Stable); reaffirmed
Non-convertible debenture – XVIth issue	900.00	900.00	[ICRA]AA+(Stable); reaffirmed
Non-convertible debenture – XVIIIth issue	500.00	500.00	[ICRA]AA+(Stable); reaffirmed
Non-convertible debenture – XIXth issue	300.00	-	[ICRA]AA+(Stable); reaffirmed and withdrawn
Non-convertible debenture – XXth issue	300.00	-	[ICRA]AA+(Stable); reaffirmed and withdrawn
Non-convertible debenture – XXIth issue	150.00	150.00	[ICRA]AA+(Stable); reaffirmed
Non-convertible debenture – XXIIth issue	500.00	500.00	[ICRA]AA+(Stable); reaffirmed
Non-convertible debenture – XXIIIrd issue	200.00	200.00	[ICRA]AA+(Stable); reaffirmed
Issuer rating	-	-	[ICRA]AA+(Stable); reaffirmed
Fund-based limit	1,450.00	1,500.00	[ICRA]AA+(Stable)/[ICRA]A1+; reaffirmed and assigned for enhanced amount
Fund-based term loan	1,114.25	2,671.25	[ICRA]AA+(Stable); reaffirmed and assigned for enhanced amount
Fund-based short term loan	-	300.00	[ICRA]A1+; assigned
Commercial paper	200.00	200.00	[ICRA]A1+; reaffirmed
Total	**7,143.25**	**7,421.25**	

**Instrument details are provided in Annexure-1*

ICRA has reaffirmed and withdrawn the long-term rating of [ICRA]AA+(Stable) assigned to the Rs. 629-crore non-convertible debentures of North Eastern Electric Power Corporation Limited (NEEPCO) as there are no outstanding dues against the same. The redemption payments have been independently verified.

Rationale

The rating reaffirmation factors in the cost-plus tariff and satisfactory performance of NEEPCO's installed generation capacity of 2,057 MW, which has an annual generation potential of around 10,000 million units (MU), against which the company generated 6,598 MU in 9M FY2024. The ratings also factor in NEEPCO's operational synergies with NTPC Limited (NTPC; rated [ICRA]AAA (Stable)/ [ICRA]A1+), and its strategic importance to the power scenario in the North East. Additionally, the ratings derive comfort from NEEPCO's healthy financial flexibility, demonstrated in its ability to arrange long-term funds at competitive rates. Besides, it faces limited demand risks from existing projects because of its competitive cost of power and the location of its plants in the North East, where competition is low because of the presence of only a few players. Except for the Kameng hydroelectric project (347 MW is untied), all the other generation stations of NEEPCO are backed by cost-plus power purchase agreements (PPAs), which lead to steady earnings and business returns. The company has signed PPA with Haryana Power Purchase Centre and Tata Power Delhi Distribution Limited for 300 MW (out of 347 MW untied capacity of Kameng) for a 5 year period at Rs 5.39 per unit and Rs. 5.63 per unit respectively. This has resulted in abatement of offtake risks for Kameng in the medium term and will support cash flow generation for the company. In addition, the ratings derive support from NEEPCO's comfortable financial profile, reflected in its healthy operating profit margins, steady cash accruals and a conservative capital structure.

The ratings are, however, tempered by the significant cost overruns of the Kameng hydroelectric project, which accentuate the regulatory risks associated with any potential capital cost disallowance by the Central Electricity Regulatory Commission (CERC). Concerns emanate from the sub-optimal performance of NEEPCO's 527-MW gas-based stations because of periodic shortages in gas supply, leading to under-recovery of costs. Additionally, NEEPCO will soon start the construction of new projects. Hence, execution risks are expected to remain elevated even as the repair and maintenance (R&M) works are nearing completion for the composite Kopili scheme (275 MW).

The capital structure is expected to moderate, going forward; however, the debt servicing is expected to remain healthy on account of the cost-plus/remunerative tariffs for the installed capacity. NEEPCO's exposure to the state electricity boards (SEB) with weak financial profiles makes it vulnerable to counterparty credit risks. Further, implementation of the Atmanirbhar liquidity scheme in FY2022 and the Late Payment Surcharge scheme in FY2023 has resulted in satisfactory collections for NEEPCO in the last three years.

The Stable outlook on the rating reflects ICRA's opinion that NEEPCO will continue to benefit from its strong parentage and cost-plus tariff operations, which will be supported by healthy generation levels and efficient operations.

Key rating drivers and their description

Credit strengths

Operational synergies with NTPC; expectation of need-based funding support from NTPC – The ratings take comfort from NTPC's dominant position in India's power sector, its strong financial profile, and the demonstrated track record of providing timely support to its subsidiaries. ICRA notes that in the share purchase agreement signed with the GoI, NTPC committed an investment of Rs. 1,814.97 crore in NEEPCO. This pertains to the pending equity from the GoI for the Kameng, Pare and Tuirial hydroelectric projects. The ratings also factor in the high likelihood of its parent, NTPC Limited, extending financial support, given the long-term strategic importance that NEEPCO holds for NTPC in gaining access to India's north-eastern region and augmenting its capabilities in the development of hydropower projects in difficult terrains. Moreover, with NEEPCO embarking on the implementation of a sizeable hydropower capacity (approvals for capital investment yet to be received), ICRA expects NTPC to timely bring in the required equity capital. ICRA also expects NTPC to be willing to extend financial support to NEEPCO out of the need to protect its reputation from the consequences of a Group entity's distress.

Cost-plus nature of operations leads to steady business returns – The tariffs for NEEPCO's plants (except the 347-MW Kameng capacity) are determined, as per the tariff regulation notified by the CERC. NEEPCO's hydropower stations are eligible for getting a return on equity (RoE) of 16.5% (except Doyang, where the RoE has been capped at 10% and Pare which has a negotiated tariff) and the gas-based stations are eligible for RoE of 15.5%. The company would be able to generate a predictable stream of earnings, provided the operational performance of NEEPCO's power plants are in line with the normative benchmarks. ICRA notes that the operational performance of NEEPCO's ongoing projects remains satisfactory.

Competitive blended tariff for generation portfolio – NEEPCO's weighted average tariff for the operational hydro plants remained competitive at Rs. 4.57/kwh in FY2023, while the capacity charge for the gas-based stations (at 85% PLF) is below Rs. 2/kWhr, supported by the low regulated asset base of its older hydropower generation stations. Despite the significant cost escalations in the Kameng, Pare and Tuirial hydroelectric projects, NEEPCO's blended tariff is expected to remain competitive over the next 2-3 years.

Comfortable financial profile – NEEPCO's healthy profit margins, steady cash accruals and conservative capital structure strengthen its financial profile. The company generated annual cash accruals of more than Rs. 1,000 crore in last two years.

Despite the large debt-funded capex, healthy accruals led to a conservative capital structure, as indicated by a gearing of 1.0 times as on March 31, 2023. A substantial portion of NEEPCO's long-term debt outstanding pertains to the Kameng hydroelectric project, whose benefits are now flowing in fully following healthy generation levels and realisation for the untied capacity. The cost-plus tariff, superior operating performance and higher tariffs realised for Kameng's capacity (300 MW tied up over the medium term) are expected to result in robust coverage indicators in the medium term.

Credit challenges

Regulatory risks associated with tariff approval for Kameng hydroelectric project – The commissioning of the Kameng hydroelectric project was delayed by over two years due to the operational setback from the penstock leakage in March 2018. This increased the project's completion cost by ~32% to an estimated Rs. 8,484 crore. The recoverability of this cost increase through tariff approved by the CERC remains uncertain, exposing the company to regulatory uncertainties. ICRA, however, notes that given the Kameng project's favourable hydrology, despite its 600-MW installed capacity, its design energy is comparable to a hydroelectric project of 1,000-1,200 MW capacity. Kameng's high-design PLF of 63.8% has been the key reason behind the station's competitive tariff, despite significant time and cost escalations in the past.

Exposure to execution risks– The R&M works for the Kopili-I HEP (200 MW) are nearing completion, while the R&M works for the Khandong HEP (2x23 MW) are under progress and are expected to be completed by Q1 FY2026. While this has lowered the execution risk in the near term, the construction work for the Tato I HEP (186 MW), Tato II HEP (700 MW) and Heo HEP (240 MW) is expected to commence shortly. The company is also looking to develop a 300-MW solar project in Rajasthan which has a construction period of 17 months and is expected to commence shortly. The commencement of simultaneous construction on multiple projects will significantly increase the execution risk for NEEPCO. However, the risk is mitigated by the company's project development expertise, which is strengthened by a strong promoter (NTPC) with ~74 GW of the installed capacity at the Group level.

Periodic shortages in gas supply adversely impacted recovery from gas-based power stations – The performance of NEEPCO's gas stations is adversely impacted by periodic shortages in gas supply, causing the stations to operate at sub-optimal PLFs. This not only adversely impacts plant efficiency parameters like station heat rate and auxiliary power consumption, but also affects the plant's PAF as there is no alternative gas supply arrangement for these stations. This results in under-recovery of capacity charge as well as energy charge for these stations.

Customer concentration and counterparty credit risks – NEEPCO's customer profile primarily includes seven state-owned power distribution companies of North East India. The weak financial profile of these discoms exposes NEEPCO to significant counterparty credit risks. Moreover, the company's customer base is less diversified compared to other Central public sector undertakings (CPSUs), exposing it to customer concentration risks as well. ICRA notes that NEEPCO has recently effectively used various payment security mechanisms at its disposal (regulation of power/invocation of LC/threat of invocation of tri-partite agreement) to enforce payment discipline among its customers, which is a key mitigant for the counterparty credit risk. Moreover, with the implementation of the Late Payment Scheme in June 2022, the receivable position has remained comfortable for the company.

Liquidity position: Adequate

NEEPCO's cash flows are expected to remain adequate for debt servicing, given the satisfactory operating performance and cost-plus tariff. Additionally, NEEPCO's liquidity is supported by its sizeable undrawn working capital and short-term loans with average cushion of Rs. 1,000 crore over the 12 months ended November 2023. The commencement of a sizeable capex can lower the available funds (part equity infusion for growth capex) and ICRA will continue to monitor the developments in this regard.

Rating sensitivities

Positive factors – ICRA could upgrade the long-term rating if the company receives a large share of the pending equity from the parent for the completed hydroelectric projects, leading to accelerated deleveraging and TD/OPBITDA below 2x on a sustained basis.

Negative factors – Pressure on NEEPCO's rating could arise if there is any deterioration in the debt coverage metrics on account of disallowance of the Kameng project cost. Significant delays in payments of dues by discoms that will weaken NEEPCO's credit profile may also trigger a downgrade. The rating may also be revised downwards in case of a change in the support philosophy of NTPC towards NEEPCO, or if the credit profile of NTPC deteriorates.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Power - Thermal Policy on withdrawal of credit ratings
Parent/Group Support	Parent: NEEPCO, a wholly-owned subsidiary of NTPC Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+) The ratings assigned to NEEPCO factor in the high likelihood of its parent, NTPC Limited, extending financial support to it, given the long-term strategic importance that NEEPCO holds for NTPC in gaining access to north-eastern India, and helping augment its capabilities in the development of hydropower projects in difficult terrains. ICRA also expects NTPC to be willing to extend financial support to NEEPCO out of the need to protect its reputation from the consequences of a Group entity's distress
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. Details in Annexure-2

About the company

NEEPCO, incorporated in April 1976, has been mandated to harness the power generation potential, both through the hydro and thermal power routes, in the north-eastern region of India. NEEPCO assumes strategic importance to the power sector of North East India as it meets around 39% of the overall regional power demand. NEEPCO has been conferred the Mini Ratna–Category I status by the GoI. The company has an installed power generation capacity of 2,057 MW, of which 1,525 MW is hydro-based, 527-MW is gas-based and the balance 5 MW is solar power-based. On March 27, 2020, NTPC acquired NEEPCO's 100% equity stake from the GoI, following which the latter became NTPC's wholly-owned subsidiary.

Key financial indicators (audited)

NEEPCO Consolidated	FY2022	FY2023
Operating income (Rs. crore)	3299.6	4565.4
PAT (Rs. crore)	212.3	396.9
OPBDIT/OI (%)	53.1%	44.9%
PAT/OI (%)	6.4%	8.7%
Total outside liabilities/Tangible net worth (times)	1.3	1.4
Total debt/OPBDIT (times)	4.2	3.5
Interest coverage (times)	2.9	3.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation
Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Mar 6, 2024	Mar 07, 2023	Mar 08, 2022	Jun 07, 2021	Oct 06, 2020 Jun 02, 2020
1	Non-convertible debenture – XIth issue	Long term	-	-	-	-	[ICRA]AA+ /Stable (withdrawn)	[ICRA]AA /Positive	[ICRA]AA /Stable
2	Non-convertible debenture – XIIth issue	Long term	-	-	-	[ICRA]AA+ /Stable (withdrawn)	[ICRA]AA+ /Stable	[ICRA]AA /Positive	[ICRA]AA /Stable
3	Non-convertible debenture – XIIIth issue	Long term	29.00	-	[ICRA]AA+ /Stable (withdrawn)	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA /Positive	[ICRA]AA /Stable
4	Non-convertible debenture – XIVth issue	Long term	500.00	500.00	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA /Positive	[ICRA]AA /Stable
5	Non-convertible debenture – XVIth issue	Long term	900.00	900.00	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA /Positive	[ICRA]AA /Stable
6	Non-convertible debenture – XVIIth issue	Long term	-	-	-	-	-	-	[ICRA]AA /Stable (Withdrawn)
7	Non-convertible debenture – XVIIIth issue	Long term	500.00	500.00	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA /Positive	[ICRA]AA /Stable
8	Non-convertible debenture – XIXth issue	Long term	300.00	-	[ICRA]AA+ /Stable (withdrawn)	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA /Positive	[ICRA]AA /Stable
9	Non-convertible debenture – XXth issue	Long term	300.00	-	[ICRA]AA+ /Stable (withdrawn)	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA /Positive	[ICRA]AA /Stable
10	Non-convertible debenture – XXIth issue	Long term	150.00	150.00	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA /Positive	[ICRA]AA /Stable
11	Non-convertible debenture – XXIIth issue	Long term	500.00	500.00	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA /Positive	[ICRA]AA /Stable
12	Non-convertible debenture – XXIIIrd issue	Long term	200.00	200.00	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA /Positive	-
13	Issuer rating	Long term	-	-	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA /Positive	[ICRA]AA /Stable
14	Fund-based limit	Long term/ Short term	1,500.00	-	[ICRA]AA+ /Stable [ICRA]A1+	[ICRA]AA+ /Stable [ICRA]A1+	[ICRA]AA+ /Stable [ICRA]A1+	[ICRA]AA Positive [ICRA]A1+	[ICRA]AA /Stable [ICRA]A1+
15	Fund-based term loan	Long term	2,671.25	2,421.25	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA+ /Stable	[ICRA]AA /Positive	[ICRA]AA /Stable
16	Fund-based short term loan	Short term	300.00	-	[ICRA]A1+	-	-	-	-
17	Commercial paper	Short term	200.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	Very Simple/ Simple
Issuer rating	Not applicable
Fund-based limit	Simple
Fund-based term loan	Simple
Fund-based short term loan	Simple
Commercial paper	Very simple

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: Click Here

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
INE636F07183	**Non-convertible debenture – XIVth issue**	Oct 01, 2014	9.60%	Oct 01, 2024	500.00	[ICRA]AA+ (Stable)
INE636F07209	**Non-convertible debenture – XVIth issue**	Sep 30, 2015	8.68%	Sep 30, 2030	900.00	[ICRA]AA+ (Stable)
INE636F07225	**Non-convertible debenture – XVIIIth issue**	Nov 15, 2017	7.68%	Nov 15, 2025	500.00	[ICRA]AA+ (Stable)
INE636F07258	**Non-convertible debenture – XXIth issue**	Sep 26, 2019	8.69%	Sep 26, 2027	150.00	[ICRA]AA+ (Stable)
INE636F07266	**Non-convertible debenture – XXIIth issue**	Jun 10, 2020	7.55%	Jun 10, 2028	500.00	[ICRA]AA+ (Stable)
INE636F08066	**Non-convertible debenture – XXIIIrd issue**	Mar 24, 2022	7.14%	Mar 22, 2030	200.00	[ICRA]AA+ (Stable)
NA	**Issuer rating**	-	-	-	-	[ICRA]AA+ (Stable)
NA	**Fund-based limit**	-	-	-	1,500.00	[ICRA]AA+ (Stable)/ [ICRA]A1+
NA	**Fund-based limit – term loan**	Oct 2019 – Sep 2023	-	Mar 2025 – Sep 2032	2,671.25	[ICRA]AA+ (Stable)
NA	**Fund-based limit – short term loan**	-	-	-	300.00	[ICRA]A1+
NA	**Commercial paper (Not yet placed)**	-	-	-	200.00	[ICRA]A1+
INE636F07175	**Non-convertible debenture – XIIIth issue**	Mar 15, 2013	9.00%	Mar 15, 2023	29.00	[ICRA]AA+ (Stable) - withdrawn
INE636F07233	**Non-convertible debenture – XIXth issue**	Mar 06, 2018	8.75%	Mar 06, 2028	300.00	[ICRA]AA+ (Stable) - withdrawn
INE636F07241	**Non-convertible debenture – XXth issue**	Nov 29, 2018	9.50%	Nov 29, 2025	300.00	[ICRA]AA+ (Stable) - withdrawn

Source: *Company*

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

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
NEEPCO	100.00%	Full Consolidation
KSK Dibbin Hydro Power Private Limited	30.00%	Full Consolidation

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 4547 4829
vikram.v@icraindia.com

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

Dhruv Consul
+91 124 4545 347
dhruv.consul@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.

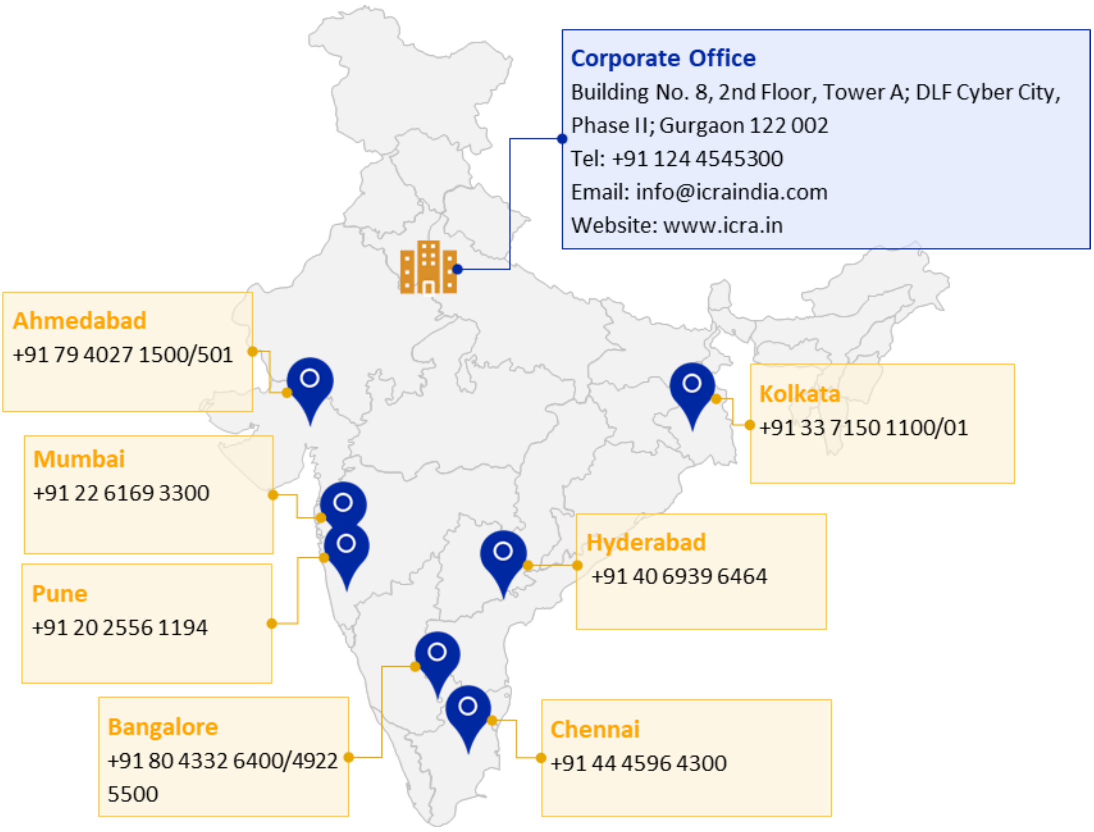
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.