March 13, 2024

Druk Green Power Corporation Limited: Rating reaffirmed/assigned.

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	-	[ICRA]BBB+(Stable); reaffirmed
Fund-based term loan	-	1400.00	[ICRA]BBB+(Stable); assigned
Total	**-**	**1400.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation/assignment takes into account the strong credit profile of Druk Green Power Corporation Limited (DGPC), which owns and operates hydropower projects (HPPs) with aggregate operational capacity of 2,444 MW in Bhutan (including Mangdechhu project which is to be consolidated under DGPC in CY2024 as indicated by management). DGPC is a strategically important Royal Government of Bhutan (RGoB) enterprise, which is responsible for meeting the domestic power requirements of the country and also contributes almost a quarter to the Government's revenues (excluding grants) in the form of royalty, tax and dividend payments. Thus, it benefits from the stable regulatory environment, concessional funding (low cost and long tenured loans availed by RGoB made available to DGPC) and beneficial offtake arrangements with PTC India Limited (PTC; GoI-nominated agency for cross-border trade with Bhutan) for the export of power.

DGPC, by virtue of its parentage, enjoys strong linkages with the Government of India (GoI), which has supported the development of various projects (aggregate 2,136 MW) by providing the entire funding (70% through loan and 30% through grants) and ensuring complete offtake of the surplus power (after meeting domestic demand) through PTC India. While DGPC ensures that Bhutan is self-sufficient in meeting its domestic power requirements, the surplus generated and upstreamed as dividends in addition to the royalty and tax payments is an important source of revenue for the Government of Bhutan.

DGPC's projects have delivered strong operational performance by consistently generating power in excess of the design energy as well as operating within the normative parameters (auxiliary consumption, etc.). This, coupled with a cost-plus domestic tariff and higher export tariffs, have resulted in healthy profitability metrics, a conservative capital structure and strong debt protection metrics, even as they are expected to moderate in CY2024 after DGPC takes over the Mangdechhu project. DGPC's export tariff (Rs 2.23-4.12/unit) is extremely competitive in the Indian power market and is comparable to the prevailing solar tariff and is much lower than the conventional thermal tariffs in India.

The counterparty credit risk is mitigated by the strong credit profile of PTC India Limited (PTC), Tata Power Trading Company Limited (TPTCL) and Bhutan Power Corporation Limited (BPCL; fellow subsidiary of DGPC responsible for transmission and distribution of power in Bhutan). Although the financial profile of the discoms that are the ultimate beneficiaries of DGPC's power in India is weak, the payments from PTC have been timely. This was evident during CY2020-CY2022 as well, when despite the weak collection from the discoms in India on account of the relaxations/deferment of payments by customers during the Covid-19 lockdown, the payments from PTC remained timely.

Although DGPC benefits as an RGoB enterprise, the assigned rating is ultimately constrained by the susceptibility of its operations to potential changes in tax/royalty or other such demands to support the Government in times of economic slowdown. The RGoB has complete control over the operations of DGPC by virtue of its 100% holding and presence in the company's board. As such, the operations of the company are vulnerable to any change in Government regulations/policies. In addition, DGPC is exposed to risks related to hydrology, exchange rate variation (no hedging instrument available in Bhutan although the overall exposure is lower than the annual operating profits of the company) and project implementation and offtake for the 299-MW energy security projects to be developed in two phases by DGPC's subsidiary. While the 118-MW Nikachhu hydropower project (HPP) was commissioned in January 2024, the implementation and offtake risks remain elevated for the energy security projects being developed by DGPC's subsidiary. Higher domestic consumption in CY2022 and CY2023 adversely impacted DGPC's export revenues. Continued steep increase in domestic demand and consequent lowering of export revenues will be a major headwind and a key monitorable for the rating.

The Stable outlook on the rating reflects ICRA's opinion that DGPC's operations will continue to be supported by the efficient operations of its HPPs and a stable sovereign credit profile.

Key rating drivers and their description

Credit strengths

Strategically important Government enterprise – DGPC is a wholly-owned RGoB enterprise responsible for the operation and development of HPPs in Bhutan. It is of strategic importance to the RGoB as it meets the entire domestic power demand of Bhutan and contributes almost a fourth of the Bhutan Government's revenues through income tax, royalty energy and dividend contributions. Going forward, DGPC would play a key role in developing future hydropower assets in Bhutan. Therefore, it would continue to maintain its dominant position in the nation's power sector.

Support from Government of India (GoI) – The project portfolio of DGPC (with the exception of the Basochhu, Dagachhu and Nikachhu HPPs) has been developed under a bilateral arrangement between the RGoB and the GoI, wherein the latter has provided the entire funding for these projects in the form of loans and grants. The entire surplus power (after meeting domestic demand) has been contracted with PTC/TPTCL at export tariffs, which are higher than the approved domestic tariff (on cost-plus basis). DGPC's export tariff (Rs 2.23-4.12/unit) is extremely competitive in the Indian power market and is comparable to the prevailing solar tariff and is much lower than the conventional thermal tariffs in India.

Efficient operations of hydropower stations, supported by good hydrology – The DGPC plants, at an aggregate level, have consistently generated power in excess of the design energy in each of the last 14 years, supported by increased generation from the Tala HPP (of capacity 1,020 MW) as well as the Mangdechhu HPP (720 MW). The auxiliary consumption of the plants has remained within the normative parameters. The oldest plant, Chhukha HPP (336-MW plant commissioned in 1988), has continued to operate at high PLFs despite completing more than 35 years of operations. In CY2023, the company (DGPC standalone + Mangdechhu HPP) achieved 10,091 MUs, 8.4% higher than the aggregate design energy of 9,312 MUs.

Healthy client profile due to timely realisation of dues; low counterparty credit risks – DGPC exports power to PTC, TPTCL and domestically to BPCL. PTC has signed power sale agreements (PSAs) with power distribution companies in India. The presence of PTC as an intermediary has resulted in low counterparty credit risks for DGPC despite the financially weak state distribution companies being the ultimate beneficiaries. The collections from PTC had remained timely even during CY2020-CY2022 when the cash flows from the ultimate beneficiaries in India had weakened on account of the Covid-19 lockdown.

Credit challenges

Exposure to sovereign credit risks – DGPC benefits as an RGoB enterprise. However, the assigned rating is ultimately constrained by the susceptibility of its operations to the potential changes in tax/royalty or other such demands to support the Government in times of economic slowdown. The RGoB has complete control over the operations of DGPC by virtue of its 100% holding and presence in the company's board. Hence, the company's operations are vulnerable to any change in Government regulations/policies.

Capitalisation and coverage indicators expected to moderate but will remain comfortable– The long track record of operations, high generation (higher than design energy), healthy export tariffs and cost-plus domestic tariffs have resulted in healthy profitability metrics for DGPC. Despite the increased investments in its subsidiaries/JVs in CY2023 and the capital expenditure to be incurred for the energy security projects of capacity 299 MW over the next three-four years, the coverage indicators are expected to be robust with cumulative DSCR remaining at ~2.0x and the capitalisation staying close to 1.0x over the medium term.

Exposure to hydrology risks – The HPPs in Bhutan have a single-part tariff with no deemed generation clause, exposing these projects to significant hydrology risks. As the revenues are directly linked to unit sales, inadequate hydrology would make the revenues volatile. However, comfort is drawn from the consistent higher-than-design energy generation.

Project implementation and offtake risks – DGPC is exposed to project implementation risks for the 299-MW energy security projects to be developed over the next 3-4 years. These consist of seven projects with capacities ranging from 18 MW to 90 MW and will be funded in debt:equity mix of 70:30. The company is expected to shortly tie up partial debt funding (~66% of cumulative debt requirement) for these projects, though they will remain exposed to funding risk for the balance debt capital.

The power generated from these projects is expected to be sold in the Indian power exchanges during the summer months of May-October and for meeting the domestic demand in the winter months. While the projects will benefit from the upside realised from higher exchange tariffs during the summer months, the company will remain exposed to offtake risk in the absence of a firm PPA for these projects. ICRA notes that with growing domestic consumption, more power can be diverted for consumption within the country from these projects, resulting in enhanced exports from projects that have firm PPAs, thus mitigating the offtake risk for these projects.

Liquidity position: Adequate

DGPC's consolidated liquidity is adequate with robust cash flow from operations, which are adequate to meet its sizeable debt servicing (Nu. ~700–850-crore principal repayments and interest annually in CY2024–CY2026) as well as equity commitments for the energy security projects. The company had cash and liquid funds of Nu. 577.27 crore on a standalone basis as on December 31, 2023.

Rating sensitivities

Positive factors – ICRA may upgrade DGPC's rating if the sovereign credit profile of Bhutan improves.

Negative factors – Pressure on DGPC's rating may arise if there is a significant reduction in generation on account of poor hydrology or plant breakdown, etc., as the HPPs in Bhutan have a single-part tariff with no deemed generation clause. Any deterioration in the sovereign credit profile of Bhutan would also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of DGPC which are enlisted in Annexure-II

Note (for analyst reference only):

About the company

DGPC is a wholly-owned enterprise of the RGoB through Druk Holdings & Investments (the Government company for holding all government-owned enterprises in Bhutan). The company was incorporated in January 2008 through the amalgamation of the Chhukha, Kurichhu and Basochhu hydropower projects. The Tala hydropower project was subsequently taken over in April 2009. The Mangdechhu project is to be taken over by DGPC in 2024.

The current operational capacity of the company is 2,444 MW. DGPC is the sole hydropower operator in Bhutan, responsible for supplying power for meeting the domestic requirements of Bhutan Power Corporation Ltd (a fellow subsidiary, which is also an RGoB-owned enterprise). The offtake arrangements for DGPC's plants obligate PTC India Limited to offtake the entire surplus power from these plants after meeting the domestic requirements. DGPC exports more than two-thirds of its power to PTC through firm PPAs. DGPC is also developing seven hydro projects with aggregate capacity of 299 MW through its subsidiary, Druk Hydro Energy Ltd.

Key financial indicators (audited)

DGPC Consolidated	CY2020	CY2021	CY2022 (Prov)
Operating income	1769.6	1614.5	1553.5
PAT	530.6	560.5	438.4
OPBDIT/OI	62.1%	67.0%	61.2%
PAT/OI	30.0%	34.7%	28.2%
Total outside liabilities/Tangible net worth (times)	0.5	0.5	0.5
Total debt/OPBDIT (times)	1.7	1.9	2.3
Interest coverage (times)	18.3	18.5	15.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="5">Current rating (FY2024)</th><th colspan="3">Chronology of rating history for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount rated (Rs. crore)</th><th rowspan="2">Amount outstanding as on December 31, 2023 (Rs. crore)</th><th colspan="2">Date & rating on</th><th>Date & rating in FY2023</th><th>Date & rating in FY2022</th><th>Date & rating in FY2021</th></tr>
<tr><th>March 13, 2024</th><th>July 6, 2023</th><th>Apr 29, 2022</th><th>-</th><th>Jan 28, 2021</th></tr>
<tr><td>1</td><td>Issuer rating</td><td>Long term</td><td>-</td><td>-</td><td>[ICRA]BBB+ (Stable)</td><td>[ICRA]BBB+ (Stable)</td><td>[ICRA]BBB+ (Stable)</td><td>-</td><td>[ICRA]BBB+ (Stable)</td></tr>
<tr><td>2</td><td>Fund-based term loan</td><td>Long term</td><td>1400.00*</td><td>-</td><td>[ICRA]BBB+ (Stable)</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
</table>

**Yet to be sanctioned*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Not applicable
Fund-based term loan	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 I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Issuer rating**	NA	NA	NA	NA	[ICRA]BBB+(Stable)
NA	**Fund-based term loan**	-	-	-	1400.00*	[ICRA]BBB+(Stable)

Source: Druk Green Power Corporation Limited, ICRA Research
**Yet to be sanctioned*

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

Annexure II: List of entities considered for consolidated analysis

Company	Ownership	Consolidation Approach
Dagachhu Hydro Power Corporation Limited	59.00%	Full Consolidation
Tangsibji Hydro Energy Limited	100.00%	Full Consolidation
Bhutan Hydropower Services Limited	100.00%	Full Consolidation
Bhutan Automation Engineering Limited	51.00%	Equity Method
Khlongchhu Hydro Energy Limited	100.00%	Full Consolidation
Druk Hydro Energy Limited	100.00%	Full Consolidation

Note: ICRA has taken a consolidated view of the parent (DGPC), its subsidiaries and joint ventures while assigning the ratings

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