

April 29, 2022

## Druk Green Power Corporation Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	-	[ICRA] BBB+ (Stable); reaffirmed

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation takes into account the strong credit profile of Druk Green Power Corporation Limited (DGPC), which owns and operates hydropower projects (HPPs) with aggregate capacity of 1,606 MW in Bhutan. 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.

DGPC, by virtue of its parentage, enjoys strong linkages with the Government of India (GoI), which has supported the development for these projects (aggregate 1,416 MW) by providing the entire funding (70% through loan and 30% through grants) and also ensuring complete offtake of surplus power (after meeting domestic demand) through PTC India Ltd (PTC; GoI-nominated agency for cross-border trade with Bhutan). The surplus generated and upstreamed as dividends in addition to royalty and tax payments is an important source of revenue for the Government of Bhutan while ensuring self-sufficiency for Bhutan in meeting its domestic power requirements.

The projects have delivered strong operational performance by consistently generating in excess of design energy as well as operating within the normative parameters (auxiliary consumption, etc.), which coupled with a cost-plus domestic tariff and higher export tariffs have resulted in healthy profitability metrics, conservative capital structure and strong debt protection metrics. DGPC's export tariff (Rs 2.23/unit and Rs. 2.55/unit for its various own plants) 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<sup>1</sup> 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 evidenced in CY2020 and CY201 as well, when despite the weak collections of discoms in India on account of relaxations/deferment of payments by their customers during the Covid-19 lockdown, the payments from PTC remained timely. Although domestic consumption was lower in CY2020, DGPC benefitted from increased export of power to India where the realised tariff is higher than the approved domestic tariff (Nu<sup>2</sup> . 1.42/unit effective October 1, 2019).

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. By virtue of its 100% holding and presence in the company's board, the RGoB has complete control over the operations of DGPC. As such, the operations of the company are vulnerable to any change in Government regulations/policies. In addition, DGPC is exposed to hydrology risks (single part tariff linked to generation), exchange rate variation risk (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 risks with the 118-MW Nikachhu HPP being developed by its subsidiary. The project has

<sup>1</sup> Rated [ICRA]A1+; for the latest rating rationale please click [here](#)

<sup>2</sup> Nu. Or Ngultrum is currency of Bhutan pegged at 1:1 with INR. 100 lakh = 1 crore = 10 million

seen multiple time overruns (although no cost overrun yet) and faces the risk of termination of PPA as the time overruns have been beyond the grace period allowed in the PPA.

The Stable outlook on the rating reflects ICRA's opinion that DGPC's operations will continue to be supported by 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 Government's own revenues through income tax, royalty energy, and dividend contributions. Going forward, DGPC would play a key role in the development of 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 Basochhu and Dagachhu) 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. With the exception of the Dagachhu HPP, the entire surplus power (after meeting domestic demand) has been contracted with PTC at export tariffs, which are higher than the approved domestic tariff (on cost-plus basis). The export tariff of Rs. 2.23/unit and Rs 2.55/unit (for various DGPC-owned plants) is extremely competitive in the Indian power market.

**Efficient operations of hydropower stations, supported by good hydrology** – DGPC plants, at an aggregate level, have consistently generated in excess of the design energy in each of the last 11 years, supported primarily by increased generation from Tala HPP (of capacity 1,020 MW). The auxiliary consumption of the plants has remained within normative parameters. The oldest plant, Chhukha HPP (336-MW plant commissioned in 1988), has continued to operate at high PLFs despite completing more than 32 years of operations. In CY2020, the company achieved its highest generation in the last 11 years—7,630 MU—which was 19.5% higher than the aggregate design energy of 6,387 MUs. In CY2021, the company achieved 7,312 MU, 14.5% higher than the aggregate design energy of 6,387 MUs.

**Healthy client profile leads to timely realisation of dues; limits counterparty risks** – DGPC exports power to PTC 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 average receivable days stood below 35 days during CY2015–CY2021 for DGPC. The collections from PTC remained timely in CY2020 and CY2021, despite the weakened cash flows of the ultimate beneficiaries in India on account of the Covid-19 lockdown. Collections from the domestic offtaker, BPCL, also remained timely in CY2020 and CY2021.

**Healthy profitability and coverage metrics backed by cost-plus nature of operations and higher export realisations** – 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. This coupled with the lack of new project development so far (equity funding for commissioned 126-MW Dagachhu HPP and under-construction 118-MW Nikachhu HPP substantially funded through funding from ADB availed through on-lending from the RGoB) has aided the increase in net worth and repayment of debt, resulting in low gearing (total debt/total net worth of 0.4 times as on December 31, 2020), robust coverage indicators (interest coverage of 18.3 times and debt service coverage ratio of 7.0 times in CY2020) and cash and liquid funds of Nu. 721.0 crore as on December 31, 2020 at a consolidated level.

## 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. By virtue of its 100% holding and presence in the company’s board, the RGoB has complete control over the operations of DGPC. Hence, the company’s operations are vulnerable to any change in Government regulations/policies.

**Exposure to hydrology risks** – HPPs in Bhutan have a single-part tariff with no deemed generation clause. This exposes these projects to significant hydrology risks (volatility in revenues if the hydrology is inadequate as the revenues are directly linked to unit sales). While this is a key risk factor, the risk is mitigated by the substantial rundown of loans, resulting in low debt servicing burden, given the vintage of the operational plants. Comfort is drawn from the higher-than-design energy generation consistently achieved by the company in the last 11 years.

**Project implementation and offtake risks** – DGPC is exposed to project implementation and offtake risks in its under-construction 118-MW Nikachhu HPP, which is being developed by its wholly-owned subsidiary Tangsibji Hydro Energy Limited (ThyE). ICRA notes that the project has faced multiple time overruns due to adverse geological conditions along with the weak profile of its EPC contractors. The project is currently expected to commission by June 2023. For the long-term PPA signed with PTC, firm agreement on the postponement of COD (June 2023) with PTC is yet to be achieved. Termination of the PPA may jeopardise the significant investment costs incurred in the project and therefore, necessitates timely resolution. The risk, however, is mitigated by the flexibility in the PPA, which allows ThyE to supply power from alternative sources. These include projects such as the 720-MW Mangdecchu project commissioned in 2019 and also the 64-MW Basochhu project (which is currently supplying power to PTC through the Chhukha HPP). DGPC has extended guarantee for INR loans up to COD for Nikachhu HPP and has also given an undertaking to meet the debt servicing of its loans. ICRA takes note of DGPC’s strong liquidity profile and expects it to service the debt obligations for Nikachhu HPP’s loans that are falling due for repayment from March 2023 onwards as it has demonstrated such support in the past also.

## Liquidity position: Strong

DGPC’s liquidity is strong with robust cash flow from operations, which are adequate to meet its low debt servicing (Nu. 75.6–136.5 crore in CY2020–CY2024) and limited capital expenditure requirements in the near term (no active projects apart from the 118-MW Nikachhu HPP). The working capital intensity is low, aided by very low receivable days. Also, the company had standalone cash and liquid investments of Nu. 716.0 crore as on December 31, 2021 and consolidated cash and liquid investments of Nu. 721.0 crore as on December 31, 2020.

## Rating sensitivities

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

**Negative factors** – Negative 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 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	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable

**Consolidation/Standalone**

For arriving at the ratings, ICRA has considered the consolidated financials of DGPC; as on December 31, 2020, the company had two subsidiaries, and three joint venture companies, which are all enlisted in Annexure-2

## 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 current standalone operational capacity of the company is 1,480 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 almost two-thirds of its power to PTC through firm PPAs.

DGPC has also developed the 126-MW Dagachhu hydropower project (commissioned in March 2015) in an SPV with Tata Power Trading Company Limited (a 26% stake) and National Pension and Provident Fund (a 15% stake). Moreover, it has formed a 100% subsidiary, Tangsibji Hydro Energy Limited, for the development of the 118-MW Nikachhu hydroelectric project, which is slated for commissioning in June 2023. Thus, for DGPC (consolidated), the aggregate operational capacity is 1,606 MW and aggregate operational and under-construction hydro power capacity is 1,724 MW.

## Key financial indicators

	CY2019 Audited	CY2020 Audited
Operating Income (Rs. crore)	1,598.2	1769.6
PAT (Rs. crore)	484.5	530.6
OPBDIT/OI (%)	64.8%	62.1%
PAT/OI (%)	30.3%	30.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5
Total Debt/OPBDIT (times)	1.7	1.7
Interest Coverage (times)	15.5	18.3

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)*

*Source: Druk Green Power Corporation Limited, ICRA Research*

## 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 March 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Apr 29, 2022	-	Jan 28, 2021	Sep 27, 2019
<b>1</b>	Issuer Rating	Long term	-	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

### Complexity level of the rated instrument – 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](http://www.icra.in)

### Annexure-1: 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)

Source: Druk Green Power Corporation Limited, ICRA research

### Annexure-2: 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
Kholongchu Hydro Energy Limited	50.00%	Equity Method

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

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