

November 07, 2024

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	795.01	641.14	[ICRA]AA+ (Stable); reaffirmed
Long term – Unallocated limits	324.99	-	-
Total	1,120.00	641.14	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in North East Transmission Company Limited's (NETCL) stable revenue profile of its inter-state transmission project linked to the line availability, as per the cost-plus tariff framework norms of the Central Electricity Regulatory Commission (CERC). 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 99.8% in the last four years.

Further, ICRA draws comfort from the low counterparty credit risk arising out of diversification under the collection framework for inter-state transmission licensees (ISTS), wherein the Central Transmission Utility (CTU) is responsible for collecting the transmission charges from the beneficiary users and disbursing the same to the 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.

Also, comfort is drawn from the company's strong liquidity position, driven by sizeable cash and liquid funds maintained by the company. While NETCL 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 would be a key monitorable 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 CERC regulations for 2024-29 allow 50% higher than normative O&M expenses for the transmission projects located in the northeastern region as well as pass-through of insurance premium for transmission projects which should improve the profitability of NETC. The project debt repayment tenure is longer than the normative debt repayment, as per the prevailing CERC regulations, leading to a moderation in DSCR towards the tail period of debt. The company has been prepaying debt consistently to shorten this gap. Moreover, it is looking to refinance this debt and extend the repayment tenure which will help improve the DSCR significantly.

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 a 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%) and operating costs within the normative levels, as the tariff is of cost-plus nature.

Superior transmission line availability - The transmission line availability has remained superior, with a minimum availability of 99.8% in the last four years against the normative availability requirement of 98.5%. 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 earned an incentive of Rs 3.2 crore in FY2024.

Healthy collection efficiency, aided by POC framework applicable for inter-state transmission licensees - The company's average collection efficiency remained satisfactory at 105% in FY2024. The asset developed is an ISTS line. Hence, it is the responsibility of CTU to bill and collect the payments on behalf of NETCL.

Credit challenges

Ability to sustain line availability for the tenure of the agreement - 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 line availability. As the asset is expected to remain in operation over a long period, NETCL will have to ensure that it maintains the availability on a sustained basis, considering that the transmission line passes through a difficult terrain and this is its only asset. ICRA notes that the company maintains a self-insurance reserve (Rs. 41.4 crore as on March 31, 2024) which mitigates the risk of disruption in the operations of the transmission line from unforeseen events. NETCL's returns, at present, remain relatively low due to the higher-than-normative O&M charges. However, NETCL has 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. 102.4 crore as on August 31, 2024) and healthy cash flow from operations in relation to the debt servicing obligations. 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, the superior transmission line availability and the strong collection efficiency should ensure adequate cushion for the company's debt servicing (annual debt repayments of Rs. 102.6 crore).

Rating sensitivities

Positive factors – ICRA may upgrade the rating if there is an improvement in the company's debt coverage metrics, led by sustained higher-than-normative line availability and more-than-expected reduction in debt or favourable debt refinancing.

Negative factors – Pressure on NETCL’s rating could arise if the debt service coverage indicators deteriorate, led by lower-than-normative line availability on a sustained basis or any delays in collecting payments would adversely impact its liquidity profile.

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, GAIL 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 in Tripura to Bongaigaon in 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)

	FY2023	FY2024
Operating income	299.7	277.6
PAT	85.1	71.1
OPBDIT/OI	93.2%	91.9%
PAT/OI	28.4%	25.6%
Total outside liabilities/Tangible net worth (times)	1.5	1.3
Total debt/OPBDIT (times)	2.9	2.5
Interest coverage (times)	4.3	4.3

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs. crore

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 (FY2025)			Chronology of rating history for the past 3 years					
					FY2024		FY2023		FY2022	
		Type	Amount rated (Rs. crore)	November 07, 2024	Date	Rating	Date	Rating	Date	Rating
1	Long-term fund-based – Term loan	Long term	641.14	[ICRA]AA+ (Stable)	4-Aug-2023	[ICRA]AA+ (Stable)	24-Jun-2022	[ICRA]AA+ (Stable)	-	-
2	Long-term – Unallocated Limits	Long term	-	-	4-Aug-2023	[ICRA]AA+ (Stable)	24-Jun-2022	[ICRA]AA+ (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term 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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Dec 2020	-	FY2030	641.14	[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-NA

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