January 12, 2021

THDC India Limited: [ICRA]AA(Stable) reaffirmed/ assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non Convertible Debenture	2300.0	2300.0	[ICRA]AA (Stable) reaffirmed
Non Convertible Debenture – Proposed	-	1000.0	[ICRA]AA (Stable); assigned
Total rated limits	**2300.0**	**3,300.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in THDC India Limited's (THDC) operational synergies with NTPC, its strategic importance to the power sector in the country (flood control, irrigation, grid stability, apart from supply of power) and its long operating track record in the hydropower sector. The rating also favourably factors in the cost-plus tariff structure for THDC's operating hydro project portfolio (1,400 MW), resulting in regulated returns as well as the presence of long-term power purchase agreements (PPAs) for operational as well under-construction projects. THDC is also expected to benefit from NTPC's strong execution experience and ability to ensure the operational efficiency levels, including the O&M cost in line with regulatory norms.

The rating is, however, constrained by THDC's counterparty credit risk exposure towards the offtakers (state-owned distribution utilities) as reflected in some build-up in the receivables as on March 2020. Nonetheless, the same is mitigated to some extent due to diversified exposure to counterparties in 10 states/Union Territories as well as coverage under the tripartite agreement in the event of delays in collections for state discoms. As the cash collections and revenue profile of the state-owned distribution utilities has been adversely impacted due to a dip in demand amid lockdown because of Covid-19 pandemic, the progress and timeliness in payment pattern from the offtaker utilities remain a key monitorable. Further, the liquidity relief scheme notified by Ministry of Power of liquidity relief scheme in the form of long tenure loans to be made available from Power Finance Corporation (PFC)/ Rural Electrification Corporation (REC), if implemented in a timely manner by the state-owned distribution utilities, would provide cash flow support in the near term to correct their overdues towards the generation entities to a large extent. The company has benefitted from liquidation of partial dues by discoms during H1 FY2021, which has brought down its receivables from the March 2020 levels. Nevertheless, the same remain high and will be a key monitorable for the rating.

Moreover, THDC is exposed to execution risks associated with the under-construction projects (2,814 MW) comprising 1,444 MW in hydro segment and 1,320 MW in thermal segment. Given the highly capital-intensive nature of under-construction projects, leveraging metrics for THDC are expected to remain elevated in the medium term. While the cost-plus nature of tariffs for operational and the under-construction projects provide a source of comfort, both the company's ability to execute these projects in a timely manner and within the budgeted costs as well as the implementation of such cost-plus-based PPAs by the identified offtakers remain critical in the long run. Also, the company remains exposed to regulatory risk of any disallowance in the capital cost by CERC for the under-construction projects post commissioning.

The Stable outlook on the rating reflects ICRA's opinion that THDC will continue to benefit from its 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 and support from NTPC – ICRA takes comfort from NTPC's dominant position in India's power sector, its strong financial profile and demonstrated track record of providing timely support to its subsidiaries. Additionally, THDC, with its under-construction project capacity of 2.8 GW, which includes 1,320-MW Khurja Super Thermal Power Project (STPP), stands to benefit from NTPC's sizeable project development and project management experience.

Strategically important entity with multiple purposes apart from power generation – THDC's flagship 2,400-MW Tehri project is a multi-purpose project which, apart from power generation, provides flood control, irrigation water to UP, and drinking water to UP and Delhi. In addition, the 1,000-MW Tehri hydro power project (HPP) assisted in restoration of the electricity grid in July 2012. The under-construction 1,000-MW pumped storage plant (Tehri PSP), once commissioned, will not only provide peaking power, but also assist in supporting the grid by providing balancing power in the presence of several intermittent renewable sources of power.

Cost-plus tariff to result in regulated returns – THDC has cost-plus tariff structure for both operational and under-construction projects, large hydro and thermal projects and fixed tariff for small hydro and solar plants. The cost-plus tariff framework for the projects (both existing and under-construction) is thus expected to ensure recovery of fixed charges for debt servicing as well as earning regulated returns, subject to meeting normative operating cost and the capital cost within the budgeted/approved level for under-construction projects. Presence of PPAs for all its operational and under-construction projects mitigates offtake risks.

Operational plants running efficiently – Generation from both operating hydro plants (1,000-MW Tehri HPP and 400-MW Koteshwar HPP) have consistently remained close to or above their respective design energy. This has aided the company in not only earning regulated returns but also incentives attached to higher-than-normative plant availability and higher-than-designed energy generation. These incentives compensate for the higher-than-normative O&M expenses for THDC.

Regulatory clarity in place – Tariff for both the operational hydro projects is based on CERC regulations. In the recent regulations (FY2020–FY2024), CERC has continued its cost-plus tariff with regulated return on equity of 16.5% for storage type hydro projects (norms tightened, receivable days 45 days from 60 days, escalation 4.77% instead of 6.64%). The tariff order for 2014–2019 was issued in March 2017 for Tehri HPP and in October 2018 for Koteshwar HPP.

Credit challenges

Significant project capacity under construction – Sizeable under-construction capacity (2,814 MW) exposes THDC to significant project execution risks (completion within budgeted time and cost estimates). These risks, however, are mitigated by the presence of NTPC, which has strong project execution and management capabilities. The commercial capacity of the NTPC Group stands at 61.8 GW, at present.

Exposure to counterparty risks – THDC is exposed to the risk of delayed payments from utilities with weak financials (close to half of the allocated capacity). The receivables have increased to Rs. 1,868.9 crore (excludes unbilled revenues) as on March 31, 2020 (from Rs. 1,583.7 crore as on March 31, 2019), of which Rs. 1,257 crore (or 67%) are for greater than six months. Increasing receivables are a concern, especially when the cost of power supplied by THDC is not very competitive. This limits its ability to market the power elsewhere. ICRA draws comfort from THDC being covered under tripartite agreements between the GoI, Reserve Bank of India and respective state governments for recovery of discom dues and measures being taken by the Central Government in the form of Rs. 1,20,000-crore loans to be extended by PFC Ltd and REC Ltd to state discoms for clearing dues of Central Public Sector Undertakings (or CPSUs). Aided by disbursals under the aforementioned scheme, the receivables for the company have come down to Rs. 1,591.7 crore as on September 30, 2020 (Rs 1,686.4 crore as on November 30, 2020).

High cost of power generation, especially for under-construction projects – The levelised tariff for operational hydro projects of THDC is above Rs. 4 per unit, while that of under-construction projects is even higher (more than Rs. 7 per unit for 1,000-MW Tehri Pumped Storage Plant and more than Rs. 5 per unit for Vishnugad Pipalkoti HPP) at the current cost estimates (which too can escalate, given the time remaining for construction). This limits the ability to regulate power supplies to a third party in the event of prolonged delay in payments from discoms. Relatively higher tariff required under cost-plus tariff principles for the under-construction projects may pose challenges with respect to operationalisation of their respective PPAs.

Uncertainty regarding approval of costs by CERC – While the under-construction projects are expected to earn regulated returns on account of cost-plus tariff (subject to achieving normative operating parameters), there is uncertainty regarding the quantum of costs that will be eventually approved by CERC. To the extent the costs are disallowed, the cushion available for debt servicing for the respective project loans will be lower.

Increase in leverage level, although debt servicing metrics remain comfortable – THDC, for its under-construction projects, is expected to incur cumulative expenditure of ~Rs. 16,000 crore over the next five years, which will be substantially funded through debt (debt:equity mix of 70:30). Total debt/OPBITDA is estimated to remain elevated in the medium term, given the high capital intensity involved for the under-construction projects. The debt servicing is expected to remain comfortable though, supported by cost-plus tariff-based PPAs.

Liquidity position: Adequate

THDC's liquidity is **adequate** supported by the cost-plus nature of operations. This coupled with higher-than-normative operating performance in the past has resulted in adequate cover for debt servicing. The liquidity is also supported by strong financial flexibility and strong parentage of THDC, which results in enhanced ability to tie-up funds at short notice. The average cushion in overdraft limit stood at Rs. 512 crore during 8M FY2021. Given that THDC has sizeable capital expenditure plans, there is limited cushion available with respect to any further cost overruns or sizeable dividend payouts during the next three to four years. Timely tie-up of full project debt requirement for under-construction projects (Khurja STPP, Amelia coal block, Tehri Pumped Storage) will help maintain adequate cushion for debt servicing and avoid any cash flow mismatches.

Rating sensitivities

Positive triggers – An upgrade is unlikely in the near term, given the execution risks associated with under-construction projects.

Negative triggers – Negative pressure on THDC's rating could arise if there are significant time or cost overruns in the under-construction projects resulting in deterioration in the cost competitiveness of these projects. Significant delay in payment of dues by discoms resulting in the weakening of the THDC's credit profile may also trigger a rating downgrade. Moreover, adverse outcome on pending legal dispute with one of the contractors (Rs. 450-crore deposited with High Court of Delhi in lieu of arbitration award in favour of contractor) will be a negative trigger. The rating may also be revised downwards if there is a change in the support philosophy by the NTPC towards THDC.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group Support	Parent – NTPC holds a 74.5% stake in THDC The assigned rating derives comfort from strong credit profile of parent NTPC (which holds a 74.5% stake in THDC), which is expected to meet the funding requirements or cash flow mismatches of THDC, as and when required
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity

About the company

THDC is a joint venture of the NTPC and the GoUP (3:1). The NTPC has acquired a 74.5% GoI stake held in THDC in March 2020. The company was incorporated in July 1988 for setting up of 2,400-MW Tehri Hydro Power Project. It has an operational capacity of 1,537 MW, consisting of 1,000-MW Tehri HPP, 400-MW Koteshwar HPP, 24-MW Dhukwan HPP, 63-MW Dwarka wind power project, and 50-MW Patan wind power project. Apart from these projects, the active under-construction projects of the company include the 1,000-MW Tehri Pumped storage plant, the 444-MW Vishungadh Pipalkoti, the 1,320-MW Khurja Super Thermal Power Project and the associated Amelia coal block and the 50-MW solar project in Kasargod, Kerala.

In FY2020, the company reported a net profit of Rs. 920.2 crore on an operating income (OI) of Rs. 2,399.8 crore compared to a net profit of Rs. 1189.9 crore on an OI of Rs. 2,837.2 crore in the previous year.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	2,837.2	2,399.8
PAT (Rs. crore)	1,189.9	920.2
OPBDIT/OI (%)	76.3%	75.0%
PAT/OI (%)	41.9%	38.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.7
Total Debt/OPBDIT (times)	2.0	3.2
Interest Coverage (times)	10.9	7.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2021) Date & Rating Jan-12-2021	Jun-22-2020	Chronology of Rating History for the past 3 years Date & Rating in FY2020 Feb-5-2020	Aug-30-2019	Date & Rating in FY2019	Date & Rating in FY2018
1 Non Convertible Debenture	Long Term	1500.0	1500.0*	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA&	[ICRA]AA (Stable)	-	-
2 Non Convertible Debenture - Proposed	Long Term	800.0	800.0*	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-		-	-
2 Non Convertible Debenture - Proposed	Long Term	1000.0	-	[ICRA]AA (Stable)	-	-	-	-	-

**as on December 31, 2020*

&: Under rating watch with developing implications

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE812V07021	NCD	6-Sep-19	8.75%	6-Sep-2029	1500.00	[ICRA]AA(Stable)
INE812V07039	NCD	24-Jul-20	7.19%	24-Jul-2030	800.00	[ICRA]AA(Stable)
NA	NCD-Proposed	-	-	-	1000.00	[ICRA]AA(Stable)

Source: THDC India Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

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