January 03, 2023 (Revised)

THDC India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture (NCD)	3,300.00	3,300.00	[ICRA]AA(Stable); reaffirmed
Total	**3,300.00**	**3,300.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in THDC India Limited's (THDC) operational synergies with NTPC Limited (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 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 and under-construction projects. THDC is expected to benefit from NTPC's strong execution experience and ability to ensure operational efficiency, including operations and maintenance (O&M) cost in line with regulatory norms.

The rating is, however, is constrained by significant execution risks associated with the under-construction projects (2,764 MW), comprising 1,444 MW in the hydro segment and 1,320 MW in the thermal segment. Given the highly capital-intensive under-construction projects, THDC's leveraging metrics are expected to remain elevated in the medium term. While the cost-plus tariffs for the under-construction projects provide a source of comfort, the company's ability to execute these projects in a timely manner and within the budgeted costs as well as the operationalisation of such cost plus-based PPAs by the identified offtakers remain critical in the long run. The company remains exposed to the regulatory risk of any disallowance in the capital cost by CERC for the under-construction projects post commissioning.

THDC is also exposed to counterparty credit risks from offtakers (state-owned distribution utilities) with weak financial risk profiles. Nonetheless, the same is mitigated to some extent by the diversified exposure to counterparties in 10 states/Union Territories as well as coverage under the tripartite agreement in the event of delays in collections from state discoms. With the implementation of the late payment surcharge scheme, the receivables have reduced to Rs 842.8 crore as of September 2022 from Rs. 921.6 crore as of September 2021.

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 2,764-MW, which includes the 1,320-MW Khurja super thermal power project (STPP), stands to benefit from NTPC's sizeable project development and 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 restoring 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 a 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 the recovery of fixed charges for debt servicing as well as earning regulated returns, subject to meeting the normative operating cost and capital cost within the budgeted/approved level for under-construction projects. The presence of PPAs for all its operational and under-construction projects mitigates offtake risks.

Operational plants running efficiently – Generation from both the operating hydro plants (1,000-MW Tehri HPP and 400-MW Koteshwar HPP) has 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 of 45 days from 60 days, escalation 4.77% instead of 6.64%). The petition filed for 2014–2019 was trued up in May 2022 for Tehri HPP and in September 2022 for Koteshwar HPP.

Credit challenges

Significant project capacity under construction – A sizeable under-construction capacity (2,764 MW) exposes THDC to significant project execution risks (completion within budgeted time and cost estimates). While the Khurja STPP is running on schedule and the company expects to realise some savings in project cost, the project cost for PSP (Rs 770 crore) has increased and ICRA estimates a similar proportionate increase in VPHEP as well (budgeted cost remains unchanged for VPHEP as per company). Moreover, there has been time overruns in both PSP and VPHEP and hence the execution risks for the company remain elevated. 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 70.8 GW, at present.

Exposure to counterparty risks – THDC is exposed to counterparty credit risk from utilities with weak financials (close to half of the allocated capacity). 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. However, ICRA draws comfort from THDC being covered in the tripartite agreements between the GoI, the Reserve Bank of India and the respective state governments for the recovery of discom dues and the measures being taken by the Central Government, such as the Atmanirbhar liquidity scheme/LPS scheme 2022. Aided by consistent improvement in its collection efficiency, the company's receivables have come down to Rs. 842.8 crore as of September 2022 from Rs. 921.6 crore as of September 2021. Under the LPS scheme, the liquidation of overdues from J&K has commenced from July 2022 (12 monthly instalments in total).

High cost of power generation, especially for under-construction projects – The levelised tariff for THDC's operational hydro projects is Rs. 4-6 per unit, while that of under-construction projects is even higher (more than Rs. 5 per unit for the 1,000-MW Tehri pumped storage plant basis two-cycle operations and the 444-MW Vishnugad Pipalkoti HPP), as per ICRA, at the revised cost estimates. The budgeted project cost for PSP increased to Rs. 5,597 crore and ICRA expects a ~15% increase in the project cost of VPHEP as well given the delays in project execution. This limits the ability to regulate power supplies to a third party in the event of prolonged delay in payments from discoms. The relatively high tariff required under the cost-plus tariff principles for the under-construction projects may pose a challenge to the 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 the 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 a cumulative expenditure of over Rs. 11,000 crore over the next three years, which will be substantially funded through debt (debt: equity mix of 70:30). While the peak debt/OPBITDA is estimated to remain elevated at ~ 11x in the medium term, the operational peak debt/OPBITDA is likely to stay comfortable at ~3.4x with minimum and cumulative DSCR at ~1.5x and over ~ 2.0x, respectively, over the debt tenure.

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 the financial flexibility and strong parentage of THDC, which results in enhanced ability to tie up funds at short notice. The average cushion in the overdraft limit and the cash & equivalent of the company stood at Rs. 333 crore and Rs. 155.8 crore, respectively, as on September 30, 2022. Given that THDC has sizeable capital expenditure plans, there is limited cushion for any cost overruns or sizeable dividend payouts during the next three years. A timely tie-up of the 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 factors – A significant progress in under-construction projects in the near to medium term could be a positive trigger.

Negative factors – Pressure on THDC's rating could arise if there are significant time or cost overruns in the under-construction projects, resulting in a deterioration of the cost competitiveness of these projects. Any deterioration in the debt coverage metrics on account of disallowance of incurred project costs may affect the rating. Significant delays in payments of dues by discoms that will weaken THDC's credit profile may also trigger a downgrade. The rating may also be revised downwards if there is a change in the support philosophy of NTPC towards THDC or there is deterioration in credit profile of NTPC.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Thermal Power Producers Rating Approach - Implicit Support from Parent or Group
Parent/Group Support	Parent – NTPC - holds a 74.5% stake in THDC. The assigned rating derives comfort from the strong credit profile of parent NTPC (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 consolidated financial statements of the rated entity

About the company

THDC is a joint venture (ratio of 3:1) between NTPC and the Government of Uttar Pradesh (GoUP). NTPC had acquired a 74.5% GoI stake held in THDC in March 2020. The company was incorporated in July 1988 for setting up the 2,400-MW Tehri HPP. It has an operational capacity of 1,587 MW, consisting of 1,000-MW Tehri HPP, 400-MW Koteshwar HPP, 24-MW Dhukwan HPP, 63-MW Dwarka wind power project, 50-MW Patan wind power project and the 50-MW solar project in Kasargod, Kerala. Apart from these projects, the active under-construction projects of the company include the 1,000-MW Tehri PSP, the 444-MW Vishungadh Pipalkoti, the 1,320-MW Khurja STPP and the associated Amelia coal block.

Key financial indicators (audited)

THDC Consolidated	FY2021	FY2022
Operating income (Rs. crore)	2,498.5	2,227.0
PAT (Rs. crore)	1,092.2	893.7
OPBDIT/OI (%)	75.2%	71.2%
PAT/OI (%)	43.7%	40.1%
Total outside liabilities/Tangible net worth (times)	0.8	1.0
Total debt/OPBDIT (times)	3.3	5.1
Interest coverage (times)	10.3	11.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation
Note: Amount in Rs. crore; All calculations are as per ICRA Research
Source: Annual Reports and 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 (Rs. crore) as on Dec 07, 2022	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
					Jan 03, 2023	Jan 11, 2022	Jan 12, 2021	June 22, 2020	Feb 05, 2020	Aug 30, 2019
1	**NCD**	Long Term	3,300	3,300	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA (stable)	[ICRA]AA&	[ICRA]AA (stable)

&Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	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
INE812V07021	NCD	6-Sep-19	8.75	6-Sep-29	1500.0	[ICRA]AA(Stable)
INE812V07039	NCD	24-Jul-20	7.19	24-Jul-30	800.0	[ICRA]AA(Stable)
INE812V07047	NCD	20-Jan-21	7.45	20-Jan-31	750.0	[ICRA]AA(Stable)
NA	NCD-yet to be placed	-	-	-	250.0	[ICRA]AA(Stable)

Source: *Company*

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

Company Name	THDC Ownership	Consolidation Approach
THDC India Limited	100.00% (rated entity)	Full Consolidation
TUSCO Limited	74%	Full Consolidation

Corrigendum:

Document dated Jan 03, 2023, has been corrected with revisions as detailed below:

- Analytical Approach Section (Page 3): Consolidation/Standalone section has been revised from "The rating is based on **Standalone** financial statements of the rated entity" to "The rating is based on **Consolidated** financial statements of the rated entity".
- Annexure-2 (Page 5): THDC ownership in TUSCO Limited company has been revised from "**100%**" to "**74%**".

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