

January 02, 2024

THDC India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures (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 the 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, 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. While the rating takes note of the significant financial progress achieved in the under-construction projects, the risk associated with implementation and the elevated leveraging metrics in the medium term will constrain the rating. 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 the 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. The risk is mitigated to some extent by the diversified exposure to counterparties in 10 states/Union Territories as well as the coverage under the tripartite agreement in case of delays in collections from the state discoms. The implementation of the late payment surcharge scheme has reduced the receivables to Rs. 635.9 crore as of September 2023 from Rs. 842.8 crore as of September 2022.

ICRA takes note of the Rs. 1,010-crore payment made by the company in August 2023, as per an arbitration order in favour of one of the contractors for the Koteswar HEP commissioned in FY2013. THDC has filed an appeal in the Delhi High Court against the order and will also be filing a petition before the CERC for the admissibility of these payments. ICRA will continue to monitor the developments in this regard.

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 the 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), benefits 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 hydropower 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 support the grid by providing the 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 the offtake risks.

Operational plants running efficiently – Generation from both the operating hydro plants (1,000-MW Tehri HPP and 400-MW Koteswar 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 – The tariff for both the operational hydro projects is based on the CERC's regulations. In the recent regulations (FY2020–FY2024), the 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%).

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 has increased and ICRA estimates a similar proportionate increase for 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 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 73.9 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). This limits its ability to market the power elsewhere. There has been a sustained improvement in the receivable position, given the payment discipline from state discoms since the implementation of the LPS scheme in June 2022. The receivable days have reduced from 236 days in FY2021 to 137 days in FY2022, 129 days in FY2023 and subsequently to 110 days in H1 FY2024. 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. Under the LPS scheme, the liquidation of overdues from J&K 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 the 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. 6,406 crore and ICRA expects an 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 the CERC. The cushion available for debt servicing for the respective project loans will be lower to the extent the costs are disallowed.

Increase in leverage level, although debt servicing metrics remain comfortable – THDC, for its under-construction projects, is expected to incur a cumulative expenditure of around Rs. 8,500- Rs. 9,000 crore over the next four 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 ~ 15.3x in the medium term, the operational peak debt/OPBITDA is likely to stay comfortable at ~3.6x with the minimum and cumulative DSCR at ~1.54x and over ~ 2.05x, respectively, over the debt tenure.

Liquidity position: Adequate

THDC's liquidity is adequate, supported by the cost-plus nature of operations. This, coupled with the 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 enables it to tie up funds at a short notice. The company has an OD limit of Rs. 1,400 crore, backed by fixed assets with a sublimit of Rs. 400 crore for NFB limits which are interchangeable. The average cushion in the fund-based working capital limits has remained at Rs. 874 crore in the last seven months ended October 31, 2023. As THDC has sizeable capital expenditure plans, there is limited cushion available for any cost overruns or for the sizeable dividend payouts during the next three years. Timely tie-up of the full project debt for the under-construction projects (Khurja STPP, Tehri Pumped Storage) will help maintain adequate cushion for debt servicing and avoid any cash flow mismatch.

Rating sensitivities

Positive factors – Timely commissioning of the 1,000-MW PSP and the 1,320-MW Khurja STPP in FY2025 within the budgeted cost may result in an upgrade.

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 the incurred project costs may affect the rating. Significant delays in payments of dues by discoms will weaken THDC's credit profile and may trigger a downgrade. The rating may also be revised downwards if there is a change in the support philosophy of NTPC towards THDC, or if the credit profile of NTPC deteriorates.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Power – Thermal
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 the 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 to set 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 Koteswar 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 HEP, the 1,320-MW Khurja STPP and the associated Amelia coal block.

Key financial indicators (audited)

THDC Consolidated	FY2022	FY2023
Operating income (Rs. crore)	2,227.0	2,004.1
PAT (Rs. crore)	893.7	672.9
OPBDIT/OI (%)	71.2%	61.8%
PAT/OI (%)	40.1%	33.6%
Total outside liabilities/Tangible net worth (times)	1.0	1.4
Total debt/OPBDIT (times)	5.1	9.5
Interest coverage (times)	11.8	6.8

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 (FY2024)			Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore) as on Sep 30, 2023	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Jan 02, 2024	Jan 03, 2023	Jan 11, 2022	Jan 12, 2021	June 22, 2020
1	Non-Convertible Debentures (NCD)	Long Term	3,300.00	3,300.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-Convertible Debentures (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	1500.00	[ICRA]AA (Stable)
INE812V07039	NCD	24-Jul-20	7.19	24-Jul-30	800.00	[ICRA]AA (Stable)
INE812V07047	NCD	20-Jan-21	7.45	20-Jan-31	750.00	[ICRA]AA (Stable)
Yet to be placed	NCD	-	-	-	250.00	[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

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 4547 4829
vikram.v@icraindia.com

Siddhartha Kaushik
+91 124 4545323
siddhartha.kaushik@icraindia.com

Neha Garg
+91 124 4545391
neha.garg@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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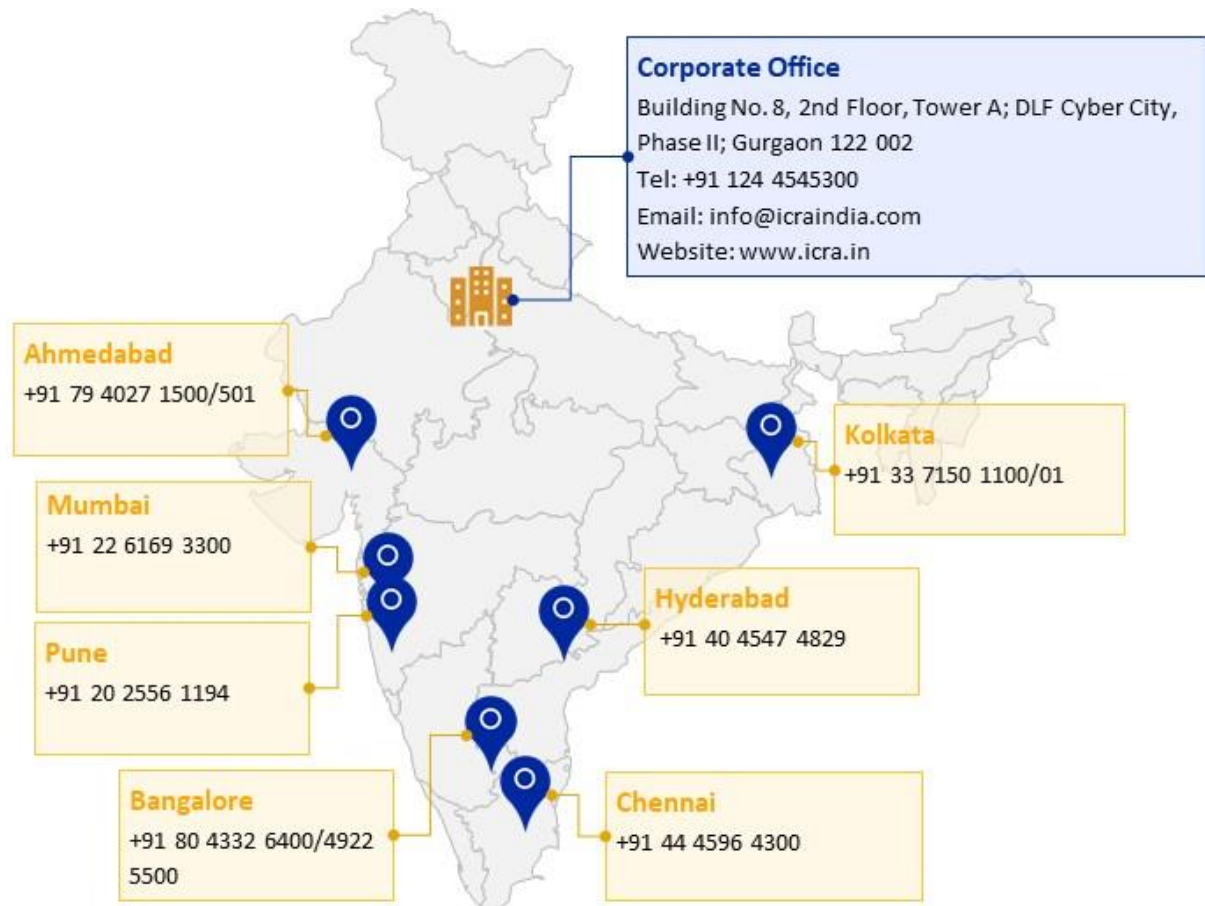
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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