December 30, 2024

THDC India Limited: Rating 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 of THDC India Limited (THDC) factors in the expected commissioning of the two units of the 2X660-MW Khurja thermal project and one unit of the 250-MW Tehri pumped storage project (PSP) by FY2025. All the remaining three units of the Tehri PSP (750 MW) are expected to get commissioned in FY2026, lowering the execution risk for its under-construction projects. This will almost double the operational capacity of THDC by the end of FY2026 to 3,907 MW (from 1,587 MW) and lead to an additional regulated asset capitalisation of ~Rs. 21,000 crore. The earnings and the leverage levels are expected to improve from FY2026 once these two projects stabilise their operations and scale up the generation.

THDC's leverage levels, as reflected in the total debt/operating profit, are expected to decline from an estimated 22-23 times in FY2025 to 6-7 times in FY2026 and 4-5 times in FY2027 as the capex plans will taper down from FY2027 with the Vishnugarh Pipalkot hydroelectric project (VPHEP) being the only large under-construction project requiring investment.

The rating continues to factor in THDC's 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 project execution experience and ability to ensure operational efficiency of the projects.

The rating is, however, constrained by execution risks associated with the under-construction projects, comprising 444 MW for the VPHEP project and development work for its joint venture solar projects. While the rating takes note of the satisfactory financial and physical progress achieved in these under-construction projects, the risk associated with the implementation of the projects and the elevated leveraging metrics over the medium term due to the capex already incurred have constrained the rating. Further, it is to be noted that THDC has announced various projects to be executed over the medium term in the hydro, thermal and solar segments. The capital allocation towards these projects is not yet finalised as these projects are currently in their initial stages of development. However, a judicious capital allocation towards these new projects which keeps the leverage levels under check will be a key monitorable from a credit perspective.

The current under-construction projects have already witnessed time and cost overruns in the past, which has increased the levelised tariffs. Hence, 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 a timely payment track record by the PPA offtakers remain critical in the long run. The company also remains exposed to the regulatory risk of any disallowance in the capital cost by the Central Electricity Regulatory Commission (CERC) for the under-construction projects, post commissioning.

THDC is 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 11 states/Union Territories as well as the coverage under the tripartite agreement in case of delays in collections from the state discoms. Moreover, the implementation of the late payment surcharge scheme has reduced the receivables to Rs. 450.7 crore as of March 2024 from Rs. 635.9 crore as of September 2023 and Rs. 842.8 crore as of September 2022.

ICRA takes note of the Rs. 1,460-crore payment that was made by the company in August 2023, as per an arbitration order in favour of one of the contractors for the Koteshwar HEP commissioned in FY2013. THDC has filed an appeal in the Supreme Court against the high court's order in favour of the contractor. Before the matter achieves a legal finality at the Supreme Court, in the interim period, CERC has allowed only Rs. 475 crore of principal amount to be recovered from the beneficiaries as per its latest order released in November 2024. The delay in the full recovery of the arbitration award from the beneficiaries has blocked THDC's capital, adversely impacting its business return indicators.

The Stable outlook on the long-term rating reflects ICRA's opinion that THDC will benefit from the expected additional regulated asset capitalisation of ~Rs. 21,000 crore in FY2025/FY2026 (from the upcoming commissioning of 2,320 MW of capacities), which will support a material increase in earnings and a consequent reduction in the leverage FY2026 onwards. The operations will continue to benefit from its cost-plus tariff and long-term PPAs for the ongoing and under-construction projects, timely recovery of dues from the discoms, efficient running of the operational projects and the superior financial flexibility derived out of its status as a Mini Ratna Schedule A PSU company and a subsidiary of NTPC Limited.

Key rating drivers and their description

Credit strengths

Operational synergies and support from NTPC – ICRA take 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 critical 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 balance power and ancillary services such as network frequency control and reserves in the presence of several intermittent renewable sources of power.

Commissioning of under-construction capacity to increase earnings and improve leverage – THDC's operational capacity, which is currently at 1,587 MW, will almost double to 3,907 MW by FY2026 with the commissioning of the Khurja STPP and Tehri PSP projects. This will help the company increase its regulated asset base by ~Rs. 21,000 crore and increase the operating profit to Rs. 3,300-4,700 crore in FY2026E/FY2027E from Rs. 900-1,000 crore in FY2024/FY2025E. It will also significantly reduce the project execution risk and increase the earnings, supporting a gradual reduction in the leverage levels from a peak of 22-23 times in FY2025E to 6-7 times in FY2026 and 4-5 times in FY2027.

Cost-plus tariff to result in regulated returns – THDC has a cost-plus tariff structure for both operational and under-construction projects (hydro, PSP, and thermal) and fixed tariff for small hydro and renewable energy plants. The cost-plus tariff framework for a major portion of its generation asset portfolio (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 long-term cost-plus PPAs for all its operational and under-construction projects mitigates the offtake risks, especially given that the levelised tariff levels for the upcoming projects are expected to remain in the range of Rs. 5-6.5/unit.

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 – The tariff for both the operational hydro projects is based on the CERC's regulations. The multi-year tariff for the 2019-2024 control period for the operational generation stations are in place. Additionally, the company has filed tariff petitions for its operational projects for determining the tariff for the 2025-2029 period. In the recent tariff regulations for the control period 2025-2029, the CERC has continued its cost-plus tariff with regulated return on equity of 16.5%. In the new CERC regulations, the norms for escalation in operations and maintenance expenses have been revised up to 5.47% instead of 4.77% earlier, which will benefit THDC.

Credit challenges

Execution risk related to current under-construction capacity and upcoming projects – A sizeable under-construction capacity (2,764 MW), which has witnessed time and cost overruns, exposes THDC to significant project execution risks. Around 2,320-MW capacities (1,320-MW Khurja and 1,000-MW Tehri PSP) are in their advanced stages of completion and will be commissioned by FY2025-FY2026, while the balance 444-MW VPHEP faces sizeable execution risks as only ~25% of the head-race-tunnel has been excavated so far. Apart from these under-construction projects, THDC is parallelly executing a 2,000-MW and 10,000-MW solar park development project under its joint venture, TUSCO Limited and TREDCO Rajasthan Limited, respectively, which further accentuates the project implementation risks. Further, ICRA notes that THDC has announced various projects that it is likely to execute over the medium term in the hydro, thermal and solar segments. While the timeline for the implementation for such projects remains uncertain as of now, an accelerated pace of capital deployment towards these new projects will keep the execution risk and leverage levels at elevated levels for the company. These risks, however, are partly mitigated by the parentage of NTPC, which has strong project execution and management capabilities. The commercial capacity of the NTPC Group stands at 76.4 GW as on September 30, 2024.

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 84 days in FY2024. The collection efficiency has been satisfactory over the last eight months in FY2025. 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 liquidity for discoms under the Atmanirbhar Bharat package/late payment surcharge (LPS) scheme 2022. The LPS scheme has supported the liquidation of overdues from J&K from July 2022.

High cost of power generation, especially for under-construction projects – The tariffs for THDC's operational hydro projects is Rs. 4.5-6 per unit, while the levelised tariffs of the under-construction projects is even higher (~Rs. 5.3 per unit for the 1,000-MW Tehri pumped storage plant basis two-cycle operations, ~Rs. 6.5 per unit for the 444-MW VPHEP, and ~Rs. 5.1 per unit for the Khurja thermal power project). The budgeted project cost for the PSP and Khurja projects is expected to increase to Rs. 7,500 crore (against Rs. 6,406 crore earlier) and Rs. 13,129 crore (against Rs. 11,089 crore earlier), respectively. ICRA also expects the project cost of VPHEP to increase as well, given the delays in project execution. This limits the ability to regulate power supplies to a third party in the event of a 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 timely recovery of dues from the respective long-term PPA beneficiaries.

Uncertainty over 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, given the track record of large cost overruns. The cushion available for debt servicing for the respective project loans will be lower to the extent the capital costs that are disallowed.

Increase in leverage level in the near term, although debt servicing metrics remain comfortable – THDC, for its under-construction projects, is expected to incur a cumulative expenditure of Rs. 8,500-Rs. 9,500 crore over FY2025-FY2027, which will be substantially funded through debt (debt: equity mix of 70:30). While the peak debt/OPBITDA is estimated to remain elevated at 22-23 times in FY2025 as the company will incur a substantial amount of capex for its under-construction projects, any substantial earnings are only expected to accrue from FY2026. In the medium term, ICRA expects the total debt/OPBITDA to decline to around 6-7 times in FY2026 and further to 4-5 times in FY2027, along with a minimum and cumulative DSCR at ~1.29x and over ~1.82x, respectively, over the debt tenure. However, capital allocation towards the new projects in their nascent stages that have been announced by the company could lead to an increased leverage over the medium term and will remain a key monitorable.

Liquidity position: Adequate

The company has a sanctioned fund-based working capital limit of Rs. 1,375 crore, backed by fixed assets with a sublimit of Rs. 400 crore for NFB limits which are interchangeable. The cushion in the fund-based working capital limits has remained at Rs. 525 crore along with a cash balance of Rs. 119.6 crore in September 2024. The company is expected to remain free cash flow negative (FCF) between FY2025 and FY2027 and start generating positive FCF from FY2028 when the capex intensity tapers down following the commissioning of the Khurja STPP, Tehri PSP and VPHEP projects. Therefore, during this period, the company would depend on external funding sources to meet its requirement of growth capex and scheduled debt service requirements. However, THDC's strong parentage and its established track record of raising funds at competitive rates will support its liquidity profile in the intervening period.

Further, there is headroom available for the company to draw additional project debt of ~Rs. 5,000 crore for its under-construction projects (Khurja STPP, Tehri PSP, VPHEP), as per the normative CERC rules of drawing project debt up to 70% of the project cost. Therefore, the cash flows are expected to be sufficient for covering the debt repayment obligations and the capex for the under-construction projects over FY2025-FY2027. However, if THDC goes for a sizeable capital expenditure in the near term (apart from the ongoing capex), there will be limited cushion available for any cost overruns or for the sizeable dividend payouts, going forward.

Rating sensitivities

Positive factors – Timely commissioning of the 1,000-MW PSP and the 1,320-MW Khurja STPP within the budgeted time and cost will support an upgrade. Moreover, stabilisation of the operations, cost-reflective tariffs to support a deleveraging of the balance sheet and an improvement in the credit metrics may also lead to an upgrade.

Negative factors – The rating could be downgraded if there are significant time or cost overruns in the under-construction projects, adversely affecting their cost competitiveness, or if there are delays in the deleveraging trajectory against ICRA's expectations. The rating could also come under pressure on account of any large disallowance of the project costs for the upcoming projects and/or delays in the stabilisation of operations of the under-construction projects, adversely affecting the business return and credit indicators. Moreover, any significant delays in payments of dues by the discoms which would weaken THDC's liquidity profile may trigger a downgrade. Any large capital allocation for new upcoming projects that might result in an elevated leverage in the foreseeable future could also exert downward pressure on the rating. A change in the support philosophy of NTPC towards THDC, or a deterioration in the credit profile of NTPC may also weigh on the rating.

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 the parent, which, ICRA expects, will be willing to extend need-based financial support to THDC out of the need to protect its reputation from the consequences of a Group entity's distress
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 the GoI's 74.5% stake 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 the 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 hydroelectric project, the 1,320-MW Khurja STPP and the associated Amelia coal block.

Key financial indicators (audited) - Consolidated

THDC Consolidated	FY2023	FY2024	H1FY2025*
Operating income (Rs. crore)	2,000.1	2,011.2	965.7
PAT (Rs. crore)	672.9	597.0	228.5
OPBDIT/OI (%)	61.8%	52.5%	51.2%
PAT/OI (%)	33.6%	29.7%	23.7%
Total outside liabilities/Tangible net worth (times)	1.4	1.9	2.1
Total debt/OPBDIT (times)	9.5	16.0	19.9
Interest coverage (times)	6.8	6.7	3.9

*Source: Annual reports of company, ICRA Research; * Provisional numbers; 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 rating (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Dec 30, 2024	Date	Rating	Date	Rating	Date	Rating
Non-convertible debentures (NCD)	Long Term	3,300.00	**[ICRA]AA (Stable)**	02-Jan-24	[ICRA]AA (Stable)	03-Jan-23	[ICRA]AA (Stable)	11-Jan-22	[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
TREDCO Rajasthan Limited	74%	Full Consolidation
THDCIL UJVNL Energy Company Limited	74%	Full Consolidation

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