CARE Ratings
Professional Risk Opinion

CARE/KRO/RR/2018-19/1258
Shri A.G. West Kharkongor
CMD
North Eastern Electric Power Corporation Limited
Brookland Compound
Lower New Colony
Shillong – 793003 (Meghalaya)

October 25, 2018

Dear Sir,

Credit rating for instruments aggregating to Rs.5600.0 crore

Please refer to our letter dated September 17, 2018 & September 18, 2018 on the above subject.

1. The rationale for the ratings is attached as an **Annexure-I**.

2. We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by October 26, 2018, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,
Yours faithfully,

(Abhishek Khemka)
Manager
abhishek.khemka@careratings.com

Encl: As above

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CIN-L67190MH1993PLC071691

Annexure 1
Rating Rationale
North Eastern Electric Power Corporation limited

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debentures	5,100.0	CARE AA; Stable [Double A; Outlook: Stable]	Reaffirmed
Proposed Non-Convertible Debentures	200.0	CARE AA; Stable [Double A; Outlook: Stable]	Reaffirmed
Proposed Non-Convertible Debentures	300.0	CARE AA; Stable [Double A; Outlook: Stable]	Assigned
Total	**5,600.0 (Rs. Five Thousand six hundred crore only)**		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating continues to draw strength from the controlling stake and financial support of Government of India (GoI), NEEPCO's established track record in implementing power projects in North-Eastern India and satisfactory operational efficiency of its power stations backed by assured returns based on the Central Electricity Regulatory Commission (CERC) fixed tariffs. The rating also takes into account the successful commissioning of two of the NEEPCO's hydroelectric projects aggregating to 170MW, followed by company's satisfactory capital structure backed by its consistent financial performance and strong earnings protection attributable to long-term power selling arrangements & longer tenure of the long term borrowings.

The rating is however constrained by residual risks attached to further delay in implementation of the Kameng Hydroelectric project (600MW) with power off take risk for around 50% of its capacity, high capital costs for Tuirial and Pare hydroelectric projects entailing pressure on the average tariff, under recovery of capacity charges by the gas based power plants due to short supply of gas, delay in receipt of equity from Government of India (GoI) for the ongoing/ recently completed Hydroelectric Projects leading to increased reliance on borrowings and counter party credit risks.

Going forward, the ability of the company to successfully commission the ongoing project, timely approval of tariff by the regulator with timely receipt of equity contribution from GoI and collection of proceeds from the counter party shall be the key rating sensitivities.

Detailed description of the key rating drivers

Sovereign controlling stake and financial support of GoI

NEEPCO, a 'Miniratna – I' and GoI enterprise, has been under the administrative control of Ministry of Power, GoI, since April 1976. GoI through its 100% equity holding in NEEPCO has demonstrated considerable financial support to the company in the form of regular equity infusion to part finance the completed/ ongoing projects & normal business. In the last one year, GoI has infused in Rs.157 crore as part of equity commitment towards the recently completed/ ongoing hydroelectric projects. Further, GoI has also provided loan of Rs.291 crore for the hydroelectric project at the interest rate of 1%.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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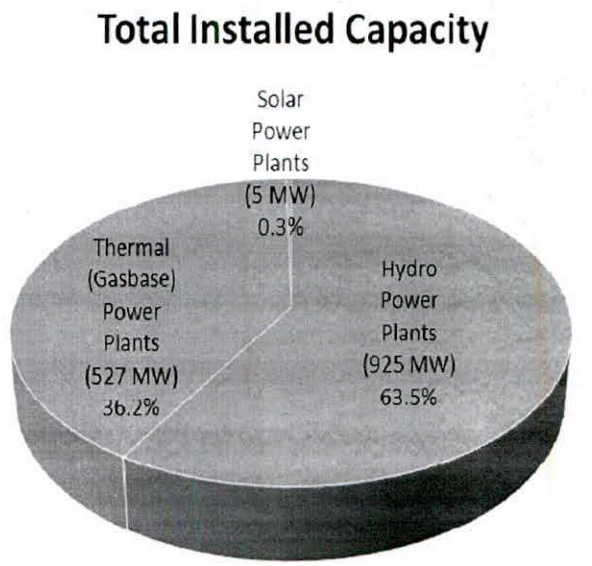
Established track record in implementing power projects in North-East India

NEEPCO has wide experience and expertise in implementing hydro projects in the north-east which provides it significant competitive advantages over others. NEEPCO originated with a hydro power plant of 250 MW named as Kopili Hydro Electric Project (with COD in phases during 1984 and 1988) followed by NEEPCO's first gas based power project (291MW) in the state of Assam during 1995-98. The said power plants are the oldest (- 20-30 years old) amongst its operational facilities with a satisfactory generation history. NEEPCO's strong project management skills are demonstrated through its successful completion and operation of the power projects in the toughest of the terrains. Recently, NEEPCO has commissioned two of its hydroelectric projects, namely Tuirial hydroelectric project (60MW) & Pare hydroelectric project (110MW). The said plants are operational with satisfactory levels of power generation.



Hydroelectric Plants (HEP)	Capacity (MW)	Year of Commissioning	Cost (Rs. Cr.)	Type
Khandong, Assam	25X2=50	1984	122	Reservoir based Hydroelectric
Kopili Stage I, Assam	50X4=200	1988-1997	267	
Doyang, Nagaland	25X3=75	2000	758	
Ranganadi, Arunachal Pradesh	135X3=405	2002	1,455	Run-of-river Hydroelectric
Kopili Stage II, Assam	25X1=25	2004	82	Downstream of Khandong
Pare, Arunachal Pradesh	55x2=110	2018	1,658*	Run-of-river Hydroelectric
Tuirial, Assam	30x2=60	2018	1,450*	Reservoir based Hydroelectric
Total	**925**		**5,792**	

Gas based Power Plants	Capacity (MW)	Year of Commissioning	Cost (Rs. Cr.)	Type
Assam Power Plant	33.5X6 +30X3=291	1995-99	1,514	Combined Cycle Gas Turbine
Agartala Power Plant	21X4 + 25.5X2=135	1988, 2015	701*	
Tripura Power Plant	65.4X1 + 35.6X1=101	2015	1056*	
Total	**527**		**3,271**	

**Cost incurred till June 30, 2018*

Competitive Advantage owing to prominent operating capacities in North-East India

NEEPCO is into generation of power through Hydro and Thermal power route in the NER with a total installed capacity of 1,457 MW (as on Aug'18) ; making NEEPCO the largest power producer in NER by catering to ~40% of the region's energy requirements.

Satisfactory operational efficiency of power stations

NEEPCO through its current installed capacity of 1,457 MW (925MW – hydro, 527MW- thermal & 5MW - solar) in the NER supplies power to all the seven states of North-Eastern India. Operational efficiency for the Hydro Projects improved considerably in FY18 (3,124MU in FY18 vis-à-vis 2,795MU in FY17) owing to exceptionally good rainfall in the region with Kopili HEP (275MW) and Doyang HEP (75MW) recording an all-time high generation of 1,433 MU (*previous high – 1,302 MU in FY06*) & 274MU (*previous high – 268 MU in FY08*) respectively in FY18. Further with the commissioning of Pare (110MW) and Tuirial (60MW) hydroelectric projects the overall generation levels have improved in the recent months.

Hydroelectric Plants (HEP)	Capacity (MW)	Design Energy	Actual Generation (MUs)		
			FY16	FY17	FY18
			2014-19 Tariff Period		
Kopili, Assam	275	1,550	957	1,287	1,433$
Doyang, Nagaland	75	227	163	259	274$
Ranganadi, AP	405	1,510	1,337	1,249	1,417
Grand Total	**755**	**-**	**2,457**	**2,795**	**3,124**

$ *all-time high since inception*

Also the gradual stabilization of the 101 MW Tripura gas-based power plant (671MU in FY18 vis-à-vis 182MU in FY17) contributed towards the operational growth of the corporation during FY18. However due to continued short supply of gas during the last two years, the 291 MW Assam gas-based power plat & 135 MW Agartala gas based power plant has not been able to operate at/ close to the normative PAF levels resulting in lower power generation levels.

Gas based Power Plant	Capacity (MW)	Actual Generation (MUs)		
		FY16	FY17	FY18
		2014-19 Tariff Period		
Assam	291	1,759	1,573	1,599
Agartala	135	871	915	688
Tripura	101	127	182	671
Total	**527**	**2,757**	**2,670**	**2,958**

Revenue visibility backed by assured returns based on the CERC fixed tariffs

The tariffs for each power station of NEEPCO are determined as per the tariff regulation notified by CERC. While the 'cost-plus tariff' mechanism assures recovery of cost, there is a risk of probable non-receipt of approval for various costs incurred, upon non achievement of normative operational parameters. Tariff of NEEPCO for the period FY14-FY19 has all been approved by the regulatory authority. Also, sale of energy is governed by Power Purchase Agreements (PPA) signed by NEEPCO with the Beneficiaries (currently all the seven states of NER). However, CERC is yet to release the tariff order for Pare (110MW), Tuirial (60MW) and 101 MW Tripura gas project, which would be a key rating sensitivity as any large cost-disallowances can adversely impact the company's revenue.

Counterparty risk

NEEPCO, like other PSUs in the power sector, has SEUs as its customers and thereby is exposed to counter party credit risks. NEEPCO's customer includes all the seven states in the North-East India, with Assam Power Distribution Company Limited (APDCL), accounting for around 45% of its billings. The recovery of sale proceeds from APDCL & Meghalaya Energy Corporation Limited (MeECL) has all along been an issue due to weak financial profile of both the SEBs. However during FY18 & Q1FY19, due to recovery of old dues, there has been a significant improvement in the debtor cycle leading to improved liquidity position of the company. Nevertheless, going forward, given the weak financial health of the distribution utilities, timely collection of the proceeds would remain a key rating sensitivity.

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Project execution risk allied to Kameng Hydroelectric Project with power offtake risk for ~50% of its capacity

Kameng Hydroelectric project (600MW) have suffered substantial time and cost overrun due to geological, logistical, climatic & technological hurdles, local unrest, change in the scope of work, increase in the prices of steel, cement and other materials with change in price list from the initial approved dates followed by inadequate road accessibility in the remote areas of NER where the projects are located. The project has been further delayed from the earlier deadline of March 2018 due to unforeseen technical issues and is now expected to be operational by early Q4FY19.

The revised aggregate cost of the project is estimated around Rs.6,674 crore (Rs.6,180 crore already approved by CEA) and the company has already incurred Rs.6,503 crore till June 30, 2018, with no major cost left to be incurred except for accounting of interest cost during the construction period.

At present, ~50% of Kameng's capacity has been tied up under long term power purchase agreement. Due to substantial time and cost overrun the levellised tariff for said project has gone up and the Northern & Western States have expressed their unwillingness to offtake power from the said project which was earlier identified by the Government. However, since the project is now nearing to completion, the corporation is in active discussion with the ministry to tie-up for the balance capacity. Reallocation of such share by the Government or identifying other power off take arrangements before the project commissioning remains a key rating sensitivity.

Delay in equity infusion by GoI

The recently completed/ ongoing hydro projects (Pare, Tuirial & Kameng) have undergone substantial time and cost overrun, which therefore requires necessary approvals from the Government/ Regulator to arrive at the revised cost estimates and resultantly the absolute equity contribution figures from the GoI. Awaiting timely approval of the revised cost estimates, the equity contribution by GoI has remained intermittent and has so led to increased reliance on borrowings.

Comfortable financial risk profile

NEEPCO's revenue from sale of power witnessed a y-o-y increase of around 18% in FY18, mainly attributable to all time-high generation from operational hydroelectric projects and stabilization of operation from the newly-commissioned 101 MW Tripura gas project resulting in sharp improvement in generation levels. Also, the company has recognized one-off income of Rs 107.1 crore towards arrear income arising out of finalizing of tariff order for Agartala gas-based power plant and for 'Deemed Generation' attributable to Ranganadi Hydroelectric project. Accordingly the PAT levels improved from Rs.226.0 crore in FY17 to Rs.295.2 crore in FY18, despite of increase in the capital charges. The company has also recognition of an extraordinary income of Rs.47.9 crore towards 'Regulatory deferral Account Balance,' pertaining to compensation receivable from CERC due to revision in the limits of gratuity; which has further contributed towards improvement in PAT margins during FY18. NEEPCO has a satisfactory capital structure characterized by an overall gearing of 1.12x as on March 31, 2018 (as against 1.06x as on March 31, 2017). Despite increase in debt during the last three years (availed to fund the ongoing projects amidst delay in equity infusion by GoI), the continuous increase in the Networth backed by healthy profitability over the years, has led to satisfactory capital structure. The company's interest coverage ratio stood comfortable during FY18.

Analytical approach: Standalone

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Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy of Default Recognition
Rating Methodology - Infrastructure Sector Ratings
Financial ratios - Non Financial Sector

About the Company

North Eastern Electric Power Corporation Ltd. (NEEPCO), incorporated in the year 1976 as a Government of India undertaking (100% holding), has been set up to construct, generate, operate and maintain power stations in the North Eastern Region (NER) of the country. NEEPCO is a Miniratna Category – I company. The company is currently into generation of power mainly through Hydro Power (capacity 925 MW) and Gas based Thermal power (capacity 527 MW including 35.58 MW of Steam Turbine of Tripura Gas Based Power Plant) and Solar (capacity 5 MW) route in the NER with a total installed capacity of 1,457 MW; making NEEPCO the largest power producer in NER by catering to around 40% of the region's energy requirements. Recently, NEEPCO has successfully commissioned two of its ongoing three hydro projects namely Pare (110MW) and Tuirial (60MW). The third project (Kameng – 600MW) has been further delayed from the earlier deadline of March 2018 due to unforeseen technical issues and is now expected to be operational by early Q4FY19.

Financial Performance

(Rs. crore)

For the period ended / as at March 31,	*2016*	*2017*	*2018*
	(12m, Audited)	*(12m, Audited)*	*(12m, Audited)*
Working Results			
Net Sales	1,596.3	1,375.4	1,625.1
Total Operating income	1,605.9	1,404.5	1,632.9
PBILDT	436.8	525.2	591.6
Interest	17.2	29.9	69.0
Depreciation	119.4	160.4	183.3
PBT	435.4	360.2	418.9
PAT (after deferred tax)	308.2	226.0	295.2
Gross Cash Accruals	436.9	440.7	429.4*
Financial Position			
Equity Capital	3,452.8	3,452.8	3,452.8
Networth	5,623.3	5,702.6	5,961.8
Total Capital Employed	11,029.6	11,584.1	12,448.0
Key Ratios			
Growth			
Growth in Total Operating income (%)	4.92	-12.54	16.27
Growth in PAT (after deferred tax) (%)	6.96	-26.67	30.62
Profitability			
PBILDT/Total Op. income (%)	27.20	37.40	36.23
PAT (after deferred tax)/ Total income (%)	17.70	15.80	17.23
ROCE (%)	4.20	3.41	4.01
Solvency			
Debt Equity ratio (times)	0.99	1.00	1.08
Overall gearing ratio(times)	0.99	1.06	1.12

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For the period ended / as at March 31,	*2016*	*2017*	*2018*
	(12m, Audited)	*(12m, Audited)*	*(12m, Audited)*
Interest coverage(times)	25.35	17.56	8.57
Term debt/Gross cash accruals (years)	12.71	12.93	15.04
Total debt/Gross cash accruals (years)	12.71	13.68	15.50
Liquidity			
Current ratio (times)	2.68	1.15	1.01
Quick ratio (times)	2.47	1.01	0.92
Turnover			
Average collection period (days)	202	192	97
Average inventory (days)	61	57	39
Average creditors (days)	33	53	52
Operating cycle (days)	230	197	84

**GCA has been reduced by Rs 47.93 crore against recognition of 'Regulatory deferral Account Balance,' pertaining to compensation receivable from CERC due to revision in the limits of gratuity*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	October 01, 2014	9.60%	October 01, 2024	2500.00	CARE AA; Stable
Debentures-Non Convertible Debentures	March 25, 2015	9.15%	March 25, 2025	600.00	CARE AA; Stable
Debentures-Non Convertible Debentures	September 30, 2015	8.68%	September 30, 2030	900.00	CARE AA; Stable
Debentures-Non Convertible Debentures	March 27, 2017	7.80%	May 27, 2020	300.00	CARE AA; Stable
Debentures-Non Convertible Debentures	November 15, 2017	7.68%	November 15, 2025	500.00	CARE AA; Stable
Debentures-Non Convertible Debentures	March 06, 2018	8.75%	March 06, 2028	300.00	CARE AA; Stable
Debentures-Non Convertible Debentures	-	-	FY2029	300.00	CARE AA; Stable
Debentures-Non Convertible Debentures	-	-	FY2029	200.00	CARE AA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	2500.00	CARE AA; Stable	-	1)CARE AA; Stable (17-Oct-17)	1)CARE AA; Stable (06-Mar-17) 2)CARE AA (17-Oct-16)	1)CARE AA (06-Aug-15)
2.	Debentures-Non Convertible Debentures	LT	600.00	CARE AA; Stable	-	1)CARE AA; Stable (17-Oct-17)	1)CARE AA; Stable (06-Mar-17) 2)CARE AA (17-Oct-16)	1)CARE AA (06-Aug-15)
3.	Debentures-Non Convertible Debentures	LT	900.00	CARE AA; Stable	-	1)CARE AA; Stable (17-Oct-17)	1)CARE AA; Stable (06-Mar-17) 2)CARE AA (17-Oct-16)	1)CARE AA (06-Aug-15)
4.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA; Stable	-	1)CARE AA; Stable (17-Oct-17)	1)CARE AA; Stable (06-Mar-17)	-
5.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA; Stable	-	1)CARE AA; Stable (17-Oct-17)	-	-
6.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA; Stable	-	-	-	-

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Annexure-3: Details of rated instruments (Non-Convertible Debentures)

Particulars	NCD –I	NCD –II	NCD –III	NCD –IV	NCD –V	NCD -VI
Size of the issue	**2,500crore**	**600 crore**	**900 crore**	**300 crore**	**500 crore**	**300 crore**
Tenure	10 yrs with a moratorium of 5 yrs		15 yrs with a moratorium of 10 yrs	3 years 2 months	8 years	10 years
Rate of Interest	9.60% p.a.	9.15% p.a.	8.68% p.a.	7.80% p.a.	7.68%	8.75%
Redemption Schedule	Five equal annual installments of Rs.500 crore from Oct. 2020 onwards	Five equal annual installments of Rs.120 crore from Mar. 2021 onwards	Five equal annual installments of Rs.180 crore from Sep. 2026 onwards	Bullet repayment on maturity (May 2020)	Two equal installments of Rs.250 crore in May & Nov. 2025	Four equal half yearly installments of Rs.75 crore from Sep 2026 onwards

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