Ratings

CRISIL
An S&P Global Company

Rating Rationale

May 11, 2021 | Mumbai

North Eastern Electric Power Corporation Limited

Rating Reaffirmed

Rating Action

Rs.500 Crore Bond	**CRISIL AA/Positive (Reaffirmed)**
Rs.900 Crore Non Convertible Debentures	**CRISIL AA/Positive (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale
CRISIL Ratings has reaffirmed its 'CRISIL AA/Positive' rating on the debt instruments of North Eastern Electric Power Corporation Limited (NEEPCO).

The continuation of positive outlook reflects the belief that the financial risk profile of the company will improve with ramp-up and full year of operations of the 600 MW hydroelectric plant in Kameng (started commercial operations in fiscal 2021) and expected equity infusion by NTPC Ltd (NTPC; 'CRISIL AAA/FAAA/Stable/CRISIL A1+') pertaining to Pare (110 MW), Tuirial (60 MW) and Kameng projects. The infusion will improve cash flows and enhance the capital structure, resulting in decline in gearing to around 1 time as on March 31, 2022 (1.25 times as on March 31, 2021).

The rating continues to factor in the company's strategic importance to, and strong financial support from, NTPC. The rating also reflects healthy financial risk profile and stable cash flow from power plants, with operational capacity of 1,857 MW and expected improvement after completion of renovation and modernisation of the Kopili hydroelectric plant (200 MW). These strengths are partially offset by exposure to delay in renovation and modernisation of the Kopili hydroelectric plant and weak credit risk profiles of customers.

Analytical Approach
CRISIL Ratings continues to factor in support to NEEPCO from its parent, NTPC. CRISIL Ratings believes NEEPCO will receive operational and managerial support from NTPC, and during exigencies, receive distress support for timely repayment of debt obligation, considering NTPC's 100% ownership in the entity.

Key Rating Drivers & Detailed Description
Strengths

- **Strategic importance to, and support from, NTPC**
  NTPC has experience in operating and maintaining power stations at par with the best-run utilities in the world, with respect to availability, reliability and efficiency. It is a dominant player in the domestic power sector. It also has a robust financial profile and track record of providing timely support to its subsidiaries. NEEPCO, a wholly owned subsidiary of NTPC, offers renewable portfolio of around 2 GW to NTPC. NEEPCO caters to over 40% of the total power requirement of the seven north-east states, all of which have been granted special category status by the government. NTPC also brings synergies in terms of superior project execution capabilities and faster realisation of receivables, driven by strong relationships in the power sector. The parent will continue to provide financial or distress support to the company. In fiscal 2022, a part of the pending equity commitments of government of India (GoI) of around Rs 1,800 crore are expected to be provided by NTPC, which will be a key monitorable.

- **Stable cash flow from operational portfolio**
  NEEPCO has a stable operational portfolio of 1,857 MW (increased from 1,257 MW post commissioning of the Kameng plant in fiscal 2021); the Kopili hydro power plant (200 MW) is under renovation from October 2019 and will be unavailable over the medium term. The operating plants provide high cash flow stability, driven by long track record of operating at normative levels; additionally, regulated tariff structure allows recovery of the entire cost, including fixed return on equity based on approved capital cost, subject to achievement of normative parameters notified by the Central Electricity Regulatory Commission (CERC).

  While Kameng was commissioned in fiscal 2021, the completed project cost is yet to be vetted by Central Electricity Authority of India (CEA). The company will be filing for approval of the final implementation cost, estimated at around Rs 8,200 crore (CEA vetted cost is Rs 6,180 crore) followed by the tariff petition. Furthermore, only 255 MW of the capacity is tied-up through long-term power purchase agreements (PPAs) while the remaining energy is sold on merchant basis. With the last unit of Kameng commissioned in February 2021, the company is now pursuing to tie up the un-tied capacity. Nevertheless, the approval of expected project cost by CEA along with offtake arrangements for the balance capacity of Kameng will be key monitorables.

- **Healthy financial risk profile**

Adjusted networth is estimated at more than Rs 6,300 crore as on March 31, 2021. Debt has increased over the years, and was Rs 7,900 crore as on March 31, 2021 (Rs 5,500 crore as on March 31, 2016). Tuirial and Pare projects were commissioned in January 2018 and May 2018, respectively, and Kameng was operationalised in fiscal 2021, leading to increase in cash accrual to over Rs 650 crore in fiscal 2021 (Rs 370 crore in fiscal 2016). With full-year cash flow from Kameng being available in fiscal 2022, gearing and interest coverage are expected at around 1 time and 3 times, respectively (estimated at 1.25 times as on March 31, 2021, and 2.5 times in fiscal 2021). However, equity infusion amounting to Rs 1,800 crore is pending and precludes further improvement in the debt service coverage ratio. Sizeable debt obligation in fiscals 2022 and 2023 will be offset by the company's ability to refinance debt and expected equity infusion from NTPC. Therefore, equity infusion will be a key monitorable.

Weaknesses

- **Exposure to delay in renovation and modernisation of Kopili hydroelectric plant**
  With the commissioning of Kameng, the company does not have any under-construction project. Although it is not pursuing any new project, it is undertaking renovation and modernisation for one its oldest plants, Kopili, which was non-operational since October 2019 owing to rupture in penstock. The total cost of the project is estimated at Rs 1,100 crore, and is expected to achieve commercial operations by December 2022. The entire capacity of Kopili is tied up, and the costs will be recovered through the tariff. However, as with other hydro projects, risks associated with delays because of geological challenges, issues with contractors and heavy rains persist. However, any time or cost overrun in the project will be a key monitorable.

- **Weak credit risk profiles of counterparties**
  The credit quality of customers, distribution companies (discoms) in north-east India, is weak, as reflected in receivables (excluding unbilled revenue) of Rs 662 crore (114 days) as on March 31, 2020. Around 54% of the receivables pertain to the Meghalaya discom. The company received Rs 325 crore from the *Atma Nirbhar* package announced by GoI in fiscal 2021. Consequently, receivables fell to Rs 577 crore (85 days) as on March 31, 2021 and will further improve with realisations through the subsequent tranche of *Atma Nirbhar* in fiscal 2022. However, realisations may be adversely impacted in the current fiscal on account of the second wave of the Covid-19 pandemic. Nevertheless, the company draws comfort from the presence of a payment security mechanism, through letter of credit, and NTPC's parentage. Timely receipt and regularisation of dues, especially from the Meghalaya discom, will be a key monitorable.

Liquidity: Strong

Cash accrual is expected to be healthy at around Rs 900 crore in fiscal 2022. Bank lines were utilised 42% on average (excluding commercial papers; sanctioned bank limit of Rs 1,050 crore as on March 31, 2021) during the 12 months through March 2021. Though debt obligation is expected to be sizeable in fiscals 2022 and 2023, the company has the ability to refinance the debt. Equity infusion by the parent during fiscal 2022 will also support liquidity.

Outlook: Positive

CRISIL Ratings believes NEEPCO's operating performance and financial risk profile will improve over the medium term with ramp-up of the Kameng project and equity infusion by NTPC. The business risk profile will remain strong, backed by stable cash accrual owing to a regulated tariff structure.

Rating Sensitivity Factors

Upward factors

- Higher-than-expected ramp-up of Kameng plant, tie-up of the balance capacity and approval of more than 90% of the project cost, leading to increase in cash accrual
- Significant equity infusion by the parent, leading to gearing (excluding cash) below 1 time as on March 31, 2022

Downward factors

- Any adverse change in the support philosophy or credit risk profile of the parent
- Weakening in operational performance or delay in receipt of dues from counterparties, adversely impacting performance
- Delay in refinancing of debt obligation for fiscals 2022 and 2023

About the Company

Incorporated in 1976, NEEPCO has 12 power stations, and is the largest supplier of power to north-east India. The company is fully owned by NTPC, and has generation capacity of 2,057 MW.

Key Financial Indicators*

As on/for the period ended March 31	Unit	2021**	2020
Operating Income	Rs.Crore	2,554	2,176
Profit after tax (PAT)	Rs.Crore	48	166
PAT margin	%	1.9	7.6
Adjusted debt/adjusted networth	Times	1.25	1.27
Adjusted interest coverage	Times	2.5	4.2

**As per CRISIL Ratings' analytical adjustment*
***Provisional*

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity levels	Rating assigned with outlook
INE636F07209	Non-convertible debentures	Oct-2015	8.68	Oct-2030	900	Simple	CRISIL AA/Positive
INE636F07266	Bond	Jun-2020	7.55	Jun-2028	500	Simple	CRISIL AA/Positive

Annexure - Rating History for last 3 Years

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Bond	LT	500.0	CRISIL AA/Positive		--	22-05-20	CRISIL AA/Positive		--		--	--
Non Convertible Debentures	LT	900.0	CRISIL AA/Positive		--	22-05-20	CRISIL AA/Positive	29-11-19	CRISIL AA/Watch Developing	21-12-18	CRISIL AA/Stable	CRISIL AA/Stable
			--		--	24-02-20	CRISIL AA/Watch Developing		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
Rating Criteria for Power Generation Utilities
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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About CRISIL Ratings Limited

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

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About CRISIL Limited

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