North Eastern Electric Power Corporation Limited

September 17, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debenture Issue	2,500 (Rupees Two Thousand Five Hundred Only)	**CARE AA; Negative (Double A ; Outlook: Negative)**	Rating Reaffirmed; Outlook revised from Stable
Non-Convertible Debenture Issue	600 (Rupees Six Hundred Only)	**CARE AA; Negative (Double A ; Outlook: Negative)**	Rating Reaffirmed; Outlook revised from Stable
Non-Convertible Debenture Issue	900 (Rupees Nine Hundred Only)	**CARE AA; Negative (Double A ; Outlook: Negative)**	Rating Reaffirmed; Outlook revised from Stable
Non-Convertible Debenture Issue	300 (Rupees Three Hundred Only)	**CARE AA; Negative (Double A ; Outlook: Negative)**	Rating Reaffirmed; Outlook revised from Stable
Non-Convertible Debenture Issue	500 (Rupees Five Hundred Only)	**CARE AA; Negative (Double A ; Outlook: Negative)**	Rating Reaffirmed; Outlook revised from Stable
Non-Convertible Debenture Issue	300 (Rupees Three Hundred Only)	**CARE AA; Negative (Double A ; Outlook: Negative)**	Rating Reaffirmed; Outlook revised from Stable
Non-Convertible Debenture Issue	300 (Rupees Three Hundred Only)	**CARE AA; Negative (Double A ; Outlook: Negative)**	Rating Reaffirmed; Outlook revised from Stable
Proposed Non-Convertible Debenture Issue	200 (Rupees Two Hundred Only)	**CARE AA; Negative (Double A ; Outlook: Negative)**	Assigned

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), strategic importance of NEEPCO to India's power sector in North-Eastern Region (NER), NEEPCO's established track record in implementing power projects in NER and satisfactory operational efficiency of its power stations, revenue visibility backed by assured returns based on the Central Electricity Regulatory Commission (CERC) fixed tariffs and satisfactory financial risk profile.

The rating is however constrained by residual risks attached to further delay in implementation of the Kameng Hydroelectric project (600MW) with substantial cost escalation coupled with power off take risk for around 58% of its capacity, under recovery of capacity charges by the gas based power plants due to short supply of gas, delay in receipt of equity from GoI for the ongoing/ completed Hydroelectric Projects leading to increased reliance on borrowings and counter party credit risks mainly from Meghalaya Energy Corporation Limited (MeECL).

Ability of the company to timely commission and operate Kameng project (600 MW) and derive benefits from the same, approval of escalated costs by Central Electricity Authority (CEA) and subsequent tariff approval by CERC for Kameng project, any large cost-disallowances for Pare HEP in pending tariff order by CERC, timely receipt of Rs.309 crore equity from GoI towards Pare & Tuirial projects within FY20, operate its gas based power plants above the normative parameters and timely receipt of payments from its counter parties along with recovery of old dues shall remain key rating sensitivities.

Outlook: Negative

The outlook has been revised to 'Negative' from 'Stable' in view of time and cost overrun of the Kameng project along with delay in equity infusion by GoI and increase in overall receivables including old dues outstanding from MeECL. The outlook may be revised to 'Stable' on the successful completion of the Kameng project as per the revised timelines with no further cost overrun, approval of escalated cost by CEA and receipt of equity from GoI towards Pare & Tuirial projects in FY20.

Detailed description of the key rating drivers

Key Rating Strengths

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. During FY19, GoI infused Rs.61 crore towards the completed projects of Tuirial and Pare Hydro Power Plants. Further, GoI had also provided loan of Rs.291 crore for the Tuirial Hydro Power Plant at the interest rate of 1%.

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

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 1995-99. The said power plants are the oldest (around 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. In 2018, NEEPCO commissioned two new hydroelectric power plants namely Tuirial hydroelectric project (60 MW) and Pare hydroelectric project (110 MW). The said plants are operational with satisfactory levels of power generation.

Strategic importance of NEEPCO to India's power sector in NER

NEEPCO is into generation of power through Hydro and Thermal power in the NER with a total installed capacity of 1,457 MW (as on Aug'19); making NEEPCO the largest power producer in NER by catering to ~38% of the installed capacity of NER Grid.

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 Hydroelectric projects remained stable in FY19 compared to FY18. The actual generation remained stable at 3,125 MU in FY19 vis-à-vis 3,124 MU in FY18. However, in Q1FY20, the same witnessed a slight decline to 792 MU compared to 808 MU in Q1FY19 due to delayed monsoon resulting in less availability of reservoir water.

Further, being the 1st year of operation of the Tuirial and Pare hydroelectric plants, the Tuirial plant generated 168 MU power against an energy design of 251 MU while the Pare plant generated 347 MU power against an energy design of 506 MU (from June 2018 to March 2019). In Q1FY20, the Pare plant generated 112 MU compared to 71 MU in Q1FY19.

The performance of NEEPCO's gas based power plants in terms of generation levels have remained satisfactory over the years with an average PLF of around 64% in FY19 (64% in FY18) and 67% in Q1FY20 (58% in Q1FY19). However, the plants have consistently operated below normative parameters mainly PAF as defined by CERC due to short supply of gas leading to under recovery of capacity charges and consequently under-recovery of revenues.

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. The tariff is determined by referring to Annual Fixed Charges (AFC), which comprise of interest on loan, depreciation, interest on working capital, operation & maintenance expenses (O&M) and Return on Equity (ROE). 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. Also, sale of energy is governed by Bulk Power Supply Agreements (BPSA)/ Power Purchase Agreements (PPA) signed by NEEPCO with the Beneficiaries (currently all the seven states of NER). The company received the tariff order till FY19 for its newly set up Tuirial Hydropower plant in October 2018.

CERC released the tariff order for Tuirial Hydropower Plant till FY19 in October 2018 and for Tripura Gas based plant till FY19 in April 2019. The truing-up for the hydropower plants of NEEPCO has been done till FY14. Since CERC issues multi-year tariff orders (FY15-FY19) for the power plants of NEEPCO, the filing for truing-up by NEEPCO shall be done in FY20.

Further, CERC is yet to release the tariff order for Pare HEP and any large cost-disallowances can adversely impact the company's revenue going forward.

Also, as per the revised CERC regulations for 2019-2024, the Normative Annual Plant Availability Factor (NAPAF) for Kopili – 1, Khandong and Doyang hydroelectric plants have been reduced whereas the NAPAF for Ranganadi HEP has been increased. Further, the Station Heat Rate (SHR) for Assam and Agartala gas based power plants have been increased. With regard to O&M expenses, the normative O&M has been increased for all the hydro based power plants of the company. Overall on a net basis, the revision done in CERC regulations shall be beneficial for NEEPCO.

Satisfactory financial risk profile

NEEPCO's revenue from sale of power witnessed a growth of 23% y-o-y in FY19 compared to FY18 on account of recognition of earlier year sales arising out of finalisation of tariff in FY19 amounting to Rs.86.75 crore, increased sale of power generated from Tuirial and Pare Power plants having higher tariffs of Rs.4.47/unit and Rs.5/unit respectively as compared to the company's average tariff of Rs.3.53/unit in FY19.

The PBILDT witnessed an increase from Rs.607 crore in FY18 to Rs.752 crore in FY19 on account of increase in revenue from power sales. The finance cost witnessed an increase from Rs.69 crore in FY18 to Rs.157 crore in FY19 on account of completion of Pare hydro project in May 2018 leading to booking of interest for 10 months in P&L account (earlier capitalized) and Tuirial Hydro Project completed in Jan 2018 leading to booking of interest cost in P&L account for the entire year in FY19 (booking of interest in P&L account only for 2 months in FY18). As a result, PAT witnessed a decline from Rs.275 crore in FY18 to Rs.214 crore in FY19 (despite recognition of regulatory income amounting to Rs.162 crore in FY19 vis-à-vis Rs.36 crore in FY18). Increase in regulatory income is on account of i) Higher rate of depreciation being allowed as per CERC regulation for Tuirial HEP for first 12 year of operation vis-à-vis depreciation recoverable through tariff & ii) deferred tax adjustment.

GCA improved and remained comfortable at Rs.557 crore in FY19 vis-à-vis a debt repayment obligation of Rs.348.2 crore (including short term loan of Rs.200 crore). The current ratio of the company stood below unity at 0.86x as on March 31, 2019.

The company has a satisfactory capital structure with a debt equity ratio of 1.09x as on March 31, 2019 (1.06x as on March 31, 2018). The overall gearing ratio though deteriorated marginally, continued to remain satisfactory at 1.14x as on March 31, 2019 vis-à-vis 1.10x as on March 31, 2018 on account of increase in total debt to meet the ongoing project requirements. The company's interest coverage ratio deteriorated from 8.75x in FY18 to 4.78x in FY19 on account of significant increase in interest cost in FY19 (due to completion of Pare & Tuirial projects leading to booking of interest cost in P&L account). The TDGCA of the company witnessed an improvement from 15.71x in FY18 to 12.68x in FY19 on account of increase in gross cash accruals.

Key Rating Weaknesses

Counterparty risk

NEEPCO, like other PSUs in the power sector, has State Power Utilities (SPUs) as its customers and thereby is exposed to counter-party risks. NEEPCO's customer includes all the seven states in the North-East India, with Assam Power Distribution Company Limited (APDCL), accounting for around 40% of its billings for FY19 (43% in FY18). The recovery of sale proceeds from MeECL has all along been an issue due to weak financial profile of the SPUs.

The old dues (more than 45 days) stood at Rs.358.20 crore from MeECL as on June 30, 2019. NEEPCO has entered into an agreement with MeECL for establishment of 2 escrow accounts for a period of 3 months ending September 30, 2019 with ceiling of Rs.25 crore and Rs.5 crore for clearing NEEPCO's monthly energy bills and old dues respectively. Currently, MeECL is availing power from NEEPCO by making time to time advance payments since August 01, 2019.

The overall debtor's receivable days however remained stable with slight improvement from 100 days in FY18 to 98 days in FY19. Going forward, given the weak financial health of the distribution utilities, timely collection of the proceeds would remain a key rating sensitivity.

Residual Risks attached to further delay in implementation of Kameng HEP

Kameng Hydroelectric project (600 MW) is under the Hon'ble Prime Minister's PRAGATI Program. The plant was ready to be commissioned in March 2018, however during trial run some technical issue (temporary setback in the high pressure zone of Water Conductor System) had cropped in resulting in expected delay in plant commissioning to March 2019 and further to October 2019 for the 1st two units (300 MW) and April 2020 for the last 2 units (300 MW).

The revised estimated cost now stands at Rs.7500 crore which is Rs.826 crore more than the earlier estimated cost. Currently, CEA has approved project cost of Rs.6180 crore. The approval of escalated cost by CEA and subsequent tariff approval by CERC for Kameng project remains key rating monitorable.

At present, ~42% of Kameng's capacity has been tied up under long term power purchase agreement. NEEPCO has requested MoP for de-allocation of the shares of Maharashtra, Gujrat, Rajasthan, Delhi, Punjab, Chandigarh, Madhya Pradesh, Mizoram, Manipur and Tripura which accounts for a total of 255 MW and declare this de-allocated capacity plus 90 MW unallocated share of NER states (i.e.345 MW) as available for merchant sale to enable trading at the power exchanges and/or entering into bilateral agreements with willing customers. Reallocation of such share by the Government before the project commissioning as well as signing of the PPAs 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 led to increased reliance on borrowings. Out of the budgetary allocation of Rs.267.5 crore, NEEPCO received Rs.61 crore in FY19 against the completed projects of Tuirial and Pare hydro power plants since the same is pending for approval in Public Investment Board (PIB). Further, Rs.309 crore equity infusion for the newly-commissioned projects – Pare and Tuirial has been approved by Revised Cost Committee and pending for PIB approval within FY20. However, pending receipt of equity from GoI and pending cost approvals, the company has temporarily funded the project expenses partly out of internal accruals and partly through debt. Further, CERC is yet to release the tariff order for Pare and any large cost-disallowances can adversely impact the company's revenue.

Liquidity Analysis - Adequate

The liquidity position of NEEPCO is adequate with the company having a debt repayment obligation of Rs.251 crore in FY20 (including repayment of short term loan of Rs.100 crore) against which the company is expected to generate

adequate cash flows to meet the debt repayment obligation for FY20. The company has a cash and cash equivalents of Rs.69 crore as on March 31, 2019. The company earned a GCA of Rs.557 crore in FY19 against a debt repayment obligation of Rs.348 crore. The company got sanction of short term loan of Rs.500 crore in Q4FY19 (out of which Rs.200 crore remains undrawn as on July 31, 2019), medium term loan of Rs.500 crore (sanctioned but undrawn as on date), bond raising programme of Rs.200 crore in FY20 and undrawn working capital lines of Rs.205 crore as on June 30, 2019.
Further, GoI has budgeted an equity infusion of Rs.684 crore in FY20 for its share of capex funding for Kameng, Pare & Tuirial projects out of which the company is expecting to receive Rs.309 crore in FY20.
This shall support the company to meet its debt repayment obligation for FY20 which stands at around Rs.251 crore (including repayment of short term loan). This apart, the company has a fund raising programme of Rs.1,750 crore in FY21 (approved by the board but financial tie-up yet to happen) which shall support it to meet its debt repayment obligation of Rs.1,573 crore (including repayment of short and medium term loans) for FY21.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings]
[CARE's Policy of Default Recognition]
[Rating Methodology - Infrastructure Sector Ratings]
[Financial ratios – Non-Financial Sector]

About the Company
NEEPCO, incorporated in the year 1976 as a GoI undertaking (100% holding), had been set up to construct, generate, operate and maintain power stations in the NER of the country. NEEPCO is a Miniratna Category – I company. The company is currently engaged into generation of power in the NER with a total installed capacity of 1,457 MW; making NEEPCO the largest power producer in NER, catering to around 40% of the region's energy requirements. Of the total installed capacities, 925 MW (63.5%) pertains to Hydro based capacities with seven operational capacities instituted across the states of Assam (4 capacities), Nagaland (1 capacity) and Arunachal Pradesh (2 capacity). The balance 527 MW (36.2%) pertains to its gas based capacities with three operational capacities, one in Assam and two in Tripura (Agartala and Monarchak) followed by solar based power plant of 5MW installed in Tripura.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Operating Income	1646.26	2051.60
PBILDT	606.94	751.75
PAT	274.66	213.94
Overall gearing (times)	1.10	1.14
Interest coverage (times)	8.75	4.78

A: Audited
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Available
Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of 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; Negative
Debentures-Non Convertible Debentures	March 25, 2015	9.15%	March 25, 2025	600.00	CARE AA; Negative
Debentures-Non Convertible Debentures	September 30, 2015	8.68%	September 30, 2030	900.00	CARE AA; Negative
Debentures-Non Convertible Debentures	March 27, 2017	7.80%	May 27, 2020	300.00	CARE AA; Negative
Debentures-Non Convertible Debentures	September 30, 2018	8.75%	March 25, 2028	300.00	CARE AA; Negative
Debentures-Non Convertible Debentures	November 15, 2017	7.68%	November 15, 2025	500.00	CARE AA; Negative
Debentures-Non	March 06, 2018	8.75%	March 6, 2028	300.00	CARE AA;

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Convertible Debentures					Negative
Debentures- Proposed Non Convertible Debentures	-	-	-	200.00	CARE AA; Negative

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	2500.00	CARE AA; Negative	-	1)CARE AA; Stable (21-Sep-18)	1)CARE AA; Stable (17-Oct-17)	1)CARE AA; Stable (06-Mar-17) 2)CARE AA (17-Oct-16
2.	Debentures-Non Convertible Debentures	LT	600.00	CARE AA; Negative	-	1)CARE AA; Stable (21-Sep-18)	1)CARE AA; Stable (17-Oct-17)	1)CARE AA; Stable (06-Mar-17) 2)CARE AA (17-Oct-16)
3.	Debentures-Non Convertible Debentures	LT	900.00	CARE AA; Negative	-	1)CARE AA; Stable (21-Sep-18)	1)CARE AA; Stable (17-Oct-17)	1)CARE AA; Stable (06-Mar-17) 2)CARE AA (17-Oct-16)
4.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA; Negative	-	1)CARE AA; Stable (21-Sep-18)	1)CARE AA; Stable (17-Oct-17)	1)CARE AA; Stable (06-Mar-17)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (13-Nov-18) 2)CARE AA; Stable (21-Sep-18)	1)CARE AA; Stable (17-Oct-17)	-
6.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA; Negative	-	1)CARE AA; Stable (13-Nov-18) 2)CARE AA; Stable (21-Sep-18)	-	-
7.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Negative	-	1)CARE AA (21-Sep-18)	-	-
8.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA; Negative	-	1)CARE AA; Stable (21-Sep-18)	-	-
9.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA; Negative	-	-	-	-

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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