

NHPC Limited

Update

Ratings

Foreign Currency

Long-Term IDR BBB-

Local Currency

Long-Term IDR BBB-

National

Long-Term Rating FitchAAA(ind)

Short-Term Rating FitchF1+(ind)

INR20bn long-term bond FitchAAA(ind)

Programme

INR20bn bank loan FitchAAA(ind)

programme

INR1.35bn working-capital FitchAAA(ind)/

bank loans F1+(ind)

Outlooks

Long-Term Foreign-Currency IDR Stable

Long-Term Local-Currency IDR Stable

National Long-Term Rating Stable

Financial Data

NHPC Limited

	31 Mar 10	31 Mar 09
Revenue (INRm)	44,108	34,767
Operating EBITDA (INRm)	33,136	23,165
Op. EBITDA margin (%)	75.1	66.6
Total adjusted net debt/op. EBITDA (x)	2.6	5.3
Operating EBITDA/gross interest expense(x)	4.5	3.0

Key Rating Drivers

Largest Hydropower Generator: NHPC Limited's (NHPC) ratings reflect its standalone credit profile which is supported by its established position as the largest hydropower generator in India, and the favourable regulatory environment in which it operates. NHPC's existing generating stations sell electricity under long-term power purchase agreements. The rising power deficits in India and NHPC's low generation costs further reduce off-take volume risks.

Favourable Tariff Regime: NHPC's tariffs for existing power plants are based on a cost-plus regime, and include a 15.5% post-tax equity return. NHPC's new hydro plants have been exempt from a newly introduced tariff-based competitive bidding regime up to December 2015, in view of complexities and construction risks involved.

Strong Liquidity, Efficient Operations: NHPC's ratings also benefit from its healthy cash balances, comfortable debt-maturity profile, efficient management of receivables from weak state power utility (SPU) counterparties, and its consistent track record of meeting the operating cost and performance norms set by the regulator.

Executing Large Capex Programme: Credit strengths are moderated by a significant capex programme, counterparty risk, and moderate credit metrics. The company's 4,622 megawatt (MW), INR260bn capex plan comprises 11 projects, located mostly in the topographically challenging Himalayan region, and involves time and cost overrun risks.

What Could Trigger a Rating Action

Majority State Ownership: NHPC's current ratings are not constrained by the sovereign ('BBB-/Stable). However, given 86% state ownership, NHPC's ratings will be capped at the ratings of India.

Implied Government Support: If the standalone IDRs of NHPC were to fall below those of the sovereign — due to an upgrade of the sovereign or downgrade of NHPC's standalone ratings — the agency could rate NHPC one notch higher than its standalone IDRs, reflecting implied government support based on its strategic importance to the state.

Counterparties, Capex Key Sensitivities: NHPC's standalone credit profile could deteriorate should there be a significant build-up of dues from its customers, or because of any unfavourable regulatory changes. Positive factors for the standalone credit profile would be a substantial improvement in the financial position of NHPC's main counterparties (the SPUs) and/or on-time and largely within-budget completion of its large capex programme which leads to strong revenue accretion.

Liquidity and Debt Structure

Strong Liquidity: At financial year-end 2010 (FYE10, March 2010), NHPC had INR76.9bn of cash and equivalents. Working-capital requirements are low, as there are no major raw material costs. NHPC has fund-based lines of INR250m, but these are used sparingly. NHPC funds its projects through long-term debt usually raised from domestic banks and financial institutions. NHPC will continue to be free cash flow (FCF) negative in the medium- to long-term, due to its large capex programme.

Related Research

[2011 Outlook: Indian Power \(January 2011\)](#)

[2011 Outlook: Asian Power and Utilities \(November 2010\)](#)

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Peer Group

Issuer	Country
A-	
China Yangtze Power Company Limited	China
BBB-	
NTPC Limited	India
BB+	
Huaneng Power International	China
BB	
China Power International Development Limited	China
Huadian Power International Corporation Limited	China

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
18 Jan 11	BBB-	Stable
14 Jun 10	BBB-	Stable
17 Dec 09	BBB-	Stable
15 Jul 08	BBB-	Stable
26 Oct 07	BBB-	Stable
1 Aug 06	BBB-	Stable
31 Mar 06	BB+	Stable
27 Feb 06	BB+	Stable
20 Dec 04	BB+	Stable
22 Jan 04	BB+	Stable
12 Aug 03	BB	Stable

Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

Rating factor	Status ^a	Trend
Operations	Strong	Neutral
Market position	Strong	Neutral
Finances	Strong	Neutral
Governance	Average	Neutral
Geography	Average	Neutral

^a Relative to Peer Group
Source: Fitch

Related Criteria

[Corporate Rating Methodology \(August 2011\)](#)
[Parent and Subsidiary Rating Linkage Criteria Report \(August 2011\)](#)

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

Key operating risks in the electricity generation business originate from exposure to electricity demand, the mechanism of setting the wholesale tariffs, and competitiveness of tariffs. India's power producers, such as NHPC, benefit from very low demand risks; a stable and transparent regulatory regime which follows a cost-plus mechanism; and price competitiveness against merchant power producers. In contrast, the ad-hoc and non-transparent nature of tariffs adjustment for the Chinese independent power producers (IPPs) is a key credit concern. Furthermore, almost all the peer group has embarked on large capex plans which are prone to execution risks.

Financial Risks

Financial risks for the large IPPs in the region emanate from substantial debt-funded capex plans that lead to negative FCF. However, the financial profile of Indian IPPs benefits from stable cash flow generation and ready access to bank loans.

Peer Group Analysis

	NTPC 'BBB-/Stable'	NHPC 'BBB-/Stable'	HNP 'BB+/Stable'	CYPCL 'A-/Stable'	CPIDL 'BB'/Stable'	HDPI 'BB'/Stable'
Figures as of	Mar 2011	Mar 2010	Dec 2010	Dec2010	Dec 2010	Dec 2010
Capacity (gigawatts)	34.2 (March 2011)	5 (Jan 2011)	54.4 (Dec 2010)	33GW (Dec2010)	8.4 (Dec 2010)	27.4 (Dec 2010)
Revenue (USDm)	12,177	980	16,092	3,217	2,227	6,972
Operating EBITDA (USDm)	3,133	736	2,996	2,729	395	266
Operating EBITDA margin (%)	25.7	75	24.4	84.8	17.8	3.8
Net debt/op. EBITDA (x)	1.9	2.6	7.2	4.7	8.3	10.5
Op. EBITDA/gross interest expense	2.4	4.5	3.1	4.3	2.4	2.2

Source: Fitch, companies; USD1.0 = INR45; USD1.0 = CNY6.8

Key Credit Characteristics

Fitch's approach to rating large IPPs involves differentiation on the basis of industry position, operating efficiencies, sensitivity to fuel prices, regulatory regime, carbon intensity, linkages with the state, and financial profile/policies.

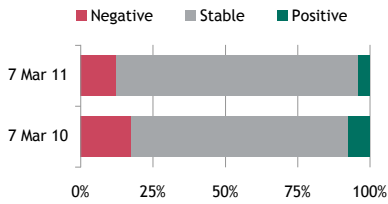
Overview of Companies

- **NTPC Limited** (NTPC, 'BBB-/Stable') — the largest thermal-based Indian IPP (34 gigawatts (GW)). NTPC is governed under the same regulation as NHPC.
- **China Yangtze Power Company Limited** (CYPCL, 'A-/Stable') — 100% hydro-based Chinese IPP (33GW).
- **Huaneng Power International** (HNP, 'BB+/Stable') — the largest of the Chinese IPPs (54GW). Modern thermal assets are well dispersed across high-GDP provinces.
- **China Power International Development Limited** (CPIDL, 'BB'/Stable) — one of the smallest state-owned Chinese IPPs. Thermal assets are clustered in the poorer Anhui and Henan regions, but one-third of capacity is hydro power. A sister company invests in wind, while parent China Power Investment Corporation is prioritising nuclear.
- **Huadian Power International Corporation Limited** (HDPI, 'BB'/Stable) — an IPP in Shandong (27GW, parent 75GW). HDPI is heavily concentrated in Shandong and heavily dependent upon coal, but lacks strong coal connections.

NHPC Limited — Utilities Median — Emerging BBB Cat Median — Source: Company data; Fitch

Distribution of Sector Outlooks

Directional Outlooks and Rating Watches



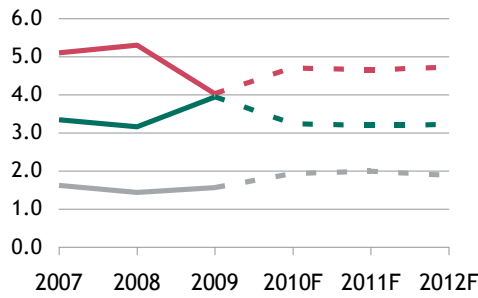
Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

- a 3% annual increase in tariffs;
- projects funded in a debt/equity ratio of 70:30;
- capex of INR40bn in FY11, increasing by INR3bn annually thereafter;
- no additions to working capital.

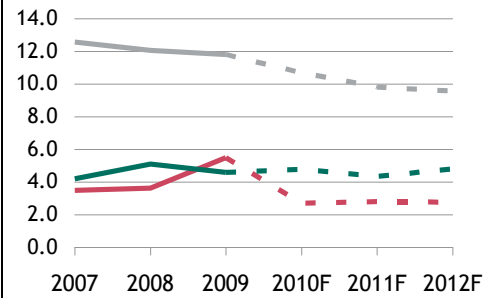
Definitions

- **Leverage:** Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- **Interest cover:** FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends.
- **FCF/revenue:** FCF after dividends divided by revenue.
- **FFO profitability:** FFO divided by revenue.
- For further discussion of the interpretation of the tables and graphs in this report, see Fitch's "Interpreting the New EMEA and Asia-Pacific Credit Update Format", dated 25 November 2009 and available at www.fitchratings.com.

Leverage including Fitch expectations



Interest Cover including Fitch expectations

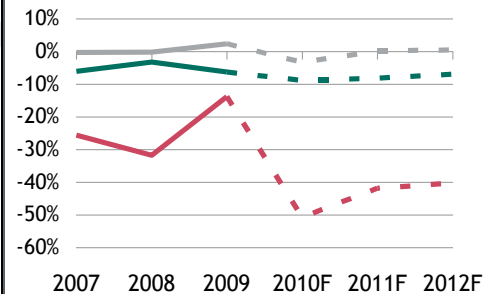


Debt Structure and Liquidity at 31 March 2010

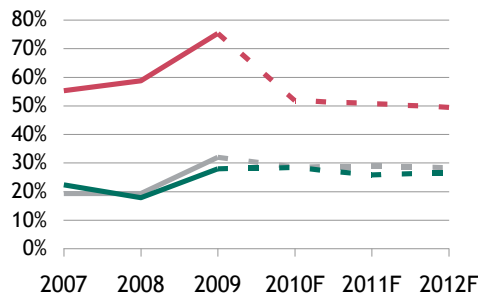
Debt structure	(INRbn)
Secured	134.4
Unsecured	29.1
Total debt	163.5
Cash and equivalents	76.8

Source: Fitch

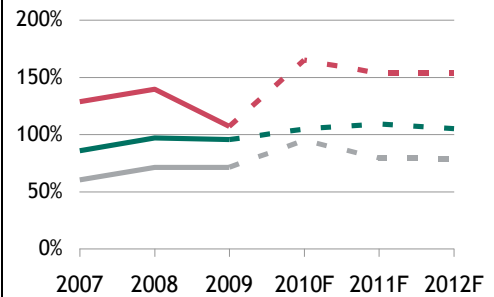
FCF/Revenues including Fitch expectations



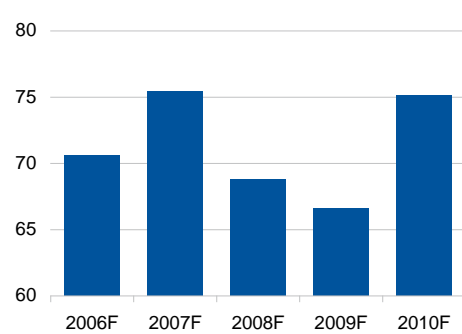
FFO Profitability including Fitch expectations



Capex/CFO including Fitch expectations



NHPC's EBITDA Margins



NHPC Annual Generation

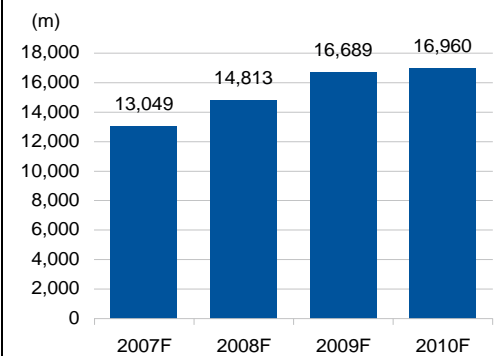


Figure 1
Financial Summary

(INRm)	Original				
	31 Mar 10	31 Mar 09	31 Mar 08	31 Mar 07	31 Mar 06
Profitability					
Revenue	44,108	34,767	32,513	26,314	19,985
Missing	-	-	-	-	-
Operating EBIT	20,309	16,725	16,898	16,279	10,808
Operating EBITDA	33,136	23,165	22,353	19,846	14,105
Operating EBITDA margin (%)	75.12	66.63	68.75	75.42	70.58
FFO return on adjusted capital (%)	9.43	7.78	7.6	7.93	6.88
Free cash flow margin (%)	-13.85	-31.81	-25.63	-60.78	-55.82
Coverages (x)					
FFO gross interest coverage	5.49	3.63	3.48	8.05	5.54
Operating EBITDA/gross interest expense	4.48	2.99	3.09	6.74	4.21
FFO fixed charge coverage (inc. rents)	5.49	3.63	3.48	8.05	5.54
FCF debt-service coverage	0.17	-0.19	-0.15	-4.43	-2.33
Cash flow from operations/capital expenditures	0.93	0.72	0.78	0.54	0.64
Debt leverage of cash flow (x)					
Total debt with equity credit/operating EBITDA	4.93	6.45	5.75	5.28	6.72
Total debt less unrestricted cash/operating EBITDA	2.61	5.32	4.7	4.87	6.09
Debt leverage including rentals (x)					
Rental expense	0	0	0	0	0
Gross lease adjusted debt/operating EBITDAR	4.93	6.45	5.75	5.28	6.72
Gross lease adjusted debt/FFO + int + rentals	4.03	5.3	5.1	4.41	5.11
FCF/lease adjusted debt (%)	-3.74	-7.41	-6.48	-15.27	-11.77
Pension and lease adjusted debt/ebitdar + pension cost	4.93	6.45	5.75	5.28	6.72
Liquidity					
(Free cash flow+available cash+committed facilities)/(st debt + interest) (%)	957.36	85.15	209.1	-265.85	-66.5
Balance sheet summary					
Cash and equivalents (unrestricted)	76,895	26,061	23,459	8,163	8,928
Restricted cash and equivalents	0	0	0	0	0
Short-term debt	0	9,859	0	0	0
Long-term senior debt	163,515	139,451	128,555	104,718	94,814
Subordinated debt	0	0	0	0	0
Equity credit	0	0	0	0	0
Total debt with equity credit	163,515	149,310	128,555	104,718	94,814
Off-balance-sheet debt	0	0	0	0	0
Lease-adjusted debt	163,515	149,310	128,555	104,718	94,814
Fitch- identified pension deficit	0	0	0	0	0
Pension adjusted debt	163,515	149,310	128,555	104,718	94,814
Cash flow summary					
Operating EBITDA	33,136	23,165	22,353	19,846	14,105
Gross cash interest expense	-7,394	-7,760	-7,235	-2,946	-3,350
Cash tax	-4,212	-1,626	-2,040	-2,146	-968
Associate dividends	19	13	13	13	10
Other items before FFO (incl. interest receivable)	11,640	6,618	4,882	6,009	5,410
Funds from operations	33,188	20,410	17,973	20,776	15,208
Change in working capital	-4,727	3,001	6,581	-2,605	1,903
Cash flow from operations	28,461	23,411	24,554	18,171	17,111
Total non-operating/non-recurring cash flow	-996	2,556	2,735	2,564	0
Capital expenditures	-30,488	-32,655	-31,592	-33,963	-26,582
Dividends paid	-3,088	-4,370	-4,030	-2,768	-1,684
Free cash flow	-6,111	-11,058	-8,332	-15,995	-11,156
Net (acquisitions)/divestitures	0	0	0	0	0
Net equity proceeds/(buyback)	40,470	0	0	6,310	6,428
Other cash flow items	2,270	-7,095	-210	-983	-81,159
Total change in net debt	36,629	-18,153	-8,541	-10,669	-85,887
Working capital					
Accounts receivable days	95.06	87.57	102.1	85.69	58.64
Inventory days	129.97	846.95	459.27	396.56	334.73
Accounts payable days	1,407.35	1,462.84	547.27	816.92	994.18

Source: Fitch, NHPC

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