

NHPC Ltd.

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NHPC Ltd.

Major Rating Factors

Strengths:

- Favorable regulatory environment and positive demand outlook
- Good competitive position and profitability
- Government support

Weaknesses:

- Aggressive capital expenditure plans
- Challenges of constructing hydropower plants
- Weak credit quality of customers

Corporate Credit Rating

BBB-/Stable/NR

Rationale

The rating on India-based state-owned hydroelectric power generator NHPC Ltd. reflects a favorable regulatory environment, ongoing government support, and the company's strong competitive position. NHPC's aggressive capital expenditure plans, the challenges of building hydropower plants, and the weak credit quality of customers temper these strengths.

NHPC benefits from a favorable regulatory environment that provides incentives for investments in India's power sector. The government aims to reduce the country's power deficit, which was about 10.3% as of June 30, 2011.

NHPC's considerable experience in constructing hydropower plants underpins its strong competitive position. The challenging nature of the industry has, however, led to delays in the completion of some projects. NHPC's hydropower plant operations are considerably efficient. The company's plant availability was 85.2% in 2010-2011 and averaged 90% over the past four years. It is also one of the lowest cost power producers in the industry due to its virtually zero marginal costs. NHPC's strong cost position has resulted in EBITDA margins of 70%-80% for the past four years.

The company benefits from ongoing support from the government of India (BBB-/Stable/A-3). The tripartite agreement between the Indian government--on behalf of government-owned utilities--the state electricity boards (SEBs), and the Reserve Bank of India mitigates the risk of delay in payments from NHPC's customers (the SEBs) that have weak credit profiles. Due to its government-related entity (GRE) status, NHPC also benefits from easier access to credit facilities as well as subordinated debt from the government at lower interest rates for economically unviable projects.

We view NHPC's financial risk profile as intermediate based on steady cash flows from the company's existing operations and available surplus cash. These funds should enable the company to somewhat offset its high capital expenditure, which it estimates at about Indian rupee (INR) 50 billion in 2011-2012.

We expect NHPC to maintain its cash flow protection measures. We forecast the company's ratio of adjusted funds from operations (FFO) to total debt at more than 15%, and ratio of adjusted debt to EBITDA of less than 4.5x over the next 12-24 months. We also expect NHPC to maintain its moderate capital structure, with a ratio of adjusted

debt to capital of less than 40%.

NHPC is 86.4% owned by the government of India. The company's installed capacity was 5,295 megawatt as of March 31, 2011, which is about 3% of India's total installed capacity.

We assess NHPC's stand-alone credit profile as 'bbb-'. In accordance with our criteria for GREs, our view of a "high" likelihood of extraordinary government support in the event of financial distress is based on our assessment of:

- NHPC's "very strong" link with the government. We expect the government to remain NHPC's majority shareholder, with administrative control by the Ministry of Power.
- NHPC's "important" role for the government. Some of the company's activities are driven by its public policy role of increasing India's power generation capacity, particularly through hydroelectricity, and operating in geographical regions susceptible to security concerns and political issues. However, NHPC accounts for a small share of India's overall power generation capacity.

Liquidity

In our view, NHPC has strong liquidity. We expect the company's liquidity sources (including cash, FFO, and credit facility availability) over the next 12-18 months to exceed its uses by more than 1.7x. The company's cash balance was about INR44 billion for the six months ended Sept. 30, 2011, compared with debt of about INR4.63 billion due in one year.

Our liquidity assessment is based on the following factors and assumptions:

- We expect NHPC to have steady recurring cash flows, with FFO averaging INR30 billion.
- Even if EBITDA declines by 20%, we believe net sources of liquidity would be sufficient to cover uses. Nevertheless, the regulated nature of returns and the company's low cost base should enable it to maintain high margins.
- The company has good relationships with its banks, in our assessment, and has a good standing in the credit markets.
- In our analysis, we assumed liquidity of about INR88 billion over the next 12 months, consisting of cash, FFO and additional debt to meet its capital expenditure during the period. We estimate the company will use about INR50 billion during this time for capital spending, meeting debt maturities, working capital needs, and shareholder dividends.
- The company has minimal debt maturities over the next 24 months.

Outlook

The stable outlook is consistent with that on the sovereign rating on India, and reflects NHPC's sensitivity to government intervention. The outlook also incorporates our expectation that the company's operating performance will remain stable.

We could downgrade NHPC if: (1) we lower the sovereign credit rating; (2) ongoing support from the government declines; or (3) the company's financial performance weakens because of a new large project or a significant delay in the completion of existing projects. A downward rating trigger will be the ratio of FFO to total debt falling below 10%.

We could raise the rating if the sovereign rating on India is raised and NHPC's stand-alone credit profile remains steady or improves with the completion of its expansion projects.

Table 1

NHPC Ltd.--Peer Comparison							
Industry Sector: Electric Utility							
	NHPC Ltd.	NTPC Ltd.	Tata Power Co. Ltd.	Tenaga Nasional Bhd.	China Resources Power Holdings Co. Ltd.	Electricity Generating Authority of Thailand	
Rating as of Nov. 17, 2011	BBB-/Stable/--	BBB-/Stable/--	BB-/Positive/--	BBB+/Negative/--; axA+/axA-1	BBB/Negative/--; cnA/--	BBB+/Stable/--; axA+/axA-1	
--Average of past three fiscal years--							
(Mil. Mix curr.)	INR	INR	INR	MYR	HK\$	THB	
Revenues	43,083.8	500,304.9	186,401.2	30,437.5	36,187.9	383,742.3	
EBITDA	33,699.3	120,898.4	38,774.2	7,928.7	9,473.6	75,208.8	
Net income from continuing operations	18,922.1	87,594.6	17,483.9	1,539.8	3,979.5	32,161.5	
Funds from operations (FFO)	27,302.0	111,991.7	24,459.3	6,371.4	7,731.4	58,789.4	
Capital expenditure	32,584.4	130,383.2	72,072.6	4,504.4	12,848.5	18,137.0	
Free operating cash flow	(5,547.7)	(32,260.7)	(50,925.6)	1,706.5	(5,549.6)	26,482.3	
Discretionary cash flow	(10,547.9)	(68,342.0)	(54,658.9)	1,061.3	(7,253.6)	11,976.3	
Cash and short-term investments	20,736.9	177,494.0	17,402.9	6,024.2	6,181.0	55,913.8	
Debt	158,347.6	458,159.8	193,794.5	39,048.0	58,980.8	377,100.7	
Equity	254,083.2	631,132.2	122,870.8	26,972.4	41,858.8	275,738.0	
Adjusted ratios							
EBITDA margin (%)	78.2	24.2	20.8	26.0	26.2	19.6	
EBITDA interest coverage (x)	2.6	3.9	3.1	3.4	3.9	4.0	
EBIT interest coverage (x)	2.2	3.9	2.6	2.0	2.9	2.9	
Return on capital (%)	7.0	11.9	11.3	6.3	7.9	8.7	
FFO/debt (%)	17.2	24.4	12.6	16.3	13.1	15.6	
Free operating cash flow/debt (%)	(3.5)	(7.0)	(26.3)	4.4	(9.4)	7.0	
Debt/EBITDA (x)	4.7	3.8	5.0	4.9	6.2	5.0	

Table 1

NHPC Ltd.--Peer Comparison (cont.)						
Total debt/debt plus equity (%)	38.4	42.1	61.2	59.1	58.5	57.8

INR--Indian rupee. MYR--Malaysian ringgit. HK\$--Hong Kong dollar. THB--Thai baht.

Table 2

NHPC Ltd.--Financial Summary						
Industry Sector: Electric Utility						
	--Fiscal year ended March 31--					
	2011	2010	2009	2008	2007	
(Mil. INR)						
Revenues	51,436.5	43,048.0	34,767.0	32,513.2	26,314.1	
EBITDA	39,342.7	34,540.9	27,214.3	23,399.8	20,561.9	
Interest expense	14,064.5	12,866.4	11,495.9	9,238.7	7,228.2	
Net income from continuing operations	23,161.6	21,755.6	11,849.1	11,461.7	11,541.8	
Funds from operations (FFO)	29,841.5	32,432.6	19,632.0	17,337.6	17,387.4	
Capital expenditure	34,658.1	30,487.9	32,607.2	31,591.6	32,415.4	
Free operating cash flow	(3,905.9)	(2,782.5)	(9,954.8)	(7,673.0)	(17,633.0)	
Dividends paid	8,028.2	2,603.1	4,369.1	4,029.8	2,767.7	
Discretionary cash flow	(11,934.1)	(5,385.6)	(14,323.9)	(11,702.8)	(20,400.7)	
Cash and short-term investments	32,210.7	15,000.0	15,000.0	15,000.0	8,162.9	
Debt	177,743.9	151,466.5	145,832.4	127,979.3	106,116.5	
Preferred stock	0.0	0.0	0.0	0.0	0.0	
Equity	282,660.0	266,967.6	212,621.9	203,264.1	192,621.6	
Debt and equity	460,403.9	418,434.1	358,454.3	331,243.4	298,738.1	
Adjusted ratios						
EBITDA margin (%)	76.5	80.2	78.3	72.0	78.1	
EBIT interest coverage (x)	2.4	2.0	2.1	2.4	2.7	
FFO interest coverage (x)	3.1	3.4	2.6	2.7	3.3	
FFO/debt (%)	16.8	21.4	13.5	13.5	16.4	
Discretionary cash flow/debt (%)	(6.7)	(3.6)	(9.8)	(9.1)	(19.2)	
Net cash flow / capital expenditure (%)	62.9	97.8	46.8	42.1	45.1	
Debt/EBITDA (x)	4.5	4.4	5.4	5.5	5.2	
Debt/debt and equity (%)	38.6	36.2	40.7	38.6	35.5	
Return on capital (%)	7.6	6.5	6.9	6.9	6.8	
Return on common equity (%)	9.0	9.7	6.1	6.2	6.7	
Common dividend payout ratio (unadjusted) (%)	37.0	36.3	32.7	32.1	29.5	

INR--Indian rupee.

Table 3

Reconciliation Of NHPC Ltd. Reported Amounts With Standard & Poor's Adjusted Amounts							
--Fiscal year ended March 31, 2011--							
NHPC Ltd. reported amounts (mil. INR)							
	Debt	Shareholders' equity	EBITDA	Operating income	Interest expense	Cash flow from operations	Cash flow from operations
Reported	167,716.1	265,302.6	36,917.4	25,251.9	6,708.8	38,111.8	38,111.8
Standard & Poor's adjustments							
Postretirement benefit obligations	7,874.0	--	2,425.3	2,425.3	643.3	(831.9)	(831.9)
Capitalized interest	--	--	--	--	6,712.4	--	--
Reclassification of nonoperating income (expenses)	--	--	--	6,070.4	--	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	--	--	(6,527.7)	(6,527.7)
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	(910.7)
Minority interests	--	17,357.4	--	--	--	--	--
Debt - Accrued interest not included in reported debt	2,153.8	--	--	--	--	--	--
Total adjustments	10,027.8	17,357.4	2,425.3	8,495.7	7,355.7	(7,359.6)	(8,270.3)
Standard & Poor's adjusted amounts							
	Debt	Equity	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations
Adjusted	177,743.9	282,660.0	39,342.7	33,747.6	14,064.5	30,752.2	29,841.5

INR--Indian rupee.

Related Criteria And Research

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Corporate Ratings Criteria 2008, on April 15, 2008

Ratings Detail (As Of November 17, 2011)	
NHPC Ltd.	
Corporate Credit Rating	BBB-/Stable/NR
Corporate Credit Ratings History	
18-Mar-2010	BBB-/Stable/NR
25-Sep-2009	BBB-/Negative/NR
30-Jun-2009	BBB-/Watch Neg/NR
24-Feb-2009	BBB-/Negative/NR
30-Jan-2007	BBB-/Stable/NR
Business Risk Profile	Satisfactory
Financial Risk Profile	Intermediate

Ratings Detail (As Of November 17, 2011) (cont.)**Debt Maturities**

(As of Sept. 30, 2011)
 2011-2012: INR4.630 billion
 2012-2013: INR9.352 billion
 2013-2014: INR9.499 billion
 2014-2015: INR9.915 billion
 2015 and beyond: INR88.967 billion

Related Entities**Export-Import Bank of India**

Issuer Credit Rating	BBB-/Stable/A-3
Senior Unsecured (9 Issues)	BBB-

India Infrastructure Finance Co. Ltd.

Issuer Credit Rating	BBB-/Stable/--
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Indian Railway Finance Corp.

Issuer Credit Rating	
<i>Foreign Currency</i>	BBB-/Stable/NR
<i>Local Currency</i>	BBB-/Stable/--
Senior Unsecured (3 Issues)	BBB-

India (Republic of) (Unsolicited Ratings)

Issuer Credit Rating	BBB-/Stable/A-3
Transfer & Convertibility Assessment	BBB+

NTPC Ltd.

Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured (3 Issues)	BBB-

Power Finance Corp. Ltd.

Issuer Credit Rating	
<i>Foreign Currency</i>	BBB-/Stable/NR
<i>Local Currency</i>	BBB-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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