संदर्भ सं./Ref. No. **NH/CS/199** दिनांक/Date: **03.11.2022**

Manager/ मैनेजर, Listing Department/ लिस्टिंग विभाग, **M/s BSE Limited/ बीएसई लिमिटेड,** Phiroze Jeejeebhoy Towers / फिरोज जीजीभोय टावर्स, Dalal Street,/दलाल स्ट्रीट, Mumbai/ मुंबई -400 001 **Scrip Code: 533098**	General Manager/ महाप्रबंधक, Listing Department/ लिस्टिंग विभाग, **M/s National Stock Exchange of India Limited/ नेशनल स्टॉक एक्सचेंज ऑफ इंडिया लिमिटेड,** Exchange Plaza, / एक्सचेंज प्लाजा, Bandra Kurla Complex/ बांद्रा कुर्ला कॉम्प्लेक्स, Bandra (E)/ बांद्रा (ई), Mumbai/ मुंबई - 400 051 **Scrip Code: NHPC**

ISIN No. INE848E01016

Sub: Intimation of change in outlook by S&P Global Rating.
विषय: एस एंड पी ग्लोबल रेटिंग द्वारा आउटलुक में बदलाव की सूचना।

Sir/महोदय,

This is to inform that International Credit Rating Agency S&P Global Ratings vide its rating report dated 31.10.2022, has revised the outlook on NHPC to stable from negative. It has also affirmed its 'BBB-' long-term issuer credit rating of NHPC. The report of S&P Global Ratings is attached herewith. It is also informed that there is no revision in credit rating of NHPC by S&P Global Ratings, only outlook has been revised.

This is for your information and records.

यह सूचित किया जाता है कि अंतर्राष्ट्रीय क्रेडिट रेटिंग एजेंसी एस एंड पी ग्लोबल रेटिंग्स ने अपनी रेटिंग रिपोर्ट दिनांक 31.10.2022 के माध्यम से एनएचपीसी पर दृष्टिकोण को नकारात्मक से स्थिर करने के लिए संशोधित किया है। इसने एनएचपीसी की अपनी 'बीबीबी-' दीर्घकालिक जारीकर्ता क्रेडिट रेटिंग की भी पुष्टि की है। एस एंड पी ग्लोबल रेटिंग्स की रिपोर्ट संलग्न है। यह भी सूचित किया जाता है कि एस एंड पी ग्लोबल रेटिंग द्वारा एनएचपीसी की क्रेडिट रेटिंग में कोई संशोधन नहीं किया गया है, केवल दृष्टिकोण संशोधित किया गया है।

यह आपकी जानकारी और रिकॉर्ड के लिए है।

धन्यवाद।

भवदीय

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(रूपा देब)
कंपनी सचिव

संलग्न: उपरोकतानुसार

Research Update:

India's NHPC Outlook Revised To Stable As Working Capital Outflow Eases; 'BBB-' Rating Affirmed

October 31, 2022

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Rating Action Overview

- We see a reduced risk of working capital outflows for NHPC Ltd., and improvement in its receivables position.
- We believe the execution risks for the India-based hydroelectric power company's Subansiri and Parbati-II projects are manageable.
- On Oct. 31, 2022, S&P Global Ratings revised the outlook on NHPC to stable from negative. At the same time, we affirmed our 'BBB-' long-term issuer credit rating on the company.
- The stable outlook reflects our view that the company will effectively manage the construction of Subansiri and Parbati-II projects without significant delays or cost overruns. NHPC's leverage will temporarily remain elevated, but we expect cash flow from its regulated operational assets will support the company through the projects' construction.

Rating Action Rationale

We revised the outlook reflecting reducing working capital drag for NHPC, given its stabilizing receivables position. S&P Global Ratings believes working capital requirements for the Indian hydro and renewable power generator and seller are now more manageable. NHPC's receivables position has been improving with better collection of overdue receivables from electricity distribution companies (discoms). The improvement in receivables collection results from the Indian government's liquidity package announced in May 2020 as well as the recently announced Late Payment Surcharge (LPS) scheme. We forecast neutral working capital for NHPC in fiscal 2023 and working capital outflow of Indian rupee (INR) 2.5 billion in fiscal 2024. This is a significant improvement from our earlier estimates of negative working capital outflows of INR3 billion in fiscal 2023 and INR5 billion in fiscal 2024. This also compares well with annual working capital outflows of INR12 billion-INR20 billion that NHPC faced in fiscal 2019-2020.

NHPC will benefit from the LPS scheme as weaker counterparties--particularly Jammu and Kashmir (J&K) state distribution companies--start to clear their overdue amounts, with monthly payments of about INR0.5 billion from August 2022. We expect J&K distribution companies to make timely payments over the next two years. This will continue to reduce NHPC's receivables. The distribution companies in J&K account for more than 30% of NHPC's outstanding receivables, and more than 90% of receivables which are more than 45 days past due as of June 30, 2022.

NHPC's financial ratios will likely remain weak over fiscals 2023 and 2024. We forecast the company's leverage will remain high in the period, with a funds from operations (FFO)-to-debt ratio of 11.5%-12.5% (below our downside trigger of 15%), compared with 11.6% in fiscal 2022. This is because NHPC has been incurring heavy capital expenditure (capex) for the construction of its key under-construction developments. These are the 2,000-megawatt (MW) capacity Subansiri project and the 800MW capacity Parbati-II project. The commercial operation date of the Parbati-II project was delayed to the third quarter of fiscal 2024 from end-2023, due to geological-related disruptions.

We estimate the company's capex to be INR35 billion-INR45 billion annually over the next two years, compared with INR55 billion in fiscal 2022 and INR25 billion in fiscal 2021. Given that returns are only assured after operations commence, spending for NHPC will significantly outpace EBITDA growth in fiscal 2023 and 2024, leading to a temporary drag on financial ratios.

Having said that, we expect NHPCs financial metrics to recover from fiscal 2025, after temporarily worsening, given the good execution pace on its under-construction projects. NHPC benefits from a predictable cost-plus tariff mechanism that allows for full recovery of both benchmark operating and financing costs, with an assured return on equity of about 15.5%. The company also has a track record of recovering cost overruns on under-construction projects, post-commissioning. Hence, we believe strong and stable cash flows from NHPC's regulated operational assets will support the company through the heavy project construction phase.

Construction at Subansiri and Parbati-II remains largely on track with target commissioning for mid-fiscal 2024. We expect residual execution risk to be manageable and believe NHPC can recover cost overruns under the tariff mechanism. We assume around six months of further delays for the projects' commissioning under our base case, given thehistory of delays in the past. Still, earnings contribution upon the commissioning of the Parbati-II and Subansiri projects in fiscal 2025 will likely help drive a recovery in leverage ratios, with the FFO-to-debt ratio improving to about 17% from fiscal 2025 onwards. In addition, NHPC's operating cash flow (OCF)--after change in working capital--is healthy, indicating the company's ability to service its debt. The OCF-to-debt ratio is likely to be about 13%-15% in fiscal 2023 and 2024, and 17%-18% in fiscal year 2025 onwards.

Outlook

The stable outlook on NHPC reflects our view that the company will effectively manage the construction of the Subansiri and Parbati-II projects without any further significant delays or cost overruns. While NHPC's leverage will temporarily remain elevated with FFO-to-debt ratios of 11.5%-12.5% in fiscal 2023 and 2024 given ongoing heavy capex for the two projects, we expect cash flow from its regulated operational assets will support the company through the projects' construction phase. We expect FFO-to-debt will improve to 16%-17% from fiscal 2025 onwards upon the commissioning of these projects.

Downside scenario

We may lower the rating on NHPC if the company's FFO-to-debt ratio remains below 15% for a sustained period, with little likelihood of FFO-to-debt recovering to above 15%, and if the ratio of operating cash flow (OCF)-to-debt falls below 13%. This could happen if there are unanticipated significant delays in project execution of its two major projects or higher than anticipated working capital outflows, shareholder payouts, and capex.

We may also lower the rating on NHPC if we lower the sovereign credit rating on India (BBB-/Stable/A-3).

Upside scenario

Although less likely, we could raise the rating on NHPC if we upgrade the sovereign and raise the company's stand-alone credit profile (SACP) to 'bbb' from 'bbb-'. We could revise NHPC's SACP upward if the regulatory framework remains supportive and the company's leverage improves such that the FFO-to-debt ratio remains above 23% on a sustained basis.

Company Description

NHPC's core business is the generation and distribution of hydroelectric power in India. With 24 operational power plants, the company has an aggregate installed capacity of about 7,071 MW (6,971 MW hydro, 100 MW solar and wind) as of June 30, 2022, representing 15% of the country's total installed hydro capacity.

NHPC is majority-owned by the government of India, which has a 70.95% shareholding.

Our Base-Case Scenario

Assumptions

- NHPC's revenue growth is not dependent on GDP growth rates, given that revenue is largely driven by project commissioning and an increase in the regulated equity base.
- Revenue and EBITDA to increase in tandem with project commissioning of large under-construction assets. Our base case assumes commissioning of the Subansiri and Parbati-II projects at the beginning of fiscal 2025, compared with the company's target of mid-fiscal 2024 for both projects.
- EBITDA margin to remain stable at 57%-58% over fiscals 2023 and 2024, supported by an established regulatory framework and low marginal cost of hydropower.
- High capex of about INR35 billion-INR40 billion annually over the next three years. We exclude interest during construction for under-construction projects from capex and consider it as a part of interest expense.
- Dividends of about INR20 billion annually over the next three years.

Key metrics

Table 1

NHPC Ltd.--Key Metrics*

	--Fiscal year ended March 31--				
	FY2021a	FY2022a	FY2023e	FY2024f	FY2025f
(Bil. INR)					
Revenue	96.5	91.9	98-103	101-106	140-145
EBITDA	56.1	52.4	57-59	59-61	80-85
Funds from operations (FFO)	33.9	28.9	31-34	32-35	50-55
Capital expenditure	24.8	54.7	35-38	42-45	40-45
Operating cash flow (OCF)	44.5	54.3	38-41	36-39	50-55
Debt	219.2	247.8	260-262	285-287	294-296
FFO to debt (%)	15.5	11.6	12.0-13.0	11.5-12.5	17.0-18.0
OCF to debt (%)	20.3	21.9	14.5-15.5	12.5-13.5	17.5-18.5

*All figures adjusted by S&P Global Ratings. Bil.--billions. INR--Indian rupee. FY--Fiscal year ending March 31. a--Actual. e--Estimate. f--Forecast.

Liquidity

We view NHPC's liquidity as adequate. The company's sources of liquidity should exceed its uses by more than 1.1x over the 12 months to March 31, 2023. We expect net sources of liquidity to cover uses even if EBITDA declines by 10% from our base-case estimate.

We believe NHPC's healthy cash flow generation, good track record of prudent risk management, and demonstrated access to capital support its ability to absorb high-impact, low-probability events. In addition, the company benefits from solid banking relationships and good access to the domestic capital market, which enables it to raise debt for funding projects when required. We believe the company will pre-fund any significant capex on new projects.

Principal liquidity sources include:

- Cash and short-term liquid investments of about INR19.6 billion as of March 31, 2022.
- Cash flow from operations of about INR39 billion over the 12 months ending March 31, 2023.

Principal liquidity uses include:

- Debt maturities of about INR15 billion over the 12 months ending March 31, 2023 (bill discounting-related maturities excluded).
- Maintenance and committed capex of about INR16 billion (45% of base case) over the same period.
- Annual dividend payout of about INR20 billion.

Ratings Score Snapshot

Issuer Credit Rating	**BBB-/Stable/--**
Business risk:	Satisfactory
Country risk	Moderately high
Industry risk	Very low
Competitive position	Satisfactory
Financial risk:	Significant
Cash flow/leverage	Significant
Anchor	bbb-
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bbb-
Related government rating	BBB-
Likelihood of government support	High (no impact)

ESG credit indicators: E-2, S-3, G-2

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings List

Ratings Affirmed;Outlook Action

	To	From
NHPC Ltd.		
Issuer Credit Rating	BBB-/Stable	BBB-/Negative