एनएचपीसी लिमिटेड
(भारत सरकार का उद्यम)
NHPC Limited
(A Government of India Enterprise)

स्वच्छ भारत
एक कदम स्वच्छता की ओर

फोन/Phone :

संदर्भ सं./Ref. No. NH/CS/199

दिनांक/Date : 23.10.2020

Manager The Listing Department, **M/s BSE Limited**, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400001 मैनेजर, लिस्टिंग विभाग, **बीएसई लिमिटेड** पि.जे. टावर्स,दलाल स्ट्रीट, मुंबई- 400 001 **Scrip Code: 533098**	General Manager The Listing Department **M/s National Stock Exchange of India Limited,** Exchange Plaza, Bandra Kurla Complex, Bandra (E), Mumbai- 400051 महाप्रबंधक, लिस्टिंग विभाग, **नेशनल स्टॉक एक्सचेंज ऑफ इंडिया लिमिटेड** एक्सचेंज प्लाजा, बांद्रा कुर्ला कॉम्प्लेक्स, बांद्रा (ई), मुंबई - 400 051 **Scrip Code: NHPC**

ISIN No. INE848E01016

Sub: Revision in outlook on NHPC Limited by S&P Global Ratings

विषय: एस एंड पी ग्लोबल रेटिंग्स द्वारा एनएचपीसी लिमिटेड के आउटलुक में संशोधन के संदर्भ में

Sirs/महोदय,

In compliance to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, it is to inform that International Credit Rating Agency S&P Global Ratings vide its rating report dated 22.10.2020 has revised its outlook on NHPC to Negative from Stable and at the same time affirmed the long term issuer rating 'BBB-' on NHPC. The published report by S&P Global Ratings is enclosed at **Annexure-I**. The response of Company on above revision in oulook is enclosed at **Annexure-II**.

This is for your record and information.
यह आपकी रिकॉर्ड और जानकारी के लिए है।
धन्यवाद |

भवदीय,

विजय गुप्ता

(विजय गुप्ता)
कंपनी सचिव

पंजीकृत कार्यालय : एन एच पी सी ऑफिस कॉम्पलैक्स, सैक्टर-33, फरीदाबाद - 121 003, हरियाणा
Regd. Office : NHPC Office Complex, Sector-33, Faridabad - 121 003, Haryana
CIN : L40101HR1975GOI032564; Website : www.nhpcindia.com
E-mail : webmaster@nhpc.nic.in; EPABX No. : 0129-2588110/2588500

Annexure - I

S&P Global Ratings

RatingsDirect®

Research Update:

NHPC Ltd. Outlook Revised To Negative; 'BBB-' Rating Affirmed

October 22, 2020

Rating Action Overview

- India-based NHPC Ltd.'s leverage will likely remain high over the next two years as the hydropower company enters a peak capex phase amid working capital pressures.
- We, however, see reducing project execution risks with construction beginning on the long-stranded Subansiri project and stronger financial ratios from fiscal 2024.
- On Oct. 22, 2020, S&P Global Ratings revised its outlook on NHPC to negative from stable. At the same time, we affirmed our 'BBB-' long-term issuer credit rating on the company.
- The negative outlook reflects our view that NHPC's FFO-to-debt ratio could remain below 15% for the next 12-24 months if its receivables collection does not improve.

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Rating Action Rationale

NHPC's financial ratios are likely to remain weak over the next two fiscal years. We forecast the company's leverage will stay high, with a ratio of funds from operations (FFO) to debt of 14%-15% over the two fiscal years ending March 2022. That's because NHPC is entering the peak construction phase for its key under-construction developments--the 2,000-megawatt (MW) capacity Subansiri project and 800 MW capacity Parbati-II project. We estimate its capital expenditure (capex) will be high at Indian rupee (INR) 36 billion-INR40 billion annually over the next three to four fiscal years, given typically long capitalization periods for hydropower assets. Because returns are only assured post commissioning, spending will significantly outpace EBITDA growth over the period, leading to a temporary drag on financial ratios.

Continued working capital outflows could delay the recovery in financial performance. We believe NHPC needs to manage its working capital requirements over the next 12-18 months by collecting overdue receivables from distribution companies (discoms). The company should have net positive working capital of INR5 billion in fiscal 2021 as it receives some overdue receivables from discoms. Working capital outflows are likely to be smaller at about INR5 billion annually after that. Larger-than-anticipated working capital requirements will likely add to the strain on NHPC's credit ratios and stall deleveraging.

The working capital drag should reduce as NHPC receives overdue payments from discoms, which will benefit from the liquidity package announced by the Indian government in May 2020. Under the package, state-owned power sector lenders Power Finance Corp. Ltd. and REC Ltd. will extend INR900 billion (approximately US$12 billion) in state-guaranteed loans to government-owned discoms. NHPC has faced working capital outflows of INR12 billion-INR20 billion annually over the past two years. This was due to the company's exposure to weak discoms in states such as Jammu and Kashmir and Uttar Pradesh, where payment delays were prolonged and receivables steadily built up. The COVID-19 outbreak has further exacerbated the weak liquidity position of discoms, and we anticipate payment delays to continue given the situation has yet to stabilize and partial lockdown measures in India are still in place.

NHPC's business position is improving and financials will strengthen post commissioning of under-construction projects. In our view, earnings contribution upon the commissioning of the Parbati-II and Subansiri projects in fiscal 2022 and 2024, respectively, should help drive a recovery in leverage ratios. NHPC's FFO-to-debt ratio could recover to about 15.5% in fiscal 2023 and improve to 19% in fiscal 2024.

We believe execution risk related to the Subansiri project has reduced as NHPC has obtained the environmental clearance from the National Green Tribunal after prolonged project delays since 2011. Active construction has resumed in October 2019 and we understand that there have been no major delays to date, barring a one-month disruption due to COVID-19 lockdown. Moreover, power purchase agreements have been signed with state discoms and the total capital cost (including cost-overruns) is likely to be fully recovered under the eventual tariff rate.

NHPC will continue to benefit from an established regulatory framework that supports cash flow stability. Strong cash flows from regulated operational assets will support NHPC through the heavy project construction phase. They should also enable the company to withstand the impact of lower power demand in India resulting from COVID-19, as well as working capital outflows. We expect NHPC to manage execution risk on under-construction projects and recover cost over-runs under the tariff mechanism. 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 19% in fiscal 2021 and 14%-15.5% over fiscals 2022 and 2023.

Outlook

The negative outlook on NHPC reflects our expectation that the company's FFO-to-debt ratio could remain below 15% for the next 12-24 months. We see downside risk if the company's receivables position remains stretched and working capital outflows are materially higher than we anticipated.

Downside scenario

We may lower the rating on NHPC if the company's FFO-to-debt ratio remains below 15% and the OCF-to-debt ratio falls below 13% for a sustained period. This could happen if working capital outflows, shareholder payouts, and capex are significantly higher than we expect.

We may also lower the rating on NHPC if we lower the sovereign credit rating on India.

Upside scenario

We may revise the outlook to stable if NHPC adequately manages its working capital requirements and shareholder payouts, such that its FFO-to-debt ratio remains above 15% on a sustainable basis.

A stable outlook would also be dependent on NHPC effectively managing the construction of the Subansiri and Parbati-II projects within budget and time.

Company Description

NHPC generates and distributes hydroelectric power in India. With 24 operational power plants, the company has an aggregate installed capacity of about 7,071 MW--15% of the country's total installed hydro capacity.

NHPC is majority-owned by the government of India, with 70.95% shareholding.

Our Base-Case Scenario

- India's GDP to contract 9% in 2020, then recover by 10% in 2021, affecting overall power demand.
- NHPC's stand-alone regulated equity base will remain INR129 billion in fiscal 2021, absent any significant commissioning. This will increase to INR158 billion in fiscal 2022 and INR220 billion in fiscal 2024 on commissioning of the Parbati-II and Subansiri projects, respectively.
- Moderate revenue growth of 4.5%-8% over fiscals 2021 and 2022. Revenues will likely spike up to a high 11%-18% over fiscals 2023 and 2024 due to increase in the regulated equity base.
- Stable reported EBITDA margin of about 56%, supported by an established regulatory framework and low marginal cost of hydropower.
- High capex of INR36 billion-INR40 billion annually over the next three years. This excludes capitalized interest for under-construction projects.
- Dividends of about INR20 billion annually.
- Cost of funding of 7.5%-8%.

Based on these assumptions, we arrive at the following adjusted credit measures:

- FFO-to-debt ratio of 14%-15% over fiscals 2021 and 2022, recovering to about 15.5% in fiscal 2023 and 19% in fiscal 2024.
- OCF-to-debt ratio to be about 19% in fiscal 2021 and 14%-15.5% over fiscals 2022 and 2023.

Liquidity

We view NHPC's liquidity as adequate. We expect the company's sources of liquidity to exceed its uses by more than 1.1x over the 12 months to March 31, 2021. We also expect net sources of liquidity to cover uses if EBITDA declines by 10% from our base case.

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 its 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 INR17 billion as of March 31, 2020.
- Cash flow from operations of about INR40 billion over the 12 months ending March 31, 2021.
- Working capital inflows of about INR5 billion over the same period, supported by the government's liquidity package availed to discoms.

Principal liquidity uses include:

- Debt maturities of INR16 billion over the 12 months ending March 31, 2021.
- Maintenance and committed capex of about INR15 billion (40% of base case) over the period.
- Dividend payment of about INR20 billion over the same period.

Ratings Score Snapshot

Issuer Credit Rating: BBB-/Negative/--

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)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb-

- Sovereign rating: BBB-
- Likelihood of government support: High (no impact)

Related Criteria

- 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
- 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
- Criteria | Corporates | General: Corporate Methodology, 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-/Negative/NR	BBB-/Stable/NR

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Annexure -II

एन एच पी सी लिमिटेड
(भारत सरकार का उद्यम)
NHPC Limited
(A Govt. of India Enterprise)
(Formerly National Hydroelectric Power Corporation Ltd.)
ISO-9001 & 14001 Certified Company
Phone No 0129-2270603/Fax no 0129-2270902
Email: nhpcbondsection@gmail.com
CIN No. - L40101HR1975GOI032564

Response from the Company

Regarding the revision of credit rating outlook from stable to negative, it is submitted that NHPC Ltd. has already communicated its disagreement to S&P on their credit outcome in view of the reduced execution risk and better collection from Discoms. As such, future outlook of the company whether it is capacity addition or liquidation of receivables, is quite robust and we don't find any reason for the downward revision of credit rating outlook of the Company.

(H S Puri)
CGM (Finance)
23/10/2020