नॉर्थ ईस्टर्न ईलैक्ट्रिक पावर कॉरपोरेशन लि.

NORTH EASTERN ELECTRIC POWER CORPORATION LTD.
(A Government of India Enterprise)
Corporate Identity No.U40101ML1976GOI001658
Tel: 0364-2223051; Fax: 0364-2228542

ISO 9001-2000
ISO 14001-1996
OHSAS 18001-1999

NEEPCO/Fin/Fund/25/4612 **15th November, 2017**

Corporate Compliance & Listing Centre
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400001

Sub: Credit rating surveillance letters/rationale as per SEBI (LODR) Regulation 55

Dear Madam/Sir,

Kindly find enclosed Credit rating surveillance letters/rationale as per SEBI (LODR) Regulation 55.

Yours sincerely,
For **North Eastern Electric Power Corporation Ltd.**

(Cathleen Ranee)
Sr. Manager (Finance)

CARE Ratings
Professional Risk Opinion

CARE/KRO/RL/2017-18/1685

Shri A. G. West Kharkongor
CMD
North Eastern Electric Power Corp. Ltd.
Brookland Compound
Lower New Colony
Shillong – 793 003 (Meghalaya)

October 16, 2017

Confidential

Dear Sir,

Credit rating for outstanding Non-Convertible Debenture issue

On the basis of recent developments including operational and financial performance of your company for FY17 (Audited), our Rating Committee has reviewed the following ratings:

Instrument	Amount (Rs. crore)	Rating[1]	Remarks
Non-Convertible Debenture issue	4,300 (Rs. Four Thousand Three Hundred Crore)	CARE AA; Stable [Double A; Outlook: Stable]	Reaffirmed

2. Refer **Annexure 1** for details of rated facilities.

3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by October 17, 2017 we will proceed on the basis that you have no any comments to offer.

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of

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

the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
8. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

(Abhishek Khemka)
Manager
abhishek.khemka@careratings.com

(Vineet Chamaria)
Sr. Manager
vineet.chamaria@careratings.com

Encl.: As above

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.
In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure 1

Details of Rated Instrument (Non-Convertible Debentures)

Particulars	NCD-I	NCD-II	NCD-III	NCD-IV
Size of the issue (Rs. crore)	2,500	600	900	300
Tenure	10 years with a moratorium of 5 years		15 years with a moratorium of 10 years	3 years 2 months
Rate of Interest (p.a.)	9.60%	9.15%	8.68%	7.80%
Redemption Schedule	Five equal annual installments of Rs.500 crore from sixth year (FY21) onwards	Five equal annual installments of Rs.120 crore from sixth year (FY21) onwards	Five equal annual installments of Rs.180 crore from eleventh year (FY27) onwards	Bullet repayment on maturity (FY21)

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Annexure

Press Release

North Eastern Electric Power Corporation Ltd.

Ratings

Facilities	Amt (Rs. cr)	Rating[2]	Remarks
Non-Convertible Debentures	4,300	CARE AA; Stable (Double A, Outlook: Stable)	Reaffirmed
Non-Convertible Debentures	1,000	CARE AA; Stable (Double A, Outlook: Stable)	Assigned
Total Instrument	5,300 (Rs. Five thousand Three Hundred crore only)		

Rationale

The rating continues to draw strength from the controlling stake and financial support of Government of India (GoI), NEEPCO's established track record in implementing power projects in North-Eastern India and satisfactory operational efficiency of its power stations backed by assured returns based on the Central Electricity Regulatory Commission (CERC) fixed tariffs. The rating also takes into account the company's satisfactory capital structure backed by its consistent financial performance and strong earnings protection attributable to long-term power selling arrangements & longer tenure of the long term borrowings. The rating is however constrained by the residual risks associated with the implementation of the ongoing projects, delay in receipt of equity from Government of India (GoI) for the ongoing Hydro Projects leading to reliance on borrowings and counter party risks.

Going forward, the ability of the company to successfully commission the ongoing projects, timely receipt of equity contribution from GoI and timely collection of proceeds from the counter party, shall be the key rating sensitivities.

Detailed Description of 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 operations. Further, GoI has also provided loan of Rs.291 crore for the ongoing project at the interest rate of 1%.

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 1995-98. The said power plants are the oldest (~ 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.

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

Competitive Advantage owing to prominent operating capacities in North-East India

NEEPCO is into generation of power through Hydro, Thermal and Solar power route in the NER with a total installed capacity of 1,287 MW; making NEEPCO the largest power producer in NER by catering to around 40% of the region's energy requirements.

Satisfactory operational efficiency of power stations

NEEPCO through its current installed capacity of 1,287 MW (755MW – hydro, 527MW- thermal & 5MW - solar) in the NER supplies power to all the seven states of North-Eastern India.

Operational efficiency for the Hydro Projects improved significantly in FY17 (*2,795MU in FY17 vis-à-vis 2,457MU in FY16*) occasioned out of completion of the major repair and maintenance work at Kopili Hydro Project (275MW) in H2FY16 (full year benefit was only reaped in FY17) and exceptionally good rainfall at Ranganadi Hydro Project (405MW) and Doyang Hydro Project (75MW). Further due to reasonable weather conditions during Q1FY18, the generation levels for the Hydro Projects were at satisfactory levels, close to their individual Design Energy.

Further addition of new gas/ steam based capacities and gradual stabilization of the recently installed capacities (152MW) also contributed towards the operational growth of the corporation during FY17 & Q1FY18.

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. Tariff of NEEPCO for the period FY14-FY19 has all been approved by the regulatory authority. Also, sale of energy is governed by Power Purchase Agreements (PPA) signed by NEEPCO with the Beneficiaries (currently all the seven states of NER).

Comfortable financial risk profile

Revenue from sale of power though witnessed a y-o-y deterioration of around 13% in FY17, remained at satisfactory levels vis-à-vis the current installed capacity. The deterioration was partly on account of reduction (~ 34%) in the Natural Gas price; resulting in lower billing of Energy Charges and consequently lower revenue from the Assam Gas Power Plant.

PAT margins also remained at satisfactory levels, inspite of deterioration due to increase in the finance charge (being charged for the full year) attributable to the Agartala Gas Plant and Tripura Gas Plant which commissioned in Q3FY16. Nevertheless, GCA improved and remained comfortable at Rs.455.1cr vis-à-vis Rs.436.9cr in FY16.

NEEPCO has a satisfactory capital structure characterized by an overall gearing of 1.03x as on March 31, 2017. Despite increase in debt during the last three years (availed to fund the ongoing projects amidst delay in equity infusion by GoI), the continuous increase in the Networth backed by healthy profitability over the years, has led to satisfactory capital structure. The company's interest coverage ratio stood comfortable during FY17.

Key Rating Weaknesses

Counterparty risk

NEEPCO has SEUs as its customers and thereby is exposed to counterparty risk. NEEPCO's customer includes the distribution utilities of all the seven states in the North-East India, with Assam Power Distribution Company Limited (APDCL), accounting for around 40% of its billings. Given the weak financial profile of the distribution utilities the company remains exposed to counter party risk regarding timely collection of sale proceeds. The average collection period has

consistently remained high (5-7 months) mainly on account of delay in receiving the sales proceeds mainly from APDCL & Meghalaya Energy Corporation Ltd. (MeECL). The debtor position improved as on March 31, 2017, post recovery of old dues from Assam Power Distribution Company Ltd. (~Rs.370 cr) and Meghalaya Electricity Corporation Ltd (~Rs.325 cr) and stood at Rs.465.3cr as against 1,025.9 cr as on March 31, 2016. The debtor outstanding as on Sep 30, 2017 amounts to Rs.434.3 cr. Going forward, given the weak financial health of the distribution utilities, timely collection of the proceeds would remain a key rating sensitivity.

Risks associated with implementation of large expansion projects

NEEPCO had envisaged setting up 3 hydro power projects (Kameng – 600 MW, Pare – 110 MW, Tuirial – 60 MW) by March 2018. During Aug, 2017 the corporation has commissioned 30MW of capacity for the Tuirial Hydro Project and projects to commission the remaining 30MW by November 2017.

All these projects suffered substantial time and cost overrun due to geological, logistical, climatic & technological hurdles, followed by change in the scope of work, increase in steel & cement prices and inadequate road accessibility in the remote areas of NER where the projects are located. The revised aggregate cost of all the projects amounts to Rs.9,203 crore (revised from Rs.8,847 cr which is already approval by CEA) and the company has expended Rs.8,498 crore till July 31, 2017 on all the above projects.

The revised aggregate cost of all the projects of Rs.9,203 crore is being funded at a debt equity ratio of 7:3 except Tuirial Hydro Project, for which debt equity ratio is 8.5:1.5. The equity component for NEEPCO's proposed power projects is expected to be contributed by GoI (majorly) and through internal accruals. Pending receipt of equity (~Rs.1500 cr) from GoI for revised cost, company has temporarily funded the project expenses out of debt and internal accruals. Further, the company has all the necessary project related clearances followed by appropriate Fuel Supply Agreements (FSA).

The corporation had earlier signed adequate Power Purchase Agreements (PPA) for said projects; however due to substantial time and cost overrun the levellised tariff for said projects have gone up and the Northern & Western States have expressed their unwillingness to offtake power from the Kameng project which was earlier identified by the Government. Further due to extremely high levellised tariff decided for the Tuirial Project (i.e. Rs.10.2/ unit), NEEPCO has to carry out some financial engineering on the tariff calculation so as to make it commercially competitive for the P&E, Mizoram. Therefore reallocation of such share by the Government before the project commissioning remains a key rating sensitivity.

Analytical Approach: Standalone

Applicable Criteria

CARE's Policy on Default Recognition

Criteria on assigning Outlook to Credit Ratings

Rating Methodology - Infrastructure Sector Ratings

Financial ratios – Non-Financial Sector

Criteria for Short Term Instruments

About the Company

North Eastern Electric Power Corporation Ltd. (NEEPCO), incorporated in the year 1976 as a GoI undertaking (100% holding), has been set up to construct, generate, operate and maintain power stations in the North Eastern Region (NER) of the country. NEEPCO is a Miniratna Category – I

company. The company is currently into generation of power through Hydro (capacity 755 MW) Gas based - thermal (capacity 527 MW including 35.58 MW of Steam Turbine of Tripura Gas Based Power Plant) and Solar (capacity 5 MW) route in the NER with a total installed capacity of 1,287 MW; making NEEPCO the largest power producer in NER by catering to around 47-50% of the region's energy requirements. NEEPCO is currently setting up projects of 770 MW through 3 hydro projects across NER as part of its 12th Five Year Plan, scheduled for commissioning in phases by March 2018.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1605.9	1404.5
PBILDT	436.8	534.0
PBT	435.4	374.7
PAT	308.2	240.5
Overall gearing (times)	0.96	1.03
Interest coverage (times)	25.35	17.85

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-3

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Annexure-1: Details of Instruments/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	Oct. 2014	9.60	Oct. 2024	2500.00	CARE AA; Stable
Debentures-Non Convertible Debentures	Mar. 2015	9.15	Mar. 2025	600.00	CARE AA; Stable
Debentures-Non Convertible Debentures	Sep. 2015	8.68	Sep. 2030	900.00	CARE AA; Stable
Debentures-Non Convertible Debentures	May 2017	7.80	May 2020	300.00	CARE AA; Stable
Debentures-Non Convertible Debentures	-	-	FY2023	1000.00	CARE AA; Stable

Annexure-3: 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	2500.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Mar-17) 2)CARE AA (17-Oct-16)	1)CARE AA (06-Aug-15)	1)CARE AA- (26-Sep-14)
2.	Debentures-Non Convertible Debentures	LT	600.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Mar-17) 2)CARE AA (17-Oct-16)	1)CARE AA (06-Aug-15)	1)CARE AA- (13-Feb-15)
3.	Debentures-Non Convertible Debentures	LT	900.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Mar-17) 2)CARE AA (17-Oct-16)	1)CARE AA (06-Aug-15)	-
4.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA; Stable	-	1)CARE AA; Stable (06-Mar-17)	-	-
5.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA; Stable	-	-	-	-

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Rating of [ICRA]AA assigned to the proposed non-convertible debenture programme of North Eastern Electric Power Corporation Limited

Instruments*	Amount Rated (Rs. Crore)	Rating Action
Non-Convertible Debenture – Proposed	1000.00	[ICRA]AA/Stable assigned
Non-Convertible Debenture – XIth issue	40.00	[ICRA]AA/Stable outstanding
Non-Convertible Debenture – XIIth issue	120.00	[ICRA]AA/Stable outstanding
Non-Convertible Debenture – XIIIth issue	72.50	[ICRA]AA/Stable outstanding
Non-Convertible Debenture – XIVth issue	2500.00	[ICRA]AA/Stable outstanding
Non-Convertible Debenture – XVIth issue	900.00	[ICRA]AA/Stable outstanding
Non-Convertible Debenture – XVIIth issue	300.00	[ICRA]AA/Stable outstanding
Issuer Rating**	-	[ICRA]AA/Stable outstanding
Fund Based Limit – Short Term/Long Term Loan	500.00***	[ICRA]AA/Stable outstanding [ICRA]A1+ outstanding

**Instrument details are provided in Annexure-1; **With effect from Sep 1, 2017, ICRA has aligned the symbols and the definitions of ratings pertaining to the Issuer Rating Scale with that of the Long-Term Rating Scale. The change in the symbol is not to be construed as a change in the credit rating. Please refer to ICRA's website for more details; ***The Rs 500 crore limits are rated on both long term and short term scales attracting tenure as per usage*

Rating action

ICRA has assigned a long-term rating of [ICRA]AA (pronounced ICRA double A)[1] with Stable outlook to the Rs 1,000-crore[2] proposed non-convertible debenture programme of North Eastern Electric Power Corporation Limited (NEEPCO).

ICRA has an outstanding long-term rating of [ICRA]AA with Stable outlook on the non-convertible debenture programme of NEEPCO aggregating to Rs 3932.50 crore. ICRA also has an outstanding issuer rating of [ICRA]AA with Stable outlook on NEEPCO. An issuer rating is an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument. On the Rs 500-crore bank facilities of NEEPCO, ICRA has an outstanding long-term rating of [ICRA]AA with Stable outlook and a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus).

Rationale

The rating assignment takes into account NEEPCO's sovereign ownership and demonstrated support from the Government of India (GoI), its strategic importance to the power scenario in North-East India, with the company meeting around 32% of the regional power demand, and the company's limited demand risks arising from its competitive cost of power, and the location of its plants in the North-Eastern region, where competitive intensity is low due to the existence of only a few players. The rating also derives comfort from the cost-plus nature of the company's operations, leading to steady business returns, and its limited exposure to regulatory risks, given that the tariff orders for most operational generation stations (except for the 101-MW Tripura gas project) have been released by the Central Electricity Regulatory Commission (CERC) for the period FY2015 to FY2019. In FY2017, NEEPCO has been able to achieve a healthy generation growth of 8% year-on-year (YoY), supported by stabilisation of operations from the newly-commissioned 51-MW Agartala Extension gas project, as well as higher generation from the 275-MW Kopili and 75-MW Doyang hydroelectric projects. In the first half of FY2018, generation has grown by a further ~12% YoY, which would support the overall profitability and accruals during this period. Additionally, apart from higher generation levels, process improvements led to

[1] For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications
[2] 100 lakh = 1 crore = 10 million

a significant decline in station heat rates at both the Assam and Agartala gas projects during FY2017, which in turn led to lower energy charge under-recoveries for these gas stations, in turn benefitting profitability.

NEEPCO is executing hydropower projects accumulating to 770 MW (Kameng – 600-MW, Pare – 110-MW, and Tuirial – 60-MW) at present, exposing the company to project-execution risks. Such risks get accentuated due to the location of its plants in the North-Eastern region, where operational hurdles remain high. The ratings are also constrained by the significant time and cost over-runs at the under-construction hydroelectric projects, which are likely to lead to tariff escalation, especially for the 110-MW Pare and 60-MW Tuirial projects. The commissioning of the Kameng project has now been delayed to March, 2018, as against October, 2017 expected earlier, due to operational challenges caused by torrential rainfall in Arunachal Pradesh in June and July of 2017. The commissioning schedule for the Pare project has also been delayed by 3-5 months from our earlier expectation. However, NEEPCO has been able to recently commission one unit of the Tuirial hydroelectric project in end-August 2017, and the second unit is expected to be commissioned in end-November 2017. Despite capital-cost escalations, the estimated first-year tariff and levelised tariffs for the Kameng project continues to remain competitive at Rs. 4.38 per unit[3] and Rs. 4.04/unit, respectively due to the project's favourable hydrology. However, for NEEPCO's 110-MW Pare and 60-MW Tuirial projects, the first tariffs are estimated to remain high at ~Rs. 6.14 per unit and ~Rs. 8.01 per unit[4], respectively. Despite high tariffs at Pare and Tuiral, the generation of which will be mainly drawn by NEEPCO's existing customer base of seven power distribution utilities in North-East India, NEEPCO's average pooled tariff would continue to remain competitive, supported by low tariffs from its existing generation stations (which remained at Rs. 2.55 per unit in 9MFY2017), largely mitigating offtake risks for these two smaller projects. However, ICRA understands that despite Kameng's competitive levelised tariff, some of the beneficiary states in Northern and Western India earlier identified by the Government, have indicated their unwillingness to off-take power from Kameng. Therefore, ICRA believes that reallocation of such share by the Government[5] before the project commissioning remains a key rating sensitivity.

Given the absence of the Government's approval for the revised cost estimates for all the three ongoing hydroelectric projects, there has been a prolonged delay in equity infusion by GoI for funding the equity component of the cost escalation. This led to increased dependence on debt funding, in turn leading to increasing leveraging. However, ICRA observes that the approval process for the revised cost estimate for the Kameng, Pare and Tuirial projects is at an advanced stage, and after receiving the approval, GoI is expected to bring in 30% of the equity contribution for the project's cost escalation, which as per ICRA's estimates, would amount to ~Rs. 1,643 crore. Out of this quantum, the Government has budgeted to release only Rs. 268 crore in FY2018, given the absence of approval for the revised cost estimates. Nonetheless, despite delay in equity infusion, NEEPCO's capital structure remains at comfortable levels, supported by healthy cash accruals. In FY2016, NEEPCO has completed the 101-MW combined cycle gas project in Tripura, but due to inadequate gas supply from Oil and Natural Gas Corporation Limited (ONGC), the plant had been operating at suboptimal PLF[6] during FY2016 and H1FY2017. However, ICRA notes that gas-supply position at the Tripura plant has started improving from November, 2016, which helped the company declare commissioning of the steam turbine in March 2017. In H1 FY2018, the Tripura plant has been operating at a PLF of over 80%.

NEEPCO's healthy profit margins, steady cash accruals, and conservative capital structure strengthen its financial profile. The ratings also derive comfort from NEEPCO's favourable financial flexibility, as indicated by its ability to raise funds at competitive interest rates. Moreover, given the long tenure of project loans, NEEPCO has limited principal repayment pressure in the next 3-4 years, which is expected to be beneficial to the company as it would provide the necessary headroom to stabilise operations for the under-construction projects before debt servicing starts. The ratings also reflect NEEPCO's exposure to State Electricity Boards (SEB) having weak financial profile, thereby resulting in significant counter party credit risks, and the company's less diversified customer base, with Assam Power Distribution Company Limited alone accounting for around 45% of revenues, exposing the company to customer-concentration risks as well. However, ICRA notes that in the previous financial year, NEEPCO has been able to significantly bring down its receivable

[3] As per ICRA estimate
[4] Assuming for Tuirial, NEEPCO takes a haircut in RoE from 15.5% to 10% and O&M expenses from 4% to 2.5% of project cost to bring the first year tariff from Rs 9.97/unit to Rs 8.01/unit
[5] NEEPCO has signed long term power purchase agreements of 300 MW each with Assam and Arunachal Pradesh, of which Government had allocated 65 MW to Assam and 11 MW (83 MW including free power) to Arunachal Pradesh vide allocation order dated July 30, 2009; as on date, NEEPCO has tied up 315 MW (inclusive of free power to home state), and the remaining 285 MW are yet to be tied up with allocated beneficiaries
[6] Plant load factor

position from Rs. 1,023 crore as on March 31, 2016 to Rs. 465 crore as on March 31, 2017, which has supported its liquidity profile. In the first half of the current financial year, the collection efficiency has continued to remain healthy, as indicated by the outstanding receivables of Rs. 434 crore as on October 4, 2017. However, given the deteriorating financial health of distribution utilities, the company's ability to sustain its collection efficiencies would remain crucial. Going forward, NEEPCO's ability to complete the ongoing projects without any further cost or time over-runs, GoI's timely support to ensure tariff competitiveness for these projects, and firming up of long-term power purchase arrangements for Kameng will be the key rating drivers.

Key rating drivers

Credit Strengths

- **NEEPCO's sovereign ownership and demonstrated support from GoI –** NEEPCO is a 100% GoI owned undertaking. Over the years, the company has received demonstrated support from the parent in funding its sizeable ongoing projects, both in the form of equity infusion and soft loans at favourable repayment terms
- **Strategic importance of NEEPCO to the power scenario in the North-East -** NEEPCO has an installed power generation capacity of 1,287-MW (755-MW hydro, 527-MW gas, and 5-MW solar), which are located in the North Eastern region of India, and supplies power to all the seven states in the North East, meeting around 32% of the regional power demand
- **Cost-plus nature of the company's operations, leading to steady business returns -** The tariffs for NEEPCO's plants are determined as per the tariff regulation notified by CERC. NEEPCO's operational performance of the ongoing projects remains satisfactory. Moreover, supported by the low capital cost of its existing hydropower generation stations and the benefit of being able to procure gas at 60% of the domestic notified price, NEEPCO's tariff from operational plants remained competitive at Rs. 2.55/kwh in 9M FY2017
- **Healthy growth in overall generation in FY2017 and H1 FY2018 -** Supported by the stabilisation of operations from the newly-commissioned 51-MW Agartala Extension and 101-MW Tripura gas projects, as well as higher generation from the operational hydroelectric projects, NEEPCO has been able to register healthy YoY generation growths of ~8% and ~12% in FY2017 and H1 FY2018 respectively
- **Comfortable financial profile as reflected by healthy profit margins, steady cash accruals, and conservative capital structure -** NEEPCO's healthy profit margins, steady cash accruals, and conservative capital structure strengthen its financial profile. Between FY2013 and FY2017, the company has generated annual cash accruals ranging from Rs 280 crore – 450 crore. Moreover, despite large ongoing debt-funded capex, healthy accruals have led to a conservative capital structure, as indicated by a gearing of 0.97 time as on June 30, 2017
- **Low regulatory risks, with the tariff for almost all operational generation stations being released for the period FY2015-FY2019** - The tariff orders for NEEPCO's operational generation stations (except for the 101-MW Tripura gas project) have been released by CERC for the period FY2015 to FY2019. This leads to regulatory clarity
- **Favourable financial flexibility as indicated by its ability to raise funds at competitive rates** – NEEPCO has exhibited a high degree of financial flexibility, as indicated by its ability to raise funds at competitive rates, as well as refinance high-cost debt
- **Long tenure of project loans leads to limited principal repayment pressure in the next 3-4 years -** Given the long tenure of project loans, NEEPCO has limited principal repayment pressure in the next 3-4 years, which is expected to be beneficial to the company as it would provide the necessary headroom to stabilise operations for the under-construction projects before debt servicing kicks in
- **Significant reduction in receivable position** – In FY2017, NEEPCO has been able to significantly bring down its outstanding receivables from Rs. 1,023 crore as on March 31, 2016 to Rs. 465 crore as on March 31, 2017, which has supported its liquidity profile, and reduced dependence on external debt to fund the ongoing capex. In the first half of the current financial year, the collection efficiency has remained healthy, as indicated by a receivables position of Rs. 434 crore as on October 4, 2017.

Credit Weaknesses

- **Exposure to execution risks arising out of sizeable ongoing projects** - NEEPCO is executing hydropower projects of 770-MW, exposing the company to project execution risks. Such risks get accentuated owing to location of its plants in the North Eastern region, where operational hurdles remain high
- **Significant time and cost over-run in the under-construction hydroelectric projects, which are likely to lead to significant tariff escalation** - The ratings are constrained by the significant time and cost over-

runs at the under-construction hydroelectric projects, which is likely to lead to tariff escalation, especially for the 110-MW Pare and 60-MW Tuirial projects. The commissioning of the Kameng project, which was originally scheduled in December 2009, has been delayed to March 2018. The commissioning schedule for the Pare project has also witnessed a prolonged delay from August 2012 to March 2018. NEEPCO has recently commissioned one unit of the Tuirial hydroelectric project in end-August 2017, and the second unit is expected to be commissioned in end-November 2017, as against the original commissioning schedule of January 2014. Such large time and cost over-runs have led to significant tariff escalation for the ongoing hydroelectric projects

- **Delay in equity infusion by GoI** – As the revised cost estimate for the ongoing hydroelectric projects is yet to be approved by the Government, there has been a delay in equity infusion by GoI to fund the equity contribution for the cost escalation at Kameng, Pare and Tuirial. This has resulted in increased dependence on debt funding, in turn leading to increasing leveraging
- **Exposure to customer concentration and counterparty credit risks from financially weak state discoms –** NEEPCO's customer profile includes the seven state owned power distribution companies of North-East India. Given the weak financial profile of such Discoms, NEEPCO remains exposed to significant counter-party credit risks. Moreover, the company's customer base is less diversified compared to other Central Public Sector Undertakings (CPSUs), exposing it to customer-concentration risks as well

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria
Corporate Credit Rating Methodology
Rating Methodology for Thermal Power Producers

About the company:
NEEPCO, which was incorporated as a 100% GoI-owned power generating company in April, 1976, has been mandated to harness the power generation potential, both through the hydro and thermal power routes in North-eastern region of India. NEEPCO assumes strategic importance to the power scenario in North East India, with the company meeting around 32% of the overall regional power demand. NEEPCO has been conferred the "Mini Ratna – Category I" status by the GoI. The company has 1,287-MW generation capacity in operation, of which 755 MW is hydro based, 527 MW is gas based, and the balance 5 MW is solar power based. NEEPCO is also implementing several greenfield projects located in different states of North East India, of which three projects, totaling 770 MW, are currently under execution. The total estimated cost for these ongoing projects, which are scheduled for commissioning in phases from FY2018, is Rs. 9,202.52 crore.

NEEPCO reported a net profit of Rs 71.40 crore (provisional) in Q1 FY2018 on the back of an operating income of Rs. 374.13 crore (provisional) against a net profit of Rs. 68.45 crore on the back of an operating income of Rs. 338.98 crore in Q1 FY2017. In FY2017, NEEPCO reported a net profit of Rs. 240.46 crore on the back of an operating income of Rs. 1,427.25 crore against a net profit of Rs. 308.20 crore on the back of an operating income of Rs. 1,734.63 crore in FY2016.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	1734.63	1427.25
PAT (Rs. crore)	308.20	240.46
OPBDIT/ OI (%)	40.75%	39.47%
RoCE (%)	11.72%	9.96%
Total Debt/ TNW (times)	0.91	0.97
Total Debt/ OPBDIT (times)	7.85	10.70
Interest coverage (times)	41.02	18.83
NWC/ OI (%)	42%	11%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable**.**

Rating History for last three years:

Table: Rating History

Name of Instrument		Current Rating				Chronology of Rating History for the past 3 years			
	Type	Rated amount (Rs. Crore)	Amount Outstanding (Rs. Crore)*	Month-year & Rating in FY2018		Month-year & Rating in FY2017		Month- year & Rating in FY2016	Month- year & Rating in FY2015
				Oct 2017	Jun 2017	Mar 2017	May 2016	Aug 2015	Sep 2014
Non-Convertible Debenture – XIth issue	LT	40.00	40.00	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA- /Stable
Non-Convertible Debenture – XIIth issue	LT	120.00	120.00	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA- /Stable
Non-Convertible Debenture – XIIIth issue	LT	72.50	72.50	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA- /Stable
Non-Convertible Debenture – XIVth issue	LT	2500.00	2500.00	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA- /Stable
Non-Convertible Debenture – XVIth issue	LT	900.00	900.00	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	-
Non-Convertible Debenture – XVIIth issue	LT	300.00	300.00	[ICRA]AA /Stable	[ICRA]AA /Stable	[ICRA]AA /Stable	-	-	-
Non-Convertible Debenture - Proposed	LT	1,000.00	0.00	[ICRA]AA /Stable	-	-	-	-	-
Issuer Rating	LT	-	-	[ICRA]AA /Stable*	IrAA /Stable	IrAA /Stable	IrAA /Stable	IrAA /Stable	IrAA- /Stable
Fund Based Limit – Long Term/Short Term	LT/ST	500.00	458.00**	[ICRA]AA /Stable [ICRA]A1+	[ICRA]AA /Stable [ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

**With effect from Sep 1, 2017, ICRA has aligned the symbols and the definitions of ratings pertaining to the Issuer Rating Scale with that of the Long-Term Rating Scale. The change in the symbol is not to be construed as a change in the credit rating. Please refer to ICRA's website for more details; ** Outstanding as on September 31, 2017, limits rated on both long term and short term scales attracting tenure as per usage*

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Crore)	Current Rating and Outlook
Non-Convertible Debenture – XIth issue	Dec 15, 2011	10.20%	Dec 15, 2021	40.00	[ICRA]AA/Stable
Non-Convertible Debenture – XIIth issue	Jun 27, 2012	9.25%	Jun 27, 2022	120.00	[ICRA]AA/Stable
Non-Convertible Debenture – XIIIth issue	Mar 15, 2013	9.00%	Mar 15, 2023	72.50	[ICRA]AA/Stable
Non-Convertible Debenture – XIVth issue	Oct 01, 2014	9.60%	Oct 01, 2024	2500.00	[ICRA]AA/Stable
Non-Convertible Debenture – XVIth issue	Sep 30, 2015	8.68%	Sep 30, 2030	900.00	[ICRA]AA/Stable
Non-Convertible Debenture – XVIIth issue	Mar 27, 2017	7.80%	May 27, 2020	300.00	[ICRA]AA/Stable
Non-Convertible Debenture – Proposed	Yet to be placed	-	Five years from date of issue*	1000.00	[ICRA]AA/Stable
Fund Based Limit – Long Term/Short Term	-	~9%	ST loans having maturity upto 1 year from drawl	500.00	[ICRA]AA/Stable [ICRA]A1+

*Source: Company; * as per proposed terms*

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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