

Hinduja National Power Corporation Limited

January 06, 2023

Rating

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	8,215.88	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed and removed from Rating Watch with Negative Implications; Stable outlook assigned
Total bank facilities	8,215.88 (₹ Eight thousand two hundred fifteen crore and eighty-eight lakh only)		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has removed the 'Rating Watch with Negative Implication' and assigned 'Stable' outlook while reaffirming the long-term rating for the bank facilities of Hinduja National Power Corporation Limited (HNPC). The revision factors in the approval of the power purchase agreement (PPA) by Andhra Pradesh Electricity Regulatory Authority (APERC), determination of tariff along with issuance of tariff order by the regulatory commission. The rating also takes note of the commencement of power off-take by the discoms.

The rating derives strength from the adequate current market value of investments indirectly held in listed companies by Machen Holdings SA (MHSA, the ultimate holding entity of HNPCL and the support provider) vis-à-vis the combined debt, which implies adequate financial flexibility. Apart from this, the rating also takes cognisance of HNPCL being part of its financially resourceful Hinduja group, which has reputed stature and well-established management track record.

Furthermore, the rating continues to derive comfort from HNPCL's low sales risk and long-term revenue visibility due to its PPA for entire capacity at APERC determined tariff, which ensures fixed return, HNPCL's long-term fuel supply agreement (FSA) and improvement in plant load factor (PLF) post commencement of power off-take by the discom. Also, the rating continues to favourably factor in the promoter support in the form of undertaking towards meeting financial obligations as well as demonstrated support in the form of regular infusion of loans/ deposits to assist its operations and debt repayment.

The rating strengths are, however, tempered by the partial approval of claimed capital cost leading to lower-than-previously envisaged annual capacity charge (AFC) along with tightening of few normative parameters. Weak credit profile of the off-takers along with elevated receivable position (albeit improving collection efficiency since last review) of HNPCL are other credit weaknesses. The rating is also sensitive to the capital expenditure to be incurred by HNPCL for meeting environmental guidelines. CARE Ratings expects that the group will continue to provide need-based financial support to HNPCL till stabilisation of its operations and improvement in the financial profile. Moreover, CARE Ratings would also continue to monitor the adherence to the stipulations by HNPCL under one-time restructuring (OTR) scheme implemented on June 25, 2021.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Higher-than-envisaged liquidation of regulatory assets with improvement in the financial risk profile.
- Improvement in the credit profile of counterparties leading to improvement in collection period to less than 90 days.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant deterioration in the credit profile of the promoter or dilution in its support philosophy towards HNPCL.
- Substantial decline in the market value of investments to debt coverage of the holdcos/sub-holdcos below 3.5x on a sustained basis.
- Any outcome of the ongoing review petition related to tariff determination adversely impacting the viability of the project.

Detailed description of the key rating drivers

Key rating strengths

Receipt of tariff order mitigates sales risk: Based on Hon'ble Supreme Court's direction in February 2022 to decide on the status of the power purchase from HNPCL along with tariff petition filed by HNPCL, APERC rolled out the tariff order in August 2022. Along with acknowledgement of the validity of the PPA, APERC had also determined the capacity charge for FY23-FY24 (refers to the period April 1 to March 31) period.

¹ Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

By virtue of its PPA (valid for 25 years from the COD of Unit-II, as approved by APERC), HNPCL has long-term revenue visibility for its entire capacity. The cost-plus nature of determination of tariff ensures recovery of cost at normative parameters along with earning of fixed return. Actual fuel cost shall be pass-through for determination of energy charges as per APERC regulations. AFC (as determined by APERC) is recoverable fully upon achievement of normative plant availability factor (NAPAF) of 85%.

Resumption of power off-take leading to improvement in operational performance: The beneficiaries had stopped scheduling power from HNPCL's plant since August 2020, and the same resumed only post the Hon'ble Supreme Court's judgement in February 2022. Thus, PLF remained poor at 3.1% in FY22 (refers to the period from April 01 to March 31) (PY: 12.6%). PLF stood reasonable during H1FY23 (refers to the period from April 01 to September 30) at 51.0%. Plant availability factor (PAF) continued to remain above normative during these periods ensuring full recovery of capacity charge.

FSA with Mahanadi Coalfields Limited (MCL): HNPCL has fuel supply agreement with MCL with annual contracted quantity (ACQ) of 4.624 million tonne per annum (MTPA). HNPCL is in the process to augment the ACQ under this FSA. While the plant is in proximity to two well-developed ports (Gangavaram Port and Vizag Port), it has plans to set up railway siding. Estimated capex to be incurred is ₹166 crore. The same is expected to be funded in a debt-equity ratio of 70-30. Commissioning of the same will reduce the landed cost of coal and the plant's competitiveness.

Part of a reputed and resourceful promoter group with proven financial support in the past: HNPCL belongs to the Hinduja Group, which is one of the largest diversified groups in the world with direct presence in 38 countries and activities spanning across 100 countries. The group has presence across various sectors, viz., automotive, banking and finance, energy & chemicals, power, healthcare, information technology, real estate and media and entertainment amongst others.

MHSA is the ultimate holding company of HNPCL. MHSA has majority stake in Hinduja Automotive Limited – United Kingdom (HAL-UK, the holding company of Ashok Leyland Limited (ALL, rated 'CARE AA; Stable/ CARE A1+')). ALL, the flagship company of Hinduja group, is a prominent manufacturer of commercial vehicles in India. Furthermore, MHSA also has majority stake in Hinduja Capital Limited – Mauritius (HCL-M, the holding company of GOCL Corporation Limited (GOCL)). GOCL's multi-division businesses include energetics, commercial explosives and realty. The management has articulated that there is adequate financial flexibility of MHSA due to fungibility of cashflows between MHSA and its subsidiaries, i.e., HAL-UK, HCL-M and the Hinduja Energy holdcos. The market value of the investments in listed instruments of these sub-holdcos vis-à-vis their external debt outstanding as on December 23, 2022 is 5.46x, which is comfortable. CARE Ratings expects that the group will continue to provide need-based financial support to HNPCL given the existing headroom available in leveraging these holdcos.

Promoter supporter towards meeting HNPCL's financial obligations: MHSA and Hinduja Energy (India) Limited (HEIL), both as promoters of HNPCL have extended Promoter Support Undertaking to the lenders for the primary project loan and working capital facilities towards timely debt servicing. Major covenants of the agreement are as under:

- **Debt service requirement:** The promoters have undertaken that, until the determination of the regular tariff, the promoters shall, from time to time, provide additional funds to the borrower in the event there is any shortfall in the cash flows of the borrower so that the borrower is able to meet the debt service requirements, without any delay.
- **Repayment of excess loan amounts:** The promoters shall provide additional funds to the borrower in the amount equivalent to the excess loan amount upon determination of the target loan amount without any recourse to the borrower, project assets and/or lenders to enable the borrower to prepay the loans to the lenders to the extent of the excess loan amount without any delay.
- **Initial DSRA:** The promoters have confirmed that in the event there is any shortfall in the cash flows of the borrower to build up the initial debt service reserve as required in terms of the financing documents, the promoters shall provide additional funds to meet such shortfall.

The promoter's support undertaking continues till the final settlement of dues from the project lenders. The promoters of the company have been regularly infusing funds in HNPCL by way of inter corporate deposit (ICD)/loan. In compliance with the OTR guidelines, a substantial portion of the ICD/ loan had been converted into unsecured perpetual securities (UPS, which CARE Ratings has considered as part of the net worth for analytical purpose) in FY22, leading to reduction in overall gearing to 2.49x (PY:5.45x).

Going forward timely extension of support from promoter group will continue to be a key rating monitorable.

Key Rating Weakness

Approved capital cost is lower than prayed; tightening of few other normative parameters: The significant difference (around Rs. 2,000 crore) in capital cost prayed by HNPCL and the actual cost allowed by APERC vide its August'22 order has material bearing on project viability. The interim tariff for previous period were considered as final. Moreover, APERC has also allowed stricter station heat rate, auxiliary consumption, specific fuel oil consumption which may lead to under-recovery in energy charge. The same is expected to offset to some extent with the part-load compensation permitted under the PPA.

HNPCL has filed review petition with APERC with justification for relaxation. In case there is delay in relaxation in various norms and HNPCL continue to bill the off-taker basis existing tariff, a large cash gap may arise during FY24 and FY25. Hence timely resolution of the issue along with realization of receivables is to be seen.

Leveraged capital structure: HNPCL's term debt has been increasing year on year on account of moratoriums availed by the company in line with the RBI guidelines and stood at Rs. 6,093 crore as on March 31, 2022. It is projected to peak in FY23. Working capital utilization is also projected to increase in FY23. Total Debt/ GCA (including regulatory income) remained elevated at 15.34x in FY22 (PY: 18.97x).

High counterparty credit risk; collection efficiency has improved: The credit profile of AP discoms is weak characterized by high leverage and stretched payable and collection period. The discoms had stopped paying HNPCL since January 2021 leading to a dip in collection efficiency during FY22 to 9% (PY: 38%). Average collection period increased from 260 days in FY21 to 474 days in FY22. However, the monthly collections from off-takers have picked up post the commencement of scheduling of power by the off-takers and the collection efficiency stood at 63% during H1FY23.

Industry Risk

The base and peak demand is expected to maintain the increasing growth in FY23, driven by higher industrial and commercial activities, digitalisation and electric transportation. Thermal power has continued to be the mainstay in supply evidenced by receipt of higher schedule as well as brisk sale of power on a short-term basis. Lag in coal production/transportation to match up the high consumption level along with higher peak demand has firmed up merchant rates, which augurs well for plants with untied capacity. There are numerous and inter-connected challenges for the sector. The sector is expected to witness Flue-gas desulfurisation (FGD) capex of around ₹1 lakh crore in the medium term where the progress in terms of financial closure and project implementation have been slow. Moreover, the payables of the discoms have continuously increased over the past. Till the time structural changes are successfully implemented for the discoms, the gencos are expected to have high working capital requirement.

Liquidity – Adequate

The liquidity profile of the company has been supported by timely infusion of funds from the promoters and access to Rs 1,290 crore of fund-based working capital limits. The company had a cash and bank balance of Rs.70.59 crore as on September 30, 2022. The receivables position stood elevated as on March 31, 2022 due to which the utilization of the fund-based limits remained high (above 95%) during the last 12 months ended September 2022. The management is hopeful of improvement in collection from discom. The company is also expected to rely upon timely liquidation of regulatory assets to have headroom over its debt repayment.

Environment, social and governance (ESG) profile: The ESG profile of the company is expected to derive comfort from the parent group's emphasis on a long-term commitment to be an integral part of India's vision to be a leader in Sustainability. The power plant of the company has all major environmental compliances in place while the emission level of the plant has been in control, alleviating the environmental risk to some extent. For FGD implementation, HNPCL has projected to incur Rs. 700 crore to be financed in 70:30 debt to equity.

Analytical approach: Standalone, while factoring linkages with MHSA, the ultimate holding company of the group owning 91.33% interest in HNPCL through various sub hold-cos including HEIL.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Rating Outlook and Credit Watch](#)

[Infrastructure Sector Ratings](#)

[Power Generation Projects](#)

[Thermal Power](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

About the company

HNPCL is part of Hinduja Group. The company operates coal based sub-critical thermal power project of 1,040 MW (2 x 520) in Village Palavalasa, Dist. Vishakhapatnam, Andhra Pradesh. The company is promoted by HEIL (holds 51.05 % stake), Hinduja

Energy (Mauritius) Limited (holds 40.27% stake), Machen Development Corporation (holds 4.84% stake) and balance is held by Steag Energy Services GmbH.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Total operating income	1,764.37	1,486.81	NA
PBILDT	1,315.94	1,289.42	NA
PAT	-153.01	290.53	NA
Overall gearing (times)	5.45	2.49	NA
Interest coverage (times)	1.52	1.60	NA

A: Audited; UA: Unaudited; NA: Not available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	1290.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	-	December 2037	301.64	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	-	December 2037	5149.31	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	-	March 2025	1000.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	-	September 2023	154.55	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	-	February 2023	36.38	CARE A-; Stable
Non-fund-based - LT-Bank Guarantee	-	-	-	-	284.00	CARE A-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	1290.00	CARE A-; Stable	1)CARE A- (RWN) (27-Dec-22)	1)CARE A- (CW with Negative Implications) (07-Oct-21)	1)CARE A- (CW with Negative Implications) (30-Mar-21) 2)CARE A- (CW with	1)CARE A- (CW with Developing Implications) (20-Mar-20) 2)CARE A- (CW with

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
							Negative Implications) (22-Oct-20)	Developing Implications) (04-Apr-19)
2	Fund-based - LT-Term Loan	LT	301.64	CARE A-; Stable	1)CARE A-(RWN) (27-Dec-22)	1)CARE A-(CW with Negative Implications) (07-Oct-21)	1)CARE A-(CW with Negative Implications) (30-Mar-21) 2)CARE A-(CW with Negative Implications) (22-Oct-20)	1)CARE A-(CW with Developing Implications) (20-Mar-20) 2)CARE A-(CW with Developing Implications) (04-Apr-19)
3	Fund-based - LT-Term Loan	LT	5149.31	CARE A-; Stable	1)CARE A-(RWN) (27-Dec-22)	1)CARE A-(CW with Negative Implications) (07-Oct-21)	1)CARE A-(CW with Negative Implications) (30-Mar-21) 2)CARE A-(CW with Negative Implications) (22-Oct-20)	1)CARE A-(CW with Developing Implications) (20-Mar-20) 2)CARE A-(CW with Developing Implications) (04-Apr-19)
4	Fund-based - LT-Term Loan	LT	1000.00	CARE A-; Stable	1)CARE A-(RWN) (27-Dec-22)	1)CARE A-(CW with Negative Implications) (07-Oct-21)	1)CARE A-(CW with Negative Implications) (30-Mar-21) 2)CARE A-(CW with Negative Implications) (22-Oct-20)	-
5	Non-fund-based - LT-Bank Guarantee	LT	284.00	CARE A-; Stable	1)CARE A-(RWN) (27-Dec-22)	1)CARE A-(CW with Negative Implications) (07-Oct-21)	1)CARE A-(CW with Negative Implications) (30-Mar-21) 2)CARE A-(CW with Negative Implications) (22-Oct-20)	-
6	Fund-based - LT-Term Loan	LT	154.55	CARE A-; Stable	1)CARE A-(RWN) (27-Dec-22)	-	-	-
7	Fund-based - LT-Term Loan	LT	36.38	CARE A-; Stable	1)CARE A-(RWN) (27-Dec-22)	-	-	-

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please [click here](#).

Note on the complexity levels of the rated instruments: CARE Ratings Limited (CARE Ratings) 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.

Contact us

Media contact

Name: Mradul Mishra

Phone: +91-22-6754 3596

E-mail: mradul.mishra@careedge.in

Analyst Contact

Name: Agnimitra Kar

Phone: +91-11-4533 3285

E-mail: agnimitra.kar@careedge.in

Relationship contact

Name: Saikat Roy

Phone: +91-22-6754 3404

E-mail: saikat.roy@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**