

North Eastern Electric Power Corporation Limited (NEEPCO)

**Rating
Rationale**

April 16, 2014

Instruments	Amount (Rs. Crore)	Rating
Non-Convertible Debentures	200.00	SMERA AA+/Stable (Assigned)

SMERA has assigned rating of '**SMERA AA+**' (read as **SMERA Double A Plus**) to the proposed Rs.200 crore Non-Convertible Debentures (NCDs) issue of North Eastern Electric Power Corporation Limited (NEEPCO). The outlook is '**Stable**'. The rating reflects NEEPCO's strategic importance to the Government of India. The rating also reflects NEEPCO's established track record of operations, strong market position in the North Eastern Region of India and healthy financial profile. However, the rating is constrained by NEEPCO's exposure to financially-stressed electricity distribution companies.

NEEPCO, established in 1976, is an electricity generation undertaking owned by the Government of India (GoI). NEEPCO's importance to the GoI stems from the Corporation's key role in serving the power requirements of the North Eastern Region (NER) of India. Moreover, NEEPCO plays a central role in facilitating energy infrastructure development in the NER region. NEEPCO derives strong funding support from the GoI, which has periodically provided equity and loans to the Corporation. The GoI has also guaranteed NEEPCO's debt obligations in the past. SMERA believes NEEPCO will continue to receive support from the GoI over the medium term.

NEEPCO since its inception has built and currently operates five hydro and two thermal power plants with installed capacities of 755 MW and 375 MW respectively. The Corporation is expected to add another 922 MW during the 12th Five Year Plan, thereby raising the total installed capacity to 2,052 MW. NEEPCO is also expected to participate in building the 3750 MW Upper Siang Hydro Electric Project Stage II in Arunachal Pradesh. The Corporation is currently the largest power producer in NER and caters to around 50 percent of the region's energy requirements. NEEPCO has a healthy financial profile marked by a robust net worth of Rs.5,004.70 crore and healthy gearing of 0.38 times as on March 31, 2013.

NEEPCO caters to the electricity requirements of the NER of India and is thus exposed to financially-stressed state-owned electricity distribution companies. As on March 31, 2013, NEEPCO's total receivables from state-owned electricity distribution companies stood at Rs.744.93 crore, which represents about 56 percent of the Corporation's net sales of FY 2012-13 (refers to financial year, April 01 to March 31). NEEPCO benefits from a tripartite agreement (between the GoI, Reserve Bank of India and NER states) that defines recovery mechanism for old dues. However, the agreement is not structured to ensure timely recovery of current dues.

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Rating sensitivity factors

- Timely execution of debt-funded capital expenditure planned by the corporation.
- Timely infusion of equity funds by the GoI.

Outlook: Stable

SMERA believes the outlook on NEEPCO's rated instruments will remain stable over the medium term. The Corporation is likely to benefit from its established market position. NEEPCO will also continue to benefit from the strong support provided by the GoI. The outlook may be revised to 'Positive' in case of sustained improvement in recoveries of dues from state owned entities. The outlook may be revised to 'Negative' in case the Corporation receives lower-than-expected support from the GoI, or in case of time and cost overruns in project execution and sustained delays in recovery of dues from state owned electricity distribution companies.

About the Corporation

NEEPCO, established in 1976, is a wholly-owned undertaking of the Government of India. NEEPCO was set up to tap the power potential and facilitate energy infrastructure development in the NER of India. NEEPCO is a Miniratna Category – I company.

For FY2012-13, NEEPCO registered operating income of Rs.1,387.01 crore and PAT of Rs.242.30 crore, as compared with operating income of Rs.1,261.54 crore and PAT of Rs.219.12 crore during FY 2011-12. NEEPCO's net worth as on March 31, 2013 stood at Rs.5,004.70 crore.

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