July 02, 2021

Tata Power Delhi Distribution Limited: Long-term rating upgraded to [ICRA]AA (Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	3,505.00	3,405.00	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Stable)
Fund-based Working Capital Limits	595.00	795.00	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Stable)
Non-fund Based Working Capital Limits	820.00	720.00	[ICRA]A1+; reaffirmed
Short-term Bank Facility	375.00	375.00	[ICRA]A1+; reaffirmed
Commercial Paper	500.00	500.00	[ICRA]A1+; reaffirmed
Total	**5,795.00**	**5,795.00**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the long-term rating of Tata Power Delhi Distribution Limited (TPDDL) centrally factors in the improvement in the credit profile of its parent-The Tata Power Company Limited (TPCL), which holds a majority stake (51%) in the company. Power distribution is a strategically important area for TPCL with its established distribution business in Mumbai and the recently acquired distribution license in Odisha. TPDDL benefits from the operational and management support from TPCL and ICRA expects that TPCL will extend financial support to TPDDL, if the need arises, given its strategic importance and reputation. TPDDL enjoys strong financial flexibility with access to funds from various institutions, by virtue of its parentage and cost-plus ROE business model. The ratings factor in the favourable regulatory regime, which is expected to result in the recovery of costs, prevent creation of regulatory assets (RA) and aid liquidation of the existing RA. These include continuation of deficit revenue recovery surcharge (DRRS), seamless implementation of power purchase adjustment charges (PPAC) mechanism, recovery of operations and maintenance (O&M) expenses based on operational parameters, sharing of refinancing and aggregate technical and commercial (AT&C) loss reduction benefits, and higher retention of other business income. TPDDL's ratings derive comfort from its favourable operating position due to the cost-plus ROE nature of its core business (notwithstanding past mismatches), its ability to meet stringent operating parameters (including AT&C loss-reduction measures laid down by DERC), as well as the advantageous demographic characteristics of the license area with stable demand growth and large share of commercial and industrial (C&I) consumers. The company has achieved regulatory surplus in the past few years, which had brought down the RA base. However, there has been a build-up in the same in FY2019 and FY2020 owing to high power purchase cost (arrear bills of gencos). With reduced demand on account of imposition of lockdown, RA have continued to increase in FY2021 as well.

TPDDL's ratings, however, are constrained by the high level of provisionally recognised/yet-to-be-approved RA, which is mainly caused by delay in final true-up of capitalisation of the earlier years. All related issues are under review and a positive outcome will lend certainty towards the recovery of provisionally recognised RAs. Additionally, uncertainty remains regarding the timing of the liquidation of the approved RAs, as tariff hike has remained modest in the past couple of years. Despite high RAs and redemption of high-cost preference share capital (Rs. 500-crore preference share capital redeemed in February 2019), the debt levels have remained stable. The high debt levels resulted in high repayment obligations and modest debt coverage indicators. However, ICRA's ratings draw comfort from the fact that the deficits and the carrying costs of such deficits are likely to be ultimately recovered through tariff hikes. Under the current regulatory regime, TPDDL's tariffs are determined on a cost-plus basis (controllable and uncontrollable) and power purchase cost (PPC) is one of the major contributors to uncontrollable expenses and is thus eligible for true-up.

The Stable outlook on the [ICRA]AA rating reflects ICRA's opinion that TPDDL will continue to benefit its linkages with TPCL and the cost-plus tariff regime, which will aid repayment of obligations, liquidation of RAs and increase in cash accruals.

Key rating drivers and their description

Credit strengths

Strong parentage – TPDDL benefits from the operational and managerial support from its parent TPCL. The parent company has a strong operational and financial credit profile with a healthy scale of operations and presence across generation, distribution and transmission businesses. Being a part of the Tata Group, the company enjoys strong financial flexibility and accessibility to funds from a variety of institutions. Given the strategically important distribution business of TPDDL, it is expected that the operations of the same will be financially supported by TPCL, should the need arise.

Cost-plus tariff regime with assured return – This ensures ultimate recovery of costs incurred as per the applicable Tariff Regulations (subject to approval), return on equity and opportunity to generate additional income through incentives. In the medium to long run, the cost-plus nature of the tariff-setting process will allow the eventual recovery of all costs, notwithstanding the current mismatches.

Cost-reflective tariff – TPDDL's cost-reflective tariff enabled it to realise revenue surplus in FY2016–FY2018. The the PPCs were higher in FY2019 and FY2020 (on account of arrear bills from gencos), which resulted in build-up of RAs during the respective years. However, the presence of PPAC mechanism enables the company to recover the cost increase, although with a lag. It has recovered Rs. 489.5 crore in FY2020 and Rs. 494.7 crore in FY2021 by levy of PPAC.

High operational efficiency – The AT&C loss levels have been coming down over the years, enabling overachievement of targets specified by DERC. This has enabled company to earn assured returns and incentives. The AT&C loss stood at 6.48% in FY2021 against the target of 8.36% set by DERC for FY2021. The same improved from 7.87% in FY2020, backed by higher collection efficiency resulting from collection of slippages towards end of FY2020.

Favourable customer profile – TPDDL's customer profile is skewed towards industrial and commercial consumers with limited agricultural consumption and stable demand growth. This too has aided in the effective implementation of loss-reduction initiatives of the company, resulting in sustained reduction in AT&C loss levels.

Credit challenges

Substantial quantum of provisional/unapproved regulatory gap – The provisional true-up for some components such as capitalisation and provisional allowance of Rithala PPCs resulted in the deferment of recoveries and a significant difference between the approved and actual RAs outstanding in the company's books as on March 31, 2019 (true-up done till FY2019). As against the provisionally approved RA of Rs. 1,890 crore as on March 31, 2019 (provisionally trued-up by DERC), the RA stood at Rs. 4,579 crore (excluding deferred tax adjustment) as on March 31, 2019. The RA stood at Rs. 5,162 crore (excluding deferred tax adjustment) as on March 31, 2021.

Uncertainty regarding timing/period of recovery of RAs – With RAs of more than Rs. 5,000 crore outstanding, there is significant uncertainty regarding the recovery time frame for the same. Most of the outstanding RA has been accumulated in the period from FY2010 to FY2015. Therefore, to address the issue, DERC, in 2014, announced a roadmap for liquidation of revenue gap in eight years and has continued 8% deficit revenue recovery surcharge and 5% (increased from 3.8% earlier) pension trust surcharge (to cover extra cost of pension trust liability) in the current tariff order for FY2021. Further, seamless implementation of PPAC (which now allows for levy of PPAC for up to 8.75% increase in PPC, without regulatory approval, if increase in PPC is more than 10%) will decrease the incidence of mismatch in the PPC, the largest component of the company's cost structure. Despite these favourable steps taken by the regulator, any meaningful liquidation of RA will require increase in tariff, while balancing the interests of the discom, along with that of the consumers of electricity.

Levered capital structure – Debt funding of the RA has resulted in relatively high gearing levels as reflected in TD/OPBITDA of 2.7 times in FY2021 and significant debt repayment obligations for the company. Nevertheless, its debt levels are typically higher for utility companies with regulated nature of business, wherein payments are to be recovered over an extended period of time. Moreover, TPDDL can refinance its RA loans if the revenues are inadequate in any particular period (carrying cost for funding of approved RAs is allowed by the regulator).

Liquidity position: Adequate

TPDDL's liquidity is **adequate**, backed by strong financial flexibility, undrawn line of credit of Rs. 604 crore as on March 31, 2021 and average cushion of Rs. 458 crore in the FY2021 (total borrowing from all secured and unsecured sources compared to the available drawing power of the company). It has high repayment obligations as depicted by an estimated average ~Rs. 620 crore during FY2022–FY2024. However, the same remains supported by stable cash flows from the existing tariff and its strong ability to raise funds in case of delay in liquidation of regulatory asset. Repayment of the RA loans form ~62% of the company's total repayments during FY2022–FY2024. TPDDL intends to incur annual capex of ~Rs. 311 crore in FY2022, ~70% of which (excluding consumer deposit work) will be funded through debt.

Rating sensitivities

Positive factors – ICRA could upgrade TPDDL's ratings if there is an improvement in the credit profile of the parent.

Negative factors – Negative pressure on TPDDL's ratings could arise if lack of adequate tariff hike significantly delays liquidation/leads to creation of RA resulting in TD/OPBITDA remaining above 3.0 times on a sustained basis. Deterioration in credit profile of parent TPCL or weakening in linkages with TPCL/ change in support philosophy of parent TPCL towards TPDDL may also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Power Distribution Utilities
Parent/Group Support	Parent/Group Company - The Tata Power Company Limited (51% shareholding in TPDDL) We expect TPDDL's parent, TPCL (rated [ICRA]AA(Stable)/A1+), to be willing to extend financial support to TPDDL, should there be a need, given the high strategic importance of TPDDL for the parent for meeting its diversification and strategic growth objectives; both TPCL and TPDDL share a common name, which in ICRA's opinion would persuade TPCL to provide financial support to TPDDL to protect its reputation from the consequences of a Group entity's distress
Consolidation/Standalone	The ratings are based on consolidated financial statements of the rated entity

About the company

TPDDL, which is a 51:49 joint venture (JV) of TPCL and the Government of Delhi (GoD), is involved in the distribution of power in the northern and north-western parts of Delhi with a customer base of ~1.7 million. The company commenced its commercial operations on July 1, 2002, post unbundling of Delhi Vidyut Board (DVB). Until FY2002, the entire business of generation, transmission and distribution of power in Delhi was carried out by the erstwhile DVB. In FY2002, the Delhi Government enacted a legislation called the Delhi Electricity Reforms Act (DERA) to unbundle DVB into separate companies for carrying out generation, transmission and distribution-related activities. As a part of the unbundling exercise, the entire state was divided into three regions, namely Central-East, South-West and North-North West. It was proposed that the distribution of power in each of these regions would be handled by a separate discom, each of which would be a 51:49 JV of a private player and the GoD. The three distribution regions were then offered to private companies for a 51% equity participation by way of bids. Based on these bids, the Tata Group won the North-North West circle and TPDDL commenced commercial operations on July 1, 2002.

Key financial indicators (audited)

TPDDL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)*	8,450.8	7,408.5
PAT (Rs. crore)	416.8	429.2
OPBDIT/OI (%)*	15.8%	16.9%
PAT/OI (%)	4.9%	5.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	1.9
Total Debt/OPBDIT (times)*	2.6	2.7
Interest Coverage (times)*	3.9	3.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

**Operating income and OPBITD include -regulatory (surplus)/ deficit expense/ income. Debt includes lease liabilities*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jul 2, 2021	Nov 13, 2020	Oct 11, 2019	May 30, 2018 Nov 5, 2018
1	Term Loans	Long-term	3405.00	2933.04	**[ICRA]AA (Stable)**	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Positive)
2	Fund-based Working Capital Limits	Long-term	795.00	-	**[ICRA]AA (Stable)**	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Positive)
3	Non-fund Based Working Capital Limits	Short-term	720.00	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Short-term Bank Facility	Short-term	375.00	0.00	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial Paper	Short-term	500.00	0.00	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Short-term Debt	Short-term	-	-	-	[ICRA]A1+ withdrawn	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Fund-based Working Capital Limits	Simple
Non-fund Based Working Capital Limits	Very Simple
Short-term Bank Facility	Not applicable
Commercial Paper	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Working Capital Limits	-	-	-	795.00	[ICRA]AA(Stable)
NA	Non-fund Based Working Capital Limits	-	-	-	720.00	[ICRA]A1+
NA	Short Term Bank Facility	-	-	-	375.00	[ICRA]A1+
INE493F14375	Commercial Paper*	7-May-2021	4.10%	6-Aug-2021	150.00	[ICRA]A1+
NA	Commercial Paper - Unplaced	-	-	-	350.00	[ICRA]A1+
NA	Term Loan 1	Aug-13	NA	Oct-23	78.13	[ICRA]AA(Stable)
NA	Term Loan 2	Nov-19	NA	Feb-26	79.17	[ICRA]AA(Stable)
NA	Term Loan 3	Nov-19	NA	Feb-30	200.00	[ICRA]AA(Stable)
NA	Term Loan 4	Sep-17	NA	Nov-22	91.76	[ICRA]AA(Stable)
NA	Term Loan 5	Jun-19	NA	Nov-21	25.00	[ICRA]AA(Stable)
NA	Term Loan 6	Sep-17	NA	Jan-26	79.17	[ICRA]AA(Stable)
NA	Term Loan 7	May-13	NA	Apr-23	22.22	[ICRA]AA(Stable)
NA	Term Loan 8	Apr-14	NA	Apr-24	75.00	[ICRA]AA(Stable)
NA	Term Loan 9	Apr-14	NA	Apr-22	16.67	[ICRA]AA(Stable)
NA	Term Loan 10	Sep-16	NA	Oct-26	68.75	[ICRA]AA(Stable)
NA	Term Loan 11	Jul-17	NA	Oct-25	150.00	[ICRA]AA(Stable)
NA	Term Loan 12	Jun-18	NA	Jul-28	90.63	[ICRA]AA(Stable)
NA	Term Loan 13	Jun-18	NA	Oct-23	55.56	[ICRA]AA(Stable)
NA	Term Loan 14	Sep-18	NA	Oct-28	93.75	[ICRA]AA(Stable)
NA	Term Loan 15	Sep-18	NA	Apr-24	120.00	[ICRA]AA(Stable)
NA	Term Loan 16	Jul-19	NA	Jun-25	35.42	[ICRA]AA(Stable)
NA	Term Loan 17	Sep-19	NA	Jun-25	35.42	[ICRA]AA(Stable)
NA	Term Loan 18	Oct-19	NA	Aug-29	200.00	[ICRA]AA(Stable)
NA	Term Loan 19	Jan-20	NA	Sep-25	112.50	[ICRA]AA(Stable)
NA	Term Loan 20	Feb-21	NA	May-26	200.00	[ICRA]AA(Stable)
NA	Term Loan 21	Mar-17	NA	Jan-27	71.88	[ICRA]AA(Stable)
NA	Term Loan 22	Mar-17	NA	Jan-25	62.50	[ICRA]AA(Stable)
NA	Term Loan 23	Jun-18	NA	Oct-28	187.50	[ICRA]AA(Stable)
NA	Term Loan 24	Dec-12	NA	Jan-23	65.63	[ICRA]AA(Stable)
NA	Term Loan 25	Mar-15	NA	Apr-23	50.00	[ICRA]AA(Stable)
NA	Term Loan 26	Aug-15	NA	Jan-26	59.38	[ICRA]AA(Stable)
NA	Term Loan 27	Aug-15	NA	Jan-24	68.75	[ICRA]AA(Stable)
NA	Term Loan 28	Jun-14	NA	May-24	75.00	[ICRA]AA(Stable)
NA	Term Loan 29	Jun-19	NA	Jul-29	200.00	[ICRA]AA(Stable)
NA	Term Loan 30	Mar-21	NA	Jan-31	200.00	[ICRA]AA(Stable)
NA	Term Loan – Unallocated	-	-	-	535.25	[ICRA]AA(Stable)

**as on May 31, 2021*

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	TPDDL Ownership	Consolidation Approach
Tata Power Delhi Distribution Limited	- (rated entity)	Full Consolidation
NDPL Infra Limited	100.00%	Full consolidation

Source: *TPDDL*

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