February 28, 2023

Tata Power Delhi Distribution Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	3,405.00	2695.00	[ICRA]AA(Stable); reaffirmed
Fund-based Limits	795.00	1355.00	[ICRA]AA(Stable); reaffirmed
Non-fund Based Limits	720.00	945.00	[ICRA]A1+; reaffirmed
Short-term Loans	375.00	300.00	[ICRA]A1+; reaffirmed
Commercial Paper	500.00	500.00	[ICRA]A1+; reaffirmed
Total	**5795.00**	**5795.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings of Tata Power Delhi Distribution Limited (TPDDL) factors in the strong credit profile of its parent - 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 licences in Odisha. TPDDL benefits from the operational and management support from TPCL and ICRA expects TPCL to 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 recovery of costs, prevent creation of regulatory assets (RA) and aid liquidation of the existing RA. The ratings positively consider factors such as continuation of deficit recovery surcharge (DRRS), seamless implementation of the 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 had achieved regulatory surplus prior to FY2019 leading to liquidation of regulatory assets. However since FY20219 the regulatory assets have built up owing to increase power purchase posts in FY2019 and FY2020 followed by lower demand in FY2021 due to Covid-19. The carrying cost on the approved RAs continue to result in regulatory asset accretion although the pace of increase has remained low due to the positive ARR-ACS gap since FY2021.

TPDDL's ratings, however, are constrained by the high level of provisionally recognised/yet-to-be-approved RA, which is mainly caused by the 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 the provisionally recognised RAs. Additionally, uncertainty remains regarding the timing of the liquidation of the approved RAs as the tariff hike has remained modest in the past couple of years and the tariff order for FY2023 remains pending as on date. The high debt levels on account of delayed liquidation of RAs have resulted in high repayment obligations and modest debt coverage indicators, although with cost reflective tariffs the coverage indicators have improvement over the past couple of years. 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 the 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 PPCs were higher in FY2019 and FY2020 (on account of arrear bills from gencos) and FY2021 (higher PPC and lower demand, which resulted in build-up of RAs during the respective years. While the RA buildup has continued, the PPAC mechanism has ensured the accretion of the same remains slow as was witnessed in FY2022 and H1 FY2023.

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 6.77% in FY2022 against the target of 8.26% set by DERC for FY2022. The same has moderated over 6.48% achieved in FY2021 owing to slight moderation in the collection efficiency during the year. AT&C loss stood at 7.15% in 12 months ended September 2022 (mainly due to spillover of billings and subsidy receivable from Government Delhi beyond September 30, 2022). The same is expected to fall inline with previous trend by the end of FY2023. Nevertheless, TPDDL's AT&C losses continue to remain significantly better than the normative norms.

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, 2020 (true-up done till FY2020). As against the provisionally approved RA of Rs. 1,763 crore as on March 31, 2020 (provisionally trued-up by DERC), the RA stood at Rs. 4,919 crore (excluding deferred tax adjustment) as on March 31, 2020. The RA stood at Rs. 5,606 crore (excluding deferred tax adjustment) as on December 31, 2022.

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, has continued 8% deficit revenue recovery surcharge till date in the current tariff order for FY2022. 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.

Capital structure impacted by funding of regulatory assets – Debt funding of the RA has resulted in relatively high financial leverage ratios as reflected in TD/OPBITDA of 2.21 times in FY2022 and significant debt repayment obligations for the company. Nevertheless, the 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 raise loans against its approved RA, 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. 826 crore as on December 31, 2022 and average cushion in limits stood at Rs. 550 crore for 12 months ending December 2022. The company has significant repayment obligations over the course of next three years ~Rs. 350-600 crore per annum. 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 the liquidation of regulatory assets. The 70% of the capex requirements (excluding the consumer security deposit work) will be funded through term loans.

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, taking the TD/OPBITDA above 3.0 times on a sustained basis. Deterioration in the credit profile of the parent or weakening of linkages with TPCL/change in the support philosophy of the parent 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 the Delhi Vidyut Board (DVB). Until FY2002, the entire business of generation, transmission and distribution of power in Delhi was carried out by 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 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	FY2021	FY2022
Operating income	7,408.5	8,130.3
PAT	429.2	439.5
OPBDIT/OI	16.9%	16.5%
PAT/OI	5.8%	5.4%
Total outside liabilities/Tangible net worth (times)	1.9	1.7
Total debt/OPBDIT (times)	2.7	2.2
Interest coverage (times)	3.6	4.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Jan 31, 2023 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					28-Feb-23	2-Jul-21 4-Feb-22	13-Nov-20	11-Oct-19
1	Term Loans	Long-term	2695	2071.6	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Fund-based Limits	Long-term	1355	-	**[ICRA]AA (Stable)**	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Non-fund Based Limits	Short-term	945	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Short-term Loans	Short-term	300	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial Paper	Short-term	500	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Short-term Debt	Short-term	-	-	**-**	-	[ICRA]A1+ withdrawn	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Fund-based Limits	Simple
Non-fund Based Limits	Very Simple
Short-term Loans	Simple
Commercial Paper	Very 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Limits	-	-	-	1355	[ICRA]AA(Stable)
NA	Non-fund Based Limits	-	-	-	945	[ICRA]A1+
NA	Short Term Loans	-	-	-	300	[ICRA]A1+
NA	Commercial Paper-Unplaced*	-	-	-	500	[ICRA]A1+
NA	Term Loan 1	NA	NA	FY2026	71.43	[ICRA]AA(Stable)
NA	Term Loan 2	NA	NA	FY2026	50	[ICRA]AA(Stable)
NA	Term Loan 3	NA	NA	FY2024	2.78	[ICRA]AA(Stable)
NA	Term Loan 4	NA	NA	FY2024	31.25	[ICRA]AA(Stable)
NA	Term Loan 5	NA	NA	FY2027	46.88	[ICRA]AA(Stable)
NA	Term Loan 6	NA	NA	FY2026	91.67	[ICRA]AA(Stable)
NA	Term Loan 7	NA	NA	FY2027	150	[ICRA]AA(Stable)
NA	Term Loan 8	NA	NA	FY2028	71.88	[ICRA]AA(Stable)
NA	Term Loan 9	NA	NA	FY2026	20.83	[ICRA]AA(Stable)
NA	Term Loan 10	NA	NA	FY2030	168.75	[ICRA]AA(Stable)
NA	Term Loan 11	NA	NA	FY2032	100	[ICRA]AA(Stable)
NA	Term Loan 12	NA	NA	FY2024	16.67	[ICRA]AA(Stable)
NA	Term Loan 13	NA	NA	FY2025	50	[ICRA]AA(Stable)
NA	Term Loan 14	NA	NA	FY2026	20.83	[ICRA]AA(Stable)
NA	Term Loan 15	NA	NA	FY2029	68.75	[ICRA]AA(Stable)
NA	Term Loan 16	NA	NA	FY2026	50.00	[ICRA]AA(Stable)
NA	Term Loan 17	NA	NA	FY2029	71.88	[ICRA]AA(Stable)
NA	Term Loan 18	NA	NA	FY2024	33.33	[ICRA]AA(Stable)
NA	Term Loan 19	NA	NA	FY2024	23.44	[ICRA]AA(Stable)
NA	Term Loan 20	NA	NA	FY2027	54.17	[ICRA]AA(Stable)
NA	Term Loan 21	NA	NA	FY2026	37.5	[ICRA]AA(Stable)
NA	Term Loan 22	NA	NA	FY2023	6.25	[ICRA]AA(Stable)
NA	Term Loan 23	NA	NA	FY2024	25	[ICRA]AA(Stable)
NA	Term Loan 24	NA	NA	FY2028	83.32	[ICRA]AA(Stable)
NA	Term Loan 25	NA	NA	FY2029	143.75	[ICRA]AA(Stable)
NA	Term Loan 26	NA	NA	FY2025	37.5	[ICRA]AA(Stable)
NA	Term Loan 27	NA	NA	FY2030	162.5	[ICRA]AA(Stable)
NA	Term Loan 28	NA	NA	FY2031	200	[ICRA]AA(Stable)
NA	Term Loan 29	NA	NA	FY2030	181.25	[ICRA]AA(Stable)
NA	Term Loan – Unallocated	NA	NA	NA	623.39	[ICRA]AA(Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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: Company

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