August 09, 2023

Tata Power Delhi Distribution Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based - Term loans	2,695.00	2,540.00	[ICRA]AA (Positive); rating reaffirmed; outlook revised to Positive from Stable
Long term - Fund-based limits – Working capital facilities	1,355.00	1,355.00	[ICRA]AA (Positive); rating reaffirmed; outlook revised to Positive from Stable
Short term - Non-fund based limits	945.00	1100.00	[ICRA]A1+; rating reaffirmed
Short-term loans	300.00	300.00	[ICRA]A1+; rating reaffirmed
Commercial paper*	500.00	500.00	[ICRA]A1+; rating reaffirmed
Total	**5,795.00**	**5,795.00**	

^Instrument details are provided in Annexure-I

** Unplaced*

Rationale

The revision in the outlook on the long-term rating assigned to Tata Power Delhi Distribution Limited (TPDDL) factors in the improved credit profile of its parent, Tata Power Company Limited {TPCL; rated [ICRA]AA(Positive)}, which holds a majority stake (51%) in the company, led by improvement in its operating and financial performance across the generation and distribution businesses. 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 Tata Power 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 the 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 the AT&C loss-reduction measures laid down by the Delhi Electricity Regulatory Commission, or DERC), as well as the advantageous demographic characteristics of the licence area with stable demand growth and a large share of commercial and industrial (C&I) consumers.

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 and FY2024 remains pending as on date. An effective implementation of the PPAC mechanism has allowed the recovery of increased PPCs even though the tariff order has not been issued for the current and previous financial years. Moreover, a steady cash flow from operations and increased availability of deposits from customers have helped reduce the company's external borrowings, which in turn has supported the company's debt coverage metrics.

Additionally, 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 the power purchase cost (PPC) is one of the major contributors to the uncontrollable expenses and is thus eligible for true-up.

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 the generation, distribution and transmission businesses. Being a part of the Tata Group, the company enjoys strong financial flexibility and accessibility to funds from various 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 a build-up of RAs during the respective years. While the RA build-up has continued, the PPAC mechanism has ensured the accretion of the same remains slow, as was witnessed in FY2022 and FY2023. However, in the current fiscal, there was liquidation of RAs by levying additional PPAC (order received in June 2023 and valid till March 2024).

High operational efficiency - The AT&C loss levels have been coming down over the years, enabling overachievement of targets specified by the DERC. This has enabled the company to earn assured returns and incentives. The AT&C loss stood at 6.36% in FY2023 against the target of 8.16% set by the DERC for FY2023. The same has improved over 6.77% achieved in FY2022 owing to the improvement in collection efficiency during the year. Nevertheless, TPDDL's AT&C losses continue to be 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 the effective implementation of the company's loss-reduction initiatives, resulting in a sustained reduction in the 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 on the company's books as on March 31, 2020 (true-up done till FY2020). 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. 5,618 crore (excluding deferred tax adjustment) as on March 31, 2023.

Uncertainty regarding timing/period of recovery of RAs - With RAs of more than Rs. 5,000 crore outstanding, there is significant uncertainty regarding the timeframe of recovery. Most of the outstanding RAs have been accumulated during the period from FY2010 to FY2015. Therefore, to address the issue, the DERC, in 2014, announced a roadmap for the liquidation of the revenue gap in eight years and has continued with an 8% deficit revenue recovery surcharge and a 5% pension trust surcharge (to cover extra cost of pension trust liability) in the tariff order for FY2022. Further, a seamless implementation of PPAC 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 a tariff hike while balancing the interests of the discom and the consumers of electricity.

Capital structure impacted by funding of regulatory assets –Debt funding of the RAs has resulted in relatively high financial leverage ratios and sizeable debt repayment obligations for the company. Nevertheless, debt levels are typically higher for utility companies with a regulated nature of business, wherein the payments are to be recovered over an extended period of time. Moreover, TPDDL can refinance its RA loans if the RA liquidation is inadequate in any particular period (carrying cost for funding of approved RAs is allowed by the regulator). Moreover, a cost reflective tariff and recovery of PPAC charges have improved the leverage (TD/ OPBITDA has reduced to 1.93 times in FY2023 from 2.21 times in FY2022) as well as satisfactory debt coverage metrics.

Liquidity position: Adequate

TPDDL's liquidity is adequate, backed by strong financial flexibility and undrawn line of credit of Rs. 927 crore as on June 30, 2023. The company has a repayment obligation of ~Rs. 420-440 crore per annum over the next three years. The repayment will be supported by stable cash flows from the existing tariff and the company's strong ability to raise funds in case of delays in the liquidation of regulatory assets. Moreover, 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 – 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 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 - Tata Power Company Limited (51% shareholding in TPDDL). ICRA expects TPDDL's parent, TPCL (rated [ICRA]AA(Positive)), 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 the 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 the 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-west circle and TPDDL commenced commercial operations on July 1, 2002.

Key financial indicators (audited)

TPDDL Consolidated	FY2022	FY2023
Operating income	8,130.3	9,688.9
PAT	439.5	441.4
OPBDIT/OI	16.5%	13.4%
PAT/OI	5.4%	4.6%
Total outside liabilities/Tangible net worth (times)	1.7	1.6
Total debt/OPBDIT (times)	2.2	1.9
Interest coverage (times)	4.1	4.6

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 (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Aug 09, 2023	Feb 28, 2023	Feb 04, 2022	Jul 02, 2021	Nov 13, 2020
1	Term loans	Long term	2,540.00	2,017.28	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
2	Fund-based limits – Working capital facilities	Long term	1,355.00	--	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
3	Non-fund based limits	Short term	1100.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Short-term loans	Short term	300.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial paper	Short term	500.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Short-term debt	Short term	-	--	-	-	-	-	[ICRA]A1+; Withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based - Term loans	Simple
Long term - Fund-based limits – Working capital facilities	Simple
Short term - 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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	FY2015	NA	FY2024	25.00	[ICRA]AA (Positive)
NA	Term Loan 2	FY2017	NA	FY2027	43.75	[ICRA]AA (Positive)
NA	Term Loan 3	FY2020	NA	FY2024	16.67	[ICRA]AA (Positive)
NA	Term Loan 4	FY2022	NA	FY2032	100.00	[ICRA]AA (Positive)
NA	Term Loan 5	FY2017	NA	FY2027	46.88	[ICRA]AA (Positive)
NA	Term Loan 6	FY2019	NA	FY2029	137.50	[ICRA]AA (Positive)
NA	Term Loan 7	FY2016	NA	FY2026	34.38	[ICRA]AA (Positive)
NA	Term Loan 8	FY2015	NA	FY2025	25.00	[ICRA]AA (Positive)
NA	Term Loan 9	FY2020	NA	FY2030	156.25	[ICRA]AA (Positive)
NA	Term Loan 10	FY2021	NA	FY2031	193.75	[ICRA]AA (Positive)
NA	Term Loan 11	FY2022	NA	FY2030	168.75	[ICRA]AA (Positive)
NA	Term Loan 12	FY2023	NA	FY2029	71.88	[ICRA]AA (Positive)
NA	Term Loan 13	FY2023	NA	FY2030	162.50	[ICRA]AA (Positive)
NA	Term Loan 14	FY2023	NA	FY2035	100.00	[ICRA]AA (Positive)
NA	Term Loan 15	FY2023	NA	FY2029	71.88	[ICRA]AA (Positive)
NA	Term Loan 16	FY2014	NA	FY2024	15.63	[ICRA]AA (Positive)
NA	Term Loan 17	FY2020	NA	FY2026	45.83	[ICRA]AA (Positive)
NA	Term Loan 18	FY2018	NA	FY2026	83.33	[ICRA]AA (Positive)
NA	Term Loan 19	FY2019	NA	FY2026	11.11	[ICRA]AA (Positive)
NA	Term Loan 20	FY2020	NA	FY2026	16.67	[ICRA]AA (Positive)
NA	Term Loan 21	FY2020	NA	FY2026	56.25	[ICRA]AA (Positive)
NA	Term Loan 22	FY2017	NA	FY2025	29.17	[ICRA]AA (Positive)
NA	Term Loan 23	FY2016	NA	FY2024	18.75	[ICRA]AA (Positive)
NA	Term Loan 24	FY2022	NA	FY2028	74.98	[ICRA]AA (Positive)
NA	Term Loan 25	FY2023	NA	FY2027	150.00	[ICRA]AA (Positive)
NA	Term Loan 26	FY2023	NA	FY2026	71.43	[ICRA]AA (Positive)
NA	Term Loan 27	FY2023	NA	FY2026	49.97	[ICRA]AA (Positive)
NA	Term Loan 28	FY2023	NA	FY2025	40.00	[ICRA]AA (Positive)
NA	Term Loan 29-Unallocated	NA	NA	-	522.72	[ICRA]AA (Positive)
NA	Fund-based limits – Working capital facilities	NA	NA	NA	1,055.00	[ICRA]AA (Positive)
NA	Fund-based limits – Working capital facilities-unallocated#	NA	NA	NA	300.00	[ICRA]AA (Positive)
NA	Non-fund based limits	NA	NA	NA	950.00	[ICRA]A1+
NA	Non-fund based limits- unallocated#	NA	NA	NA	150.00	[ICRA]A1+
NA	Short-term loans	NA	NA	NA	300.00	[ICRA]A1+

NA	**Commercial paper***	NA	NA	NA	500.00	[ICRA]A1+

*Source: Company; * Unplaced; # unallocated limits as on June 30, 2023.*

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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About ICRA Limited:

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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