July 23, 2024

Tata Power Delhi Distribution Limited: Long-term rating upgraded and outlook revised to Stable; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based – Term loan	2,240.00	2,240.00	[ICRA]AA+(Stable); upgraded from [ICRA]AA(Positive); outlook revised to Stable from Positive
Long term fund-based –Working capital limit	1,355.00	1,355.00	[ICRA]AA+(Stable); upgraded from [ICRA]AA(Positive); outlook revised to Stable from Positive
Short term non-fund based	1,100.00	1,100.00	[ICRA]A1+; reaffirmed
Short term – Term loan	300.00	300.00	[ICRA]A1+; reaffirmed
Commercial paper	300.00	300.00	[ICRA]A1+; reaffirmed
Total	**5,295.00**	**5,295.00**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the long-term rating assigned to Tata Power Delhi Distribution Limited (TPDDL) factors in the improvement in the credit profile of its parent, The Tata Power Company Limited {TPCL; upgraded to [ICRA]AA+ (Stable) from [ICRA]AA (Positive)}, led by its improved operating and financial performance across the generation and distribution businesses. This performance was supported by healthy electricity demand growth, improved operating efficiencies in the distribution business, a scale-up in the renewable capacity, higher execution in the solar EPC business, operating the 4,150-MW Mundra UMPP under Section 11 of the Electricity Act and timely payments by the state distribution utilities following the implementation of the Electricity (Late Payment Surcharge and Related Matters) Rules, 2022 (LPS). Overall, the improved performance has allowed TPCL to strengthen its financial leverage and debt coverage metrics. 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.

The ratings factor in a favourable regulatory regime for the distribution business, which is expected to help recover costs, prevent the 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, and sharing of refinancing & aggregate technical and commercial (AT&C) loss reduction benefits. TPDDL enjoys strong financial flexibility with access to funds from various institutions by virtue of its parentage and cost-plus ROE business model.

TPDDL's ratings derive comfort from its favourable operating position due to the cost-plus ROE nature of its core business (notwithstanding the 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 the 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 order for FY2023, FY2024 and FY2025 is pending as on date and the tariff hike remained modest in the years prior to that. 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 the increased availability of deposits from customers have helped reduce the company's external borrowings, in turn supporting its 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.

Rating Outlook

The Stable outlook on the [ICRA]AA+ rating reflects ICRA's opinion that TPDDL will continue to benefit from its linkages with TPCL and the cost-plus tariff regime, which will aid the repayment of obligations, liquidation of RAs and growth 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 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 its operations 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 remains slow, as witnessed in FY2022 and FY2023. However, in FY2024, the company achieved its highest surplus of Rs. 818 crore with the levying of additional PPAC.

High operational efficiency - The AT&C loss levels have been coming down over the years, enabling overachievement of the targets specified by the DERC. This has enabled the company to earn assured returns and incentives. The AT&C loss stood at 5.85% in FY2024 against the target of 7.1% set by the DERC for FY2024. The same has improved over 6.36% achieved in FY2023 owing to the improvement in both the billing and collection efficiency during the year.

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. 4,708 crore (excluding deferred tax adjustment) as on March 31, 2024.

With significant RAs outstanding, there is 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 and shall remain a key monitorable.

Liquidity position: Adequate

TPDDL's liquidity is adequate, backed by strong financial flexibility and an undrawn line of credit of Rs. 449 crore and cash and liquid investments of Rs. 328 crore as on March 31, 2024. The free cash flow from operations is expected to remain adequate to meet the debt repayment obligations over the medium term, aided by steady demand growth and collection of approved tariff and surcharges, including PPAC, resulting in further liquidation of RA. 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 the credit profile of the parent improves.

Negative factors – Pressure on TPDDL's ratings could arise if lack of adequate tariff hike significantly delays liquidation or leads to the 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, or 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+(Stable)), 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 northwestern parts of Delhi with a customer base of 2.0 million. The company commenced its commercial operations on July 1, 2002, post the 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 began commercial operations on July 1, 2002.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	9,688.9	9,397.6
PAT	441.4	454.6
OPBDIT/OI	13.4%	14.0%
PAT/OI	4.6%	4.8%
Total outside liabilities/Tangible net worth (times)	1.6	1.5
Total debt/OPBDIT (times)	1.9	1.4
Interest coverage (times)	4.6	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 (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 23, 2024	Aug 09, 2023 and Dec 12, 2023	Feb 28, 2023	Feb 04, 2022 and Jul 02, 2021
1	Term loan	Long term	2,240.00	[ICRA]AA+(Stable)	[ICRA]AA(Positive)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
2	Fund based –Working capital limit	Long term	1,355.00	[ICRA]AA+(Stable)	[ICRA]AA(Positive)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
3	Non-fund based limits	Short term	1,100.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Short-term loan	Short term	300.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial paper	Short term	300.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

**Yet to be placed*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Fund based –Working capital limit	Simple
Non-fund based limits	Very Simple
Short-term loan	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan 1**	FY2017	-	FY2027	31.25	[ICRA]AA+(Stable)
NA	**Term loan 2**	FY2020	-	FY2026	8.33	[ICRA]AA+(Stable)
NA	**Term loan 3**	FY2022	-	FY2032	96.88	[ICRA]AA+(Stable)
NA	**Term loan 4**	FY2020	-	FY2026	34.38	[ICRA]AA+(Stable)
NA	**Term loan 5**	FY2020	-	FY2030	131.25	[ICRA]AA+(Stable)
NA	**Term loan 6**	FY2021	-	FY2031	168.75	[ICRA]AA+(Stable)
NA	**Term loan 7**	FY2022	-	FY2030	143.75	[ICRA]AA+(Stable)
NA	**Term loan 8**	FY2023	-	FY2029	67.65	[ICRA]AA+(Stable)
NA	**Term loan 9**	FY2023	-	FY2030	162.50	[ICRA]AA+(Stable)
NA	**Term loan 10**	FY2023	-	FY2035	100.00	[ICRA]AA+(Stable)
NA	**Term loan 11**	FY2023	-	FY2029	71.88	[ICRA]AA+(Stable)
NA	**Term loan 12**	FY2024	-	FY2029	125.00	[ICRA]AA+(Stable)
NA	**Term loan 13**	FY2024	-	FY2026	21.79	[ICRA]AA+(Stable)
NA	**Term loan 14**	FY2017	-	FY2027	29.17	[ICRA]AA+(Stable)
NA	**Term loan 15**	FY2018	-	FY2026	50.00	[ICRA]AA+(Stable)
NA	**Term loan 16**	FY2020	-	FY2026	8.33	[ICRA]AA+(Stable)
NA	**Term loan 17**	FY2020	-	FY2026	31.25	[ICRA]AA+(Stable)
NA	**Term loan 18**	FY2017	-	FY2025	12.50	[ICRA]AA+(Stable)
NA	**Term loan 19**	FY2023	-	FY2027	150.00	[ICRA]AA+(Stable)
NA	**Term loan 20**	FY2023	-	FY2026	57.14	[ICRA]AA+(Stable)
NA	**Term loan 21**	FY2023	-	FY2026	49.97	[ICRA]AA+(Stable)
NA	**Term loan 22**	FY2024	-	FY 2028	58.29	[ICRA]AA+(Stable)
NA	**Term loan - Unallocated**	-	-	-	629.94	[ICRA]AA+(Stable)
NA	**Fund based –Working capital limit**	-	-	-	1,355.00	[ICRA]AA+(Stable)
NA	**Non-fund based limits**	-	-	-	1,100.00	[ICRA]A1+
NA	**Short-term loan**	-	-	-	300.00	[ICRA]A1+
NA	**Commercial paper***	-	-	-	300.00	[ICRA]A1+

Source: Company
**Yet to be placed*

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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