BSES Rajdhani Power Limited

February 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,676.17 (Reduced from 1,789.90)	CARE BBB; Stable	Reaffirmed
Short-term bank facilities	701.00	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirming ratings assigned to BSES Rajdhani Power Limited (BRPL) continues to derive strength from its status as monopoly for distribution of power in licensed territories of Delhi and cost-plus nature of its business with assured return. Ratings also factor its healthy and continuously improving operational efficiency and its efficient overhead management. The provision of Power Purchase Adjustment Charge (PPAC) and the recent increase in PPAC component thus enabling the company to recover power purchase cost spikes to a larger extent, provides strength to the ratings. The continuation of regulatory asset (RA) surcharge provision partially offsets the limited tariff hike over the years. Ratings also continue to factor in the absence of financial linkage of BRPL with its weak parent in the past.

However, strengths of ratings are constrained by elevated level of regulatory assets and significant gap in regulatory assets approved by Delhi Electricity Regulatory Commission (DERC) and the regulatory deferral account balance recognized in the books of account. Strengths of ratings are tempered by the Business Plan Regulations (BPR), 2023 rolled out by DERC which stipulates reduction in return on equity from 16% to 14% on post-tax basis for wheeling and retail business as a whole. Ratings are sensitive to high level of overdue power purchase creditors, BRPL's high leverage and debt-funded capital expenditure (capex) envisaged in the medium term.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Favourable regulatory proceedings leading to substantially reducing regulatory deferral account balance.
- Significantly reducing power purchase creditor and debt outstanding on annual basis.

Negative factors

- Increasing average cost of supply (ACS) – average revenue realized (ARR) gap (on cash basis) beyond ₹ 0.35/unit
- Higher-than-envisaged increase in overall gearing (adjusted for power purchase creditor)
- Up-streaming of cash flows to parent company, thus weakening the liquidity of BRPL

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the company's ability to maintain low aggregate technical and commercial (AT&C) loss in the medium term. The financial risk profile of the company is expected to remain moderate on account of manageable debt levels, offset by higher creditors.

Detailed description of the key rating drivers:

Key strengths

Regulated monopoly: BRPL is one of the five distribution companies (discoms) of Delhi. It is also the largest discoms in Delhi with over 3 million consumers. Being the sole power distributing licensee in its territory, BRPL operates in a cost-plus tariff regime. It has the opportunity to recover the cost incurred (subject to approval from DERC), return on equity and generate additional income from incentive by posting better operating efficiencies.

Healthy operational efficiency: Since privatization of Delhi power sector in FY03, AT&C loss of BRPL has consistently reduced and has consistently remained well below the national average. AT&C loss of BRPL continued to reduce in FY23 driven by higher collection efficiency. BRPL has been able to achieve this through regular upgradation of the distribution infrastructure

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

along with various measures initiated by the company. Its collection efficiency is supported by healthy collection through digital channels – which has increased year on year and stood at 92% in FY23 (FY22: 73%, FY21: 66%) and further improved to 94% in 9MFY24 (refers to the period April 01 to December 31). As per the true-up order of FY20, BRPL has also earned incentive income due to better-than-normative AT&C losses. BRPL is expected to incur capex for up-gradation & maintenance of distribution network which is expected to further reduce Transmission & Distribution (T&D) loss going forward.

Provision of PPAC and RA surcharge partly mitigates the stagnant tariff structure: Despite limited tariff hike and reduction in fixed charges in the past orders, DERC has continued with 8% surcharge for recovery of regulatory assets (RA). During last review, it was observed that DERC had allowed PPAC provision of 20.69% for BRPL. DERC increased the PPAC by 6.39% w.e.f June 22, 2023 to be applicable up to March 2024. It has been increased further by 8.75% with effect from February 1, 2024 for a period of three months . This has improved the absorption of higher power purchase cost, thus improving the cash flows of the company.

No demonstrated financial support to its weak parent in the past: BRPL is part of the Reliance ADA group which has diversified operations in communication, infrastructure, media, power, insurance, financial services, among others. In terms of financial support, there has not been any reported up-streaming of any cash flows by BRPL to Reliance Infrastructure Limited (RInfra) in the form of dividend, loan, among others during the period of review. In terms of management linkage, representation is fair in term of Delhi Power Company Limited (DPCL) having right to appoint nominee director in BRPL's board. Going forward any upstreaming of cash flows by way of loans & advances/ investments, among others from BRPL shall be credit negative.

Key weaknesses

Tightening of normative parameters: DERC, vide Business Plan Regulations (BPR) 2023, has reduced the return on equity from 16% to 14% on post-tax basis for wheeling and retail business as a whole. This may have negative impact on the profitability of the company. Moreover, the borrowing cost has been capped and any significant increase in BRPL's interest rate may have bearing on its profitability. The company has challenged the regulations and the matter is sub judice.

Significant regulatory assets: The regulatory deferral account recognized in the company's book of account is high at ₹12,173 crore as on March 31, 2023 (PY: ₹10,856 crore). Revenue gap had increased mainly due to higher power purchase cost, lower average sales realization, lower recovery of carrying cost and surcharge amount. The regulatory deferral account recognized in the company's book of account was ₹9,261 crore as on March 31, 2020 whereas DERC has recognized only ₹ 4,189 crore as on March 31, 2020. The company has challenged DERC's disallowance in various forums. The ability of BRPL to control its revenue gap, realize the recognized regulatory assets on time along with the extent of recognition of disputed accumulated revenue gap going forward, shall be key monitorable.

Higher outstanding liability against creditors for power purchase: The overdue principal creditor has been largely on a declining track since March 2017. However, due to accumulation of late payment surcharge (LPSC), majorly from state generating companies (gencos), overdue creditors have been on the higher side.
However, the company continues to accumulate payment of LPSC (net of tax deducted at source) and paying its current dues. Honourable Supreme Court has restrained state power gencos from regulating power to BRPL and maintain status quo till further orders. The ability of BRPL to liquidate its power purchase overdues amidst increasing regulatory assets remains to be a monitorable.

Moderate leverage: BRPL's leverage is characterized by moderate total outside liabilities (TOL)/total net worth (TNW) after witnessing the improvement, it remained at of 2.03x as on March 31, 2023 (FY22: 2.48x). Despite capex on account of network upgradation and anticipated debt for clearing its power purchase creditors, the TOL/TNW of the company is expected to reduce going forward.

Liquidity: Adequate
Adequate liquidity is characterized by sufficient cushion in accrual and retention of LPSC creditor vis-à-vis repayment obligation and internal accrual committed for capex. The company is projected to have capex in the medium term for network upgradation and is expected to access bank loan market. Improved recovery of higher power purchase cost through PPAC has improved the liquidity position of the company. Free cash balance as on September 30, 2023 stood at ₹363.46 crore along with two quarters of funded debt service reserve account (DSRA). The fund-based working capital (WC) utilization of the company has been around 42% during trailing 12 months ended September 2023.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Infrastructure Sector Ratings
Short Term Instruments
Power Distribution

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power distribution

BRPL, incorporated in July 2001, is a part of the Reliance ADA group. The group holds 51% stake in BRPL through Reliance Infrastructure Ltd, while the balance 49% stake is held by the Government of Delhi through DPCL. BRPL was formed following the privatisation of Delhi's power sector and unbundling of the Delhi Vidyut Board in July 2002. The company is engaged in the business of distribution i.e wheeling and retail supply of electricity in the specified areas of Delhi (South and West Delhi). It has been granted a 25-year distribution license by DERC in March 2004. BRPL's license area spans over an area of around 750 sq. km. Its power distribution business is governed by tariff regulations set by DERC, which ensures recovery of cost and a post-tax return on equity of 14%.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	10,172	11,775	7,467
PBILDT	1,039	1,681	948
PAT	385	1,100	418
Overall gearing (times)	0.34	0.24	-
Interest coverage (times)	3.58	6.58	7.29

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available' analytically adjusted as per CARE Ratings' methodology

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Please refer to Annexure-4

Lender details: Please refer to Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	325.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	June 2028	1351.17	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	701.00	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	-	-	-				
2	Fund-based - LT-Term Loan	LT	1351.17	CARE BBB; Stable	-	1)CARE BBB; Stable (29-Nov-22)	1)CARE BBB; Stable (05-Oct-21)	1)CARE BBB; Stable (29-Sep-20) 2)CARE BBB; Stable (06-Apr-20)
3	Fund-based - LT-Cash Credit	LT	325.00	CARE BBB; Stable	-	1)CARE BBB; Stable (29-Nov-22)	1)CARE BBB; Stable (05-Oct-21)	1)CARE BBB; Stable (29-Sep-20) 2)CARE BBB; Stable (06-Apr-20)
4	Non-fund-based - ST-BG/LC	ST	701.00	CARE A3	-	1)CARE A3 (29-Nov-22)	1)CARE A3 (05-Oct-21)	1)CARE A3 (29-Sep-20) 2)CARE A3 (06-Apr-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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