

Southern Power Distribution Company of Telangana Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	1,730.60 (Enhanced from 1,711.35)	CARE BB-; Negative	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	300.00	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings of long-term and short-term bank facilities of Southern Power Distribution Company of Telangana Limited (TSSPDCL) continues factoring the weak profitability, elongated receivable position, and elevated leverage metrics. Ratings continue to be constrained by the exposure of TSSPDCL to regulatory risk such as regular tariff revision and full pass-through of costs, recent moderation in operational performance, and its large share of agricultural consumers increasing dependence on subsidy payments from the Government of Telangana (GoTS).

However, ratings continue to favourably factor in the strategic importance of TSSPDCL for the state's power sector, underpinning government support, and its operations in a cost-plus return-on-equity (RoE) regulatory model assuring stable cashflows.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the financial profile of GoTS along with stronger support philosophy for TSSPDCL.
- Improvement in profitability on sustained basis, leading to improved leverage and coverage metrics.
- Improvement in receivable position of discom on a sustained basis.

Negative factors

- Continued losses with further increase in receivables deteriorating the cash flow position.
- Continued stretching of payable days on a sustained basis.
- Diminution or delay in support from the state government.

Analytical approach: Standalone

Outlook: Negative

The outlook of TSSPDCL has been revised from stable to negative due to the anticipated weakening of the financial risk profile, characterised by higher leverage. The outlook may be revised to stable if leverage and profitability of the company is steady.

Detailed description of the key rating drivers

Key weaknesses

Weakened operational and financial performance

The company's aggregate technical and commercial (AT&C) loss has sharply increased from 9.14% in FY22 (FY refers to April 01 to March 31) to 17.20% in FY23. This is on the back of sharply declining collection efficiency, partially offset by marginally improving billing efficiency.

The company's net worth has continuously eroded due to net losses reported over past few years. Operational loss and elevated debt levels have also resulted in weak debt coverage ratios.

Stretched collection and creditor period

The average collection period for the discom, although declined from 152 days in FY22 to 148 days in FY23, remains at an elevated level. The debtor level as on September 30, 2023 has further increased. Most debtors pertain to government entities. The company depends on subsidy from GoTS due to power supply at subsidised rates to certain consumer categories. Hence, the creditor also stood at elevated level.

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

Weak power regulatory framework

TSSPDCL faces significant regulatory risks associated with tariff revisions. Given the inadequate tariff revenue and tariff hikes, there is a revenue shortfall due to subsidised rates of agricultural supply, which is funded through revenue subsidy from GoTS. In its tariff petition for FY23-24, TSSPDCL has forecasted revenue of ₹33,550 crore at existing tariff and estimating a net gap of ₹3,211 crore. The Telangana State Electricity Regulatory Commission (TSERC) did not allow any tariff revision. The company had requested for extension in filing aggregate revenue requirement (ARR) for FY25, which has been granted.

Less favourable consumer category mix and dependency on tariff subsidy from state government

In the past, total power sales volume to agricultural customers has stood above 25%. However, this category contributed to less than 10% of TSSPDCL's power revenue in the past. Most consumers in this category have been heavily subsidised through cross-subsidy from other consuming segments. The state government has also implemented the 'Gruha Jyothi Scheme' in Telangana for providing free electricity to eligible domestic consumers, thus increasing the dependency on subsidies. Sustained healthy realisation of booked tariff subsidy is to be seen, going forward.

Key strengths

Strategic importance and financial support from state government

The company is 100% held by the GoTS and is strategically important to the state with distribution license accorded by TSERC to TSSPDCL, which caters to almost 70% power requirement in Telangana. By the strategic importance of the distribution utility, the government has been providing funding support to it through equity infusion, tariff subsidy, and grants.

GoTS had infused additional equity on a need basis for past four years up to FY21. The GoTS also provided revenue grant under the Ujwal DISCOM Assurance Yojana (UDAY) scheme equivalent to 50% of losses incurred by the company. Continuous and timely support from GoTS will be important for the discom for managing its requirements.

Regulated monopoly business

TSSPDCL is the largest distribution company in Telangana covering 15 districts, including Hyderabad, catering to about 11.2 million consumers. As the only power distribution company in the southern region of Telangana, TSSPDCL maintains monopoly in this region. TSSPDCL operates in a cost-plus tariff regime having a regulatory framework of filling of ARR and tariff petition with the TSERC. It has the opportunity of recovering the cost incurred (subject to approval from TSERC) and RoE.

Liquidity: Stretched

The company's liquidity position is stretched with delayed payment recovery from the government and losses reported. TSSPDCL had a free cash balance of ₹1,275 crore as on September 30, 2023. The company has received a settlement amount from Andhra Pradesh over the pending bifurcation of assets, leading to increasing cash and cash equivalents. The company's debt servicing obligation is dependent on support from GoTS through tariff subsidy and grants. The average maximum utilisation of working capital fund-based limits in trailing 12 months ended November 30, 2023, was about 83.55%.

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

TSSPDCL, erstwhile known as Andhra Pradesh Central Power Distribution Company Limited (APCPDCL), is the largest distribution company in Telangana catering to more than 11.2 million consumers. Incorporated on March 31, 2000, TSSPDCL currently

operates as a distribution licensee in the southern part of Telangana covering 15 districts, with major ones as Hyderabad, Mahaboobnagar, Nalgonda, Medak, and Ranga Reddy.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)
Total operating income	26,931.03	33,961.03
PBILDT	-3,492.83	-4,979.49
PAT	-626.80	-8,147.48
Overall gearing (times)	-1.03	-0.91
Interest coverage (times)	-1.55	-1.99

A: Audited; UA: Unaudited. Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer 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: Annexure-4

Lender details: 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		-	-	-	350.00	CARE BB-; Negative
Fund-based - LT-Cash credit		-	-	-	1000.00	CARE BB-; Negative
Fund-based - LT-Term loan		-	-	March 2029	324.90	CARE BB-; Negative
Fund-based - LT-Term loan		-	-	March 2029	55.70	CARE BB-; Negative
Non-fund-based - ST-Letter of credit		-	-	-	300.00	CARE A4

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	LT	324.90	CARE BB-; Negative	1)CARE BB-; Stable (07-Apr-23)	1)CARE BB; Negative (30-May-22)	1)CARE BB; Negative (06-Apr-21)	-
2	Fund-based - LT-Term loan	LT	55.70	CARE BB-; Negative	1)CARE BB-; Stable (07-Apr-23)	1)CARE BB; Negative (30-May-22)	1)CARE BB; Negative (06-Apr-21)	-
3	Fund-based - LT-Cash credit	LT	350.00	CARE BB-; Negative	1)CARE BB-; Stable (07-Apr-23)	1)CARE BB; Negative (30-May-22)	1)CARE BB; Negative	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
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							(06-Apr-21)	
4	Non-fund-based - ST-Letter of credit	ST	300.00	CARE A4	1)CARE A4 (07-Apr-23)	1)CARE A4+ (30-May-22)	1)CARE A4+ (06-Apr-21)	-
5	Fund-based - LT-Cash credit	LT	1000.00	CARE BB-; Negative	1)CARE BB-; Stable (07-Apr-23)	1)CARE BBB+ (CE); Stable (27-Jul-22) 2)Provisional CARE BBB+ (CE); Stable (04-Jul-22)	-	-
6	Unsupported rating- Unsupported rating (long term)	LT	-	-	1)Withdrawn (07-Apr-23)	1)CARE BB (27-Jul-22) 2)CARE BB (04-Jul-22)	-	-

LT: Long term; ST: Short term; LT/ST: 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

	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-Letter of credit	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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