# Southern Power Distribution Company of Andhra Pradesh Limited (Revised)

April 05, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 300.00 | CARE C; Stable | Revised from CARE B+; Stable |
| Long Term Bank Facilities | 894.40 (Reduced from 1,966.96) | CARE C; Stable | Revised from CARE BBB-; Stable |
| Short Term Bank Facilities | 150.00 (Reduced from 250.00) | CARE A4 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has revised the rating of long-term bank facilities of Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL) to CARE C; Stable while reaffirming the rating of the short-term bank facilities.

While APSPDCL has been regular in servicing the rated debt (as confirmed with the banker), it was observed that the company had delayed payment for facilities availed from other lenders (not rated by CARE Ratings). This reporting is contrary to the feedback received from APSPDCL through the monthly statement citing timely servicing of all debt. The revision is in line with CARE Ratings' policy of default recognition.

The ratings continue to factor in the APSPDCL's high dependence on tariff subsidy and its fluctuating collections and weak financial risk profile characterized by operating loss and negative net worth. The ratings are constrained by the stretched liquidity profile of APSPDCL driven by weak cash flow from operations.

However, the ratings continue to favourably factor in the strategic importance of APSPDCL in the power sector for the state underpinning support from the government, its operation in a cost-plus return on equity (RoE) regulatory model that assures stable cash flows and reduction in aggregate technical and commercial loss (AT&C loss) during FY23 (refers to the period from April 01 to March 31).

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors**

- Improvement in the financial profile of GoAP along with stronger support philosophy for APSPDCL.
- 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:** Stable

Stable outlook reflects that the company is expected to maintain steady AT&C loss along with elevated leverage in the medium term

## Detailed description of the key rating drivers

### Key weaknesses

**High reliance on tariff subsidy and limited tariff hike in the past:** In the past, total power sales volume to domestic and agricultural customers has stood above 50%. However, this category contributed to less than 30% of APSPDCL's power revenue in the past. Most consumers in this category have been heavily subsidised through cross subsidy from other consuming segments**.** Tariff subsidy as percentage of total operating income (TOI) for APSPDCL, although reduced, has remained high at 19.7% in FY23 (PY: 20%). Realisation of subsidy was 118% in FY23 (PY: 105%). CARE Ratings envisages sustenance of high tariff subsidy component while prompt realisation will be important from the liquidity perspective of the discom.

For FY25, APSPDCL has not proposed for any significant tariff revision. Given the recent increase in power purchase cost, comfortable average realization is imperative from profitability point of view.

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

**Weak financial risk profile:** The net worth of APSPDCL is negative while outstanding debt remained at elevated level of ₹28,383 crore as on March 31, 2023 (PY: ₹19,849 crore). PBILDT continued to be in loss during FY23. Operational loss and elevated debt levels have also resulted in weak debt coverage ratios. Moreover, the statutory auditor continues to raise qualified opinion on various issues.

**Elevated collection period:** The average collection period for the discom, although declined from 186 days in FY22 to 170 days in FY23, remains at an elevated level. The debtor level as on December 31, 2023 has further increased. Most debtors pertain to government entities.

## Key strengths

**Regulated monopoly business:** APSPDCL operates in a cost-plus tariff regime having a regulatory framework of filling of Annual Revenue Requirement (ARR) and Tariff petition with APERC. It has the opportunity to recover the cost incurred (subject to approval from APERC) and return on equity. The company has assured revenue under Multi Year Tariff (MYT).

**Improvement in operational efficiency:** Post COVID-19 restrictions, collection efficiency has significantly improved. This has led to improvement in AT&C loss from 37.5% in FY21 to 15.5% in FY22 and further to 13.69% in FY23.

**Strategic importance and financial support from state government:** The company is 100% held by GoAP and is strategically important to the state with distribution license accorded by Andhra Pradesh Electricity Regulatory Commission (APERC) to APSPDCL, which caters to major portion of power requirement in the state. By virtue of strategic importance of the distribution utility, the Government has been providing funding support to the utility by way of equity infusion, tariff subsidy and grants apart from the corporate guarantee.

## **Liquidity**: Stretched

Cash and equivalent of the company stood at Rs. 435 cr as on December 31, 2023. The servicing of debt obligation of the company is dependent on support from Government of Andhra Pradesh in form tariff subsidy and grants. Average utilisation of fund-based working capital limit during trailing 12 months ended November 2023 remained high at 76%.

## 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
State Governments

## About the company and industry

## Industry classification

| Macro-economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Utilities | Power | Power | Power Distribution |

Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL) was formed on April 01, 2000, post unbundling of State Electricity Boards by Government of Andhra Pradesh and reorganisation of AP Transmission Corporation (APTRANSCO) into four distribution companies to cater to the needs of the different districts of AP. APSPDCL was formed to cater to six districts in the state of AP, viz., Krishna, Guntur, Prakasham, Nellore, Chittoor and Kadapa. After the bifurcation of the erstwhile Andhra Pradesh into the two new states of Andhra Pradesh and Telangana, on June 02, 2014, two more districts Anantapur and Kurnool have been added under the jurisdiction of APSPDCL.
On March 31, 2020, post grant of distribution license to Andhra Pradesh Central Power Distribution Corporation Limited (APCPDCL) by APERC distribution of power in Krishna, Guntur and Prakasam districts moved out of APSPDCL.

| Brief Financials (₹ crore) | FY22 (A) | FY23 (A) | 9MFY24 (UA) |
|---|---|---|---|
| Total operating income | 15,799 | 18,968 | 17,720 |
| PBILDT | -4,326 | -4,060 | 360 |
| PAT | -2,054 | 1,234 | -2315 |
| Overall gearing (times) | -2.45 | -4.18 | NA |
| Interest coverage (times) | -4.69 | -2.66 | NA |

A: Audited UA: Unaudited; NA: Not available; 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 | - | - | - | - | 150.00 | CARE C; Stable |
| Fund-based - LT-Cash Credit | - | - | - | - | 300.00 | CARE C; Stable |
| Fund-based - LT-Term Loan | - | - | - | September 2028 | 580.72 | CARE C; Stable |
| Fund-based - LT-Term Loan | - | - | - | September 2028 | 163.68 | CARE C; Stable |
| Non-fund-based - ST-Letter of credit | - | - | - | - | 150.00 | 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 | - | - | - | - | 1)Withdrawn (01-Apr-21) | 1)Provisional CARE A- (CE); Negative (19-May-20) |
| 2 | Non-fund-based - LT/ ST-BG/LC | LT/ST | - | - | - | - | 1)Withdrawn (01-Apr-21) | 1)Provisional CARE A- (CE); Negative / CARE A2 (CE) (19-May-20) |
| 3 | Fund-based - LT-Term Loan | LT | 580.72 | CARE C; Stable | - | 1)CARE BBB-; Stable (06-Mar-23)<br><br>2)CARE BBB-; Stable | 1)CARE A- (CE); Negative (17-Feb-22) | 1)CARE A- (CE); Negative (19-May-20) |

| 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 |
| | | | | | | (06-Jan-23) | 2)CARE A- (CE); Negative (01-Apr-21) | |
| 4 | Fund-based - LT-Cash Credit | LT | 150.00 | CARE C; Stable | - | 1)CARE BBB-; Stable (06-Mar-23)<br><br>2)CARE BBB-; Stable (06-Jan-23) | 1)CARE A- (CE); Negative (17-Feb-22)<br><br>2)CARE A- (CE); Negative (01-Apr-21) | 1)CARE A- (CE); Negative (19-May-20) |
| 5 | Fund-based - LT-Term Loan | LT | 163.68 | CARE C; Stable | - | 1)CARE BBB-; Stable (06-Mar-23)<br><br>2)CARE BBB-; Stable (06-Jan-23) | 1)CARE A- (CE); Negative (17-Feb-22)<br><br>2)CARE A- (CE); Negative (01-Apr-21) | 1)CARE A- (CE); Negative (19-May-20) |
| 6 | Un Supported Rating-Un Supported Rating (LT/ST) | LT/ST | - | - | - | 1)Withdrawn (06-Jan-23) | 1)CARE BB- / CARE A4 (17-Feb-22)<br><br>2)CARE BB- / CARE A4 (01-Apr-21) | 1)CARE BB- / CARE A4 (19-May-20) |
| 7 | Fund-based - LT-Cash Credit | LT | - | - | - | - | 1)Withdrawn (01-Apr-21) | 1)Provisional CARE A- (CE); Negative (19-May-20) |
| 8 | Non-fund-based - ST-Letter of credit | ST | 150.00 | CARE A4 | - | 1)CARE A4 (31-Mar-23)<br><br>2)CARE A4 (06-Mar-23) | - | - |
| 9 | Fund-based - LT-Cash Credit | LT | 300.00 | CARE C; Stable | - | 1)CARE B+; Stable (06-Mar-23) | - | - |

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

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: NA**

### 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-Letter of credit | Simple |

### Annexure-5: Lender details

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| 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:**

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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