TP Ajmer Distribution Limited

July 18, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	50.00	CARE AA; Stable / CARE A1+	Revised from CARE AA-; Positive / CARE A1+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the ratings of long-term/ short-term bank facilities of TP Ajmer Distribution Limited (TPADL) factors in continued strong business and operational linkages with its parent, The Tata Power Company Limited (TPCL, rated 'CARE AA+; Stable'), credit profile of which has witnessed an uptick considering rising profitability under Mundra operations, turnaround in the Odisha discoms, and sustained improvement in the company's financial performance.

The ratings of TPADL continue to derive strength from the 20-year long-term distribution franchisee agreement with Ajmer Vidyut Vitran Nigam Limited (AVVNL) ensuring visibility and stability of cash flows. Ratings favourably factor in the sustained improvement in the operational performance marked by reduced aggregate technical and commercial (AT&C) losses to around 8% over the years and continuous demonstration of strong support received from the promoter, which has vast experience in managing the power distribution business across geographies.

Moreover, the company's comfortable capital structure and debt coverage indicators marked by nil external term debt provides comfort to the financial risk profile. The management's medium-term capex plan for network upgradation to further improve efficiency while maintaining a conservative leverage strategy adds strength to the rating.

The above-mentioned strengths are partially offset by small scale of operations and domestic consumer base limiting the demand growth in the service area.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in the credit profile of the parent.

Negative factors

- Significantly lower-than-expected reduction in AT&C losses, adversely impacting the company's cash accrual.
- Significant deterioration in the credit profile of TPCL or lack of need-based support from TPCL.
- Significant increase in external debt, thus materially impacting the company's leverage and coverage metrics.

Analytical approach:

Standalone, while notching up the rating considering the financial and operational linkages with its parent, TPCL.

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') opinion that the company would benefit from its long-term contract providing revenue visibility and steady collection efficiency. Its healthy financial risk profile characterised by comfortable capital structure supports the stable outlook. The outlook is also supported by CARE Ratings' Stable outlook on TPCL.

Detailed description of key rating drivers

Key strengths

Long residual tenure of the agreement provides revenue visibility

The distribution franchisee contract with AVVNL has a duration of 20 years from the date of handing over, July 01, 2017, of the business operations of Ajmer area, ensuring a stable source of revenue. Under the terms of the agreement, TPADL shall purchase the power from AVVNL at the annual input rates and supply the power to consumers per the tariff approved by Rajasthan Electricity Regulatory Commission (RERC). The company is entitled to compensation for depreciated value of capex incurred post expiry of the franchise agreement. TPADL has been able to collect around 100% of the billed amount, thus providing stability in revenues and cash flows.

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

Sustained reduction in AT&C losses

TPADL has demonstrated strong execution ability with substantial reduction in AT&C losses in its service area. AT&C losses in the service area were high at around 22% when TPADL took over. They have improved substantially majorly due to increase in efficiency in billing and collection. TPADL has incurred capex way beyond the threshold defined in the agreement leading to this improvement. AT&C loss are maintained around 8% for past 2 years. The billing efficiency has improved from 91.05% in FY23 to 91.73% in FY24. The collection efficiency has been maintained at around 100%.

Healthy financial risk profile

TPADL's financial risk profile is healthy marked by nil external term debt and comfortable leverage and coverage indicators. Excluding the unsecured perpetual debt, total debt (TD)/gross cash accruals (GCA) and TD/ profit before interest, lease rentals, depreciation and taxation (PBILDT) have improved to 0.20x and 0.32x, respectively, as on March 31, 2024 (PY: 0.73x and 0.84x, respectively). Interest coverage has also improved from 2.14x in FY23 to 14.87x in FY24. CARE Ratings notes that as per the management, TPADL is expected to maintain conservative low leverage despite sizable capex in the medium term.

Parent has strong operational and financial capability

TPADL is a wholly-owned subsidiary of TPCL, which is one of the largest private integrated power companies in India with presence across the entire power value chain covering power generation, transmission, distribution, and trading. In Delhi, TPCL has been operating a 51:49 joint venture (JV) with the Government of Delhi under Tata Power Delhi Distribution Limited (TPDDL) and has been successful in reducing the AT&C losses in the service Area. The group has also demonstrated operational turnaround in the Odisha power distribution licensee business to some extent.

TPADL enjoys management support in terms of financial and operational functions. In financial terms, TPCL had extended support to TPADL in the form of perpetual debt. Moreover, the parent has arranged non-fund-based limits for TPADL's working capital management. In terms of operational support, majority of the employees are deputed from the Tata Power group.

Key weaknesses

Small scale of operations with limited profitability

The company was incorporated in April 2017 with FY18 being the first year of operations. While the sales volume has demonstrated growth in the past, the present scale of operation, factoring the consumer base and the geographical spread is small. Moreover, the spread between the average billing rate and the input energy charge has not witnessed significant improvement in the last few years, impacting the company's cash accruals.

Large share of domestic consumers limiting demand growth in the service area

Domestic consumption accounts for significant portion of the total consumption of power in the area, thereby limiting the possibility of higher growth in demand of power in the area.

Liquidity: Adequate

The company does not have any long-term external debt and avails fund-based working capital limit from bank. The utilisation for its fund-based working capital stood at 7% for trailing 12 months ended April 2024. Cash and equivalents have been nominal for the company. However, being part of the Tata group, TPADL continues to enjoy financial flexibility.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
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

TPADL is a special purpose vehicle (SPV) formed by TPCL. To improve operational efficiency of the distribution system and quality of service to its consumers, AVVNL floated a proposal to appoint a private sector entity as "Distribution Franchisee" for sale and supply of electricity in Ajmer area-City Division I & II. TPCL won the bid and formed an SPV, TPADL, to be the Distribution Franchisee for Ajmer area comprising City Division I & II. TPADL would undertake sale, supply of power, and billing to the consumers as per the tariff approved by Rajasthan Electricity Regulatory Commission (RERC) from time to time and would also be responsible for the operations and maintenance (O&M) of the assets.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)
Total operating income	419.57	444.57
PBILDT	8.33	11.74
PAT	2.62	7.80
Overall gearing (times)	0.07	0.03
Interest coverage (times)	2.14	14.87

A: Audited; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for last three years: 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/ ST-Working capital limits		-	-	-	50.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT/ ST-Working capital limits	LT/ST*	50.00	CARE AA; Stable / CARE A1+	-	1)CARE AA-; Positive / CARE A1+ (29-Sep-23)	1)CARE AA-; Stable / CARE A1+ (01-Jul-22)	1)CARE A; Stable / CARE A1 (07-Dec-21) 2)CARE A; Stable / CARE A1 (01-Apr-21)

*Long term/Short term

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

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Working capital limits	Simple

Annexure-5: Lender details

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

Note on complexity levels of 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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