

## BSES Yamuna Power Limited

November 29, 2022

### Ratings

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	2,096.62 (Reduced from 2,400.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	352.00	CARE A3 (A Three)	Reaffirmed
<b>Total Bank Facilities</b>	<b>2,448.62</b> <b>(₹ Two Thousand Four Hundred Forty-Eight Crore and Sixty-Two Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The reaffirmation of ratings assigned to BSES Yamuna Power Limited (BYPL) 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. The ratings also factor its healthy and continuously improving operational efficiency leading to incentive earning capabilities which has led to incentive income during FY20 (refers to period from April 01 to March 31) true up and its efficient overhead management. The rating also factors in the provision of Power Purchase Adjustment Charge (PPAC) (which has been hiked) and regulatory asset (RA) surcharge which partially offsets the limited tariff hike over the years. The ratings also continue to factor in the absence of financial linkage of BYPL with its weak parent in the past. The ratings are however, 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. The rating also takes into account the sales volume growth in the high tariff categories witnessed by BYPL during FY22. Further, the rating is also constrained by high level of overdue power purchase creditors, BYPL's high leverage and debt funded capex envisaged in the medium term.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade

- Favourable regulatory proceedings leading to substantial reduction in regulatory deferral account balance
- Significant reduction in power purchase creditor and debt outstanding on annual basis

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- More-than-envisaged increase in revenue gap from current level
- Higher-than-envisaged increase in overall gearing (adjusted for power purchase creditor)
- Any up-streaming of cash flows to parent company, thus weakening the liquidity of BYPL

### Detailed description of the key rating drivers

#### Key rating strengths

**Regulated monopoly:** BYPL is one of the five distribution companies (discoms) of Delhi and supplies electricity to around 1.83 million customers across central and east Delhi. Being the sole power distributing licensee in its territory, BYPL 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, despite covid'19 restriction during FY22:** Since privatization of Delhi power sector in FY03, Aggregate Technical and Commercial (AT&C) loss of BYPL has consistently reduced and has consistently remained well below the national average. Despite operational disruptions during H1FY22 (refers to the period April 01 to September 30) due to covid'19 pandemic, AT&C loss of BYPL continued to reduce in FY22 driven by higher collection efficiency. BYPL has been able to achieve this through regular up gradation of the distribution infrastructure 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 72% in FY22 (PY: 66%) and further improved to 91% in Q1FY23 (refers to the period April 01 to June 30). As per the true up order of FY20, BYPL has also earned incentive income due to better than normative AT&C losses. BYPL 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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**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). Apart from the allowed PPAC of 8.75%, the regulator has also allowed increase in the PPAC surcharge by 6% to 13.43%. With this, the total PPAC band has been relaxed to 22.18% for BYPL. This has aided the cash flows of the company given the significant increase in power purchase cost especially after covid'19 lockdowns.

**Moderate demand growth in FY22, expected to surpass pre covid levels going forward:** The peak power demand in Delhi had registered constant growth over the years and had increased from 7,016 MW in FY19 to 7,409 MW in FY20. This declined to 6,315 MW in FY21 due to lower demand from commercial and industrial consumers. However, this has increased to 7323 MW in FY22. During FY22, overall realization of BYPL improved due to 5.2% increase in volume sales and increased share of realization from Commercial & Industrial (C&I) consumers.

**No demonstrated financial support to its weak parent in the past:** BYPL is part of Reliance ADA group which has diversified operations in communication, infrastructure, media, power, insurance, financial services etc. In terms of financial support, there has not been any reported up-streaming of any cash flows by BYPL to Reliance Infrastructure Limited (RInfra) in the form of dividend, loan etc 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 BYPL's board. Going forward any upstreaming of cash flows by way of loans & advances/ investments etc from BYPL shall be credit negative.

#### **Liquidity – Adequate**

Adequate liquidity is characterized by cushion in accrual and retention of late payment surcharge (LPSC) creditor vis a vis repayment obligation and internal accrual committed for capex. The company is projected to have sizable capex in the medium term for network upgradation and may have to rely on fresh borrowings. Cash balance as on June 30, 2022 was Rs. 30.96 crore. This is aided by presence of debt service reserve account. Average fund based working capital utilization of the company stood moderate at ~40% in the trailing twelve months ended June'22. Current ratio of BYPL has continued to be above unity as on March 31, 2022.

#### **Key rating weaknesses**

**Significant regulatory assets:** The regulatory deferral account recognized in the company's book of account is high at Rs.9,744 crore as on March 31, 2022. However, the same was better than the projected levels. Revenue gap during the earlier years had increased mainly due to lower average sales realization (due to lower volume sales in higher paying segment due to resurgence of covid'19 outbreak), lower recovery of carrying cost & surcharge amount and arrear billing upon true up. The regulatory deferral account recognized in the company's book of account was Rs. 8,657 crore as on March 31, 2020 whereas DERC has recognized only Rs. 3,111 crore as on March 31, 2020. The company has challenged DERC's disallowance in various forums.

The ability of BYPL 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 on a declining track since March'2017. However, due to accumulation of LPSC (majorly from state gencos), overdue creditors have been on the higher side.

However, the company continues to accumulate payment of LPSC (net of TDS) and paying its current dues. Recently, Honorable Supreme Court has restrained state power generating companies from regulating power to BYPL and maintain status quo till further orders. The ability of BYPL to liquidate its power purchase overdues amidst increasing regulatory assets remains to be a monitorable.

**High leverage:** BYPL's leverage is high characterized by high TOL/TNW. Although witnessed improvement, it remained high at of 3.31x as on March 31, 2022 (PY: 3.47x). Due to ongoing capex on account of network upgradation and anticipated debt for clearing its power purchase creditors, the leverage of the company is expected remain at elevated level going forward.

#### **Industry Risk**

The power distribution sector in India has been the weakest link in the power value chain due to the perennial issues like high AT&C losses, wide Average Cost of Supply (ACS) – Average Revenue Realized (ARR) gap, low subsidy realization from the respective state governments, poor regulatory compliance among the others. This has led to high level of borrowings and creditors levels in the sector. The Government of India has rolled schemes in the past to aid the operational and financial performance of discoms. Structural reforms in the operations are important for revival of the sector going forward, which schemes like Revamped Distribution Sector Reform Scheme are aiming at.

**Analytical approach:** Standalone

**Applicable criteria**

[Definition of Default](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

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**About the company**

BYPL was incorporated in July 2001 and is part of Reliance ADA group. The group through RInfra (rated CARE D (INC)) holds 51% stake in BYPL and 49% is held by Govt. of Delhi through DPCL. BYPL was formed pursuant to privatization of Delhi's power sector and unbundling of Delhi Vidyut Board (DVB) in July 2002. BYPL is engaged into business of distribution i.e wheeling and retail supply of electricity to an area spread over 160 sq. Kms with 1.83 million customers across Central and East Delhi. The consumer mix of the company largely includes domestic, commercial and industrial customers along with supply to DMRC. 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% for wheeling business and 2% for retail business.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
Total operating income	5,718.71	5,807.54	1,973.52
PBILDT	770.72	655.86	429.13
PAT	1,712.75	223.02	148.56
Overall gearing (times)	0.50	0.50	NA
Interest coverage (times)	3.84	2.96	1.88

A: Audited; UA: Unaudited; NA: Not available

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

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

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

**Complexity level of the various instruments rated for this company:** Annexure-4

**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	-	-	-	-	200.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	March, 2028	1896.62	CARE BBB-; Stable
Non-fund-based - ST-BG/LC		-	-	-	352.00	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 2022-23	Date(s) and Rating(s) assigned in 2021-22	Date(s) and Rating(s) assigned in 2020-21	Date(s) and Rating(s) assigned in 2019-20
1	Fund-based - LT-Term Loan	-	-	-				
2	Fund-based - LT-Term Loan	LT	1896.62	CARE BBB-; Stable	-	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	200.00	CARE BBB-; Stable	-	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	352.00	CARE A3	-	1)CARE A3 (05-Oct-21)	1)CARE A3 (29-Sep-20) 2)CARE A3 (06-Apr-20)	-

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

Not applicable

**Annexure-4: Complexity level of the various instruments rated for this company**

Sr. No.	Name of 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: Bank lender details for this company**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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