

BSES RAJDHANI POWER LTD.

Long-term Bank Facilities
Short-term Bank Facilities

CARE BBB
PR3

Rating

CARE has retained the 'CARE BBB' [Triple B] rating assigned to the existing Long-term Bank Facilities of BSES Rajdhani Power Ltd. (BRPL) amounting to Rs.2103.8 cr. This rating is applicable for facilities having tenure of over one year. Facilities with this rating are considered to offer moderate safety for timely servicing of debt obligations. Such facilities carry moderate credit risk.

Further, CARE has also retained the 'PR3' [PR Three] rating assigned to the Short-term Bank Facilities of the company amounting Rs.418 cr. This rating is applicable for facilities having tenure up to one year. Facilities with this rating would have moderate capacity for timely repayment of short-term debt obligations at the time of rating and carry higher credit risk as compared to facilities rated higher.

The ratings take into consideration high exposure to regulatory risk in terms of revision in tariff and pass-through of cost items, high outstanding liabilities due to debt-funded capital expenditure plans, high Aggregate Technical and Commercial (AT&C) losses as compared to peers and weak debt-servicing indicators. The ratings are however supported by the strong promoter background and reduction in AT&C losses over the years.

Background

BSES Rajdhani Power Ltd. (BRPL) was incorporated in July 2001 upon privatisation of unbundled entities of erstwhile Delhi Vidyut Board (DVB) under Delhi Electricity Reform (Transfer Scheme) Rules, 2001 notified on November 20, 2001, later amended on June 26, 2002.

Post privatisation, 51% of BRPL's equity is held by Reliance Energy Ltd. (part of Reliance - Anil Dhirubhai Ambani Group) along with its associates and the balance 49% by the Government of National Capital Territory of Delhi (GoNCTD) through Delhi Power Company Ltd. (DPCL).

The distribution area (1,397 sq. km.) of the erstwhile DVB was broadly divided into six circles (Central, East, South, West, North and North-west), which cover whole of Delhi excluding the Government area and cantonment area measuring around 43 sq. km. each. Rest of the area was assigned to three distribution companies (Discoms). These Discoms were privatised through an open bidding process in May 2002, based on reduction of AT&C loss.

Operations of the Company

BRPL covers an area of about 750 sq km across 19 districts of South and West Delhi catering to about 11.98 lakh customers. It has over 10,000 km of distribution cables with HT:LT ratio of 43:56.

Since the beginning of operations till March 2007, the Bulk Supply Tariff (BST) (the power purchase price per unit of electricity) for each discom was determined on the basis of its paying capacity as per the principles laid down in the policy direction issued by GoNCTD.

Beginning FY08, the responsibility of arranging supply of power was transferred to Discoms. The Power Purchase Agreements (PPAs) of Delhi Transco Ltd. (DTL) were realigned with each Discom. Based on the proportion of the energy drawn in the period post unbundling upto February 2007, BRPL was allocated 43.58% of the total power purchased by DTL. The allocation is valid from April 1, 2007 till March 31, 2011. Peak demand power purchase, which was earlier arranged by DTL, was also vested with individual Discom.

BRPL's consumer-mix is skewed towards the domestic segment, which constituted over 80% of the number of consumers and over 60% of the connected load as on March 31, 2008. In terms of consumption pattern, domestic segment has maximum share by the number of units sold. Over the past four years, commercial sector has surpassed domestic sector in terms of share of revenue. During FY08, commercial segment contributed 46% to the total revenue of the company, while it utilised just 34% of the total power

sold. The increase in recovery of dues coupled with increased Retail Supply Tariff (RST) (the tariff charged to the consumers per unit of electricity sold by the company) has resulted in improved average realisation over the years. The average RST increased from Rs.4.05 per unit in FY05 to Rs.4.56 per unit of power sold in FY07. However, the realisation has declined marginally by 5 paise/unit during FY08 owing to higher addition of low-yielding consumers in the sales-mix.

BRPL has reduced the Transmission & Distribution (T&D) losses (the difference between units purchased and units billed) from 35.69% in FY07 to 30.88% in FY08 by undertaking capital expenditures for modernisation and strengthening of network. The total capital expenditure undertaken during this period exceeds Rs.239 cr, which has been utilised for strengthening and up-gradation of the distribution system.

The reduction in AT&C Loss (the difference of units purchased and realised) was the parameter for bidding at the time of taking over the Discoms. BRPL has been able to reduce the AT&C losses from 48.1% (stated opening losses in the bidding criteria) to 27.17% in FY08. Reduction in AT&C losses was achieved through reduction of theft, metering of un-metered consumers, reduction in distribution losses and improving billing and payment collection systems.

Tariff Petition

BRPL files an application indicating the Annual Revenue Requirement (ARR) depending upon the expected cost of supply and rate of return on the capital base for the scrutiny of Delhi Electricity Regulatory Commission (DERC), under DERC Tariff Regulations, 2000. BRPL also files a tariff revision application, if the approved tariffs are insufficient to recover the expected cost of service.

Multi Year Tariff (MYT) regulations were issued on May 30, 2007 for a period of next four years i.e. starting April 1, 2007 till March 31, 2011 envisaging ARR filing for wheeling and retail supply business separately with post tax return @14% Return on Capital Employed (RoCE) and 2% supply margin.

DERC issued its first MYT Order on February 23, 2008. The order related to determination of the annual revenue requirement for the period FY2007-08 till FY2010-11 and approval for wheeling and Retail Supply Tariff (RST) for all consumer categories till March 31, 2009. Retail tariff

for further period was to be decided every year taking into account adjustments of allowed variations in uncontrollable parameters.

On December 12, 2008 BRPL had filed the ARR application for FY2009-10. BRPL has projected the net revenue gap (including revenue gap till FY10) as Rs.1,166.81 cr. This revenue gap was after considering Rs.537.81 cr to be funded by GoNCTD subsidy. For recovering the balance revenue gap, BRPL proposes to levy one-time surcharge of 88.2 paise per unit to recover the revenue gap on account of the uncontrollable cost upto FY2008-09 and a uniform revision in consumer tariff by 17.78% for recovering the revenue gap on account of the uncontrollable cost for FY2009-10. BRPL has proposed to exclude Juggi Jopdi Clusters and Domestic Lighting/Fan and Power Connections in Left Out Pockets and Villages, both electrified and unelectrified for various plot sizes from both one-time surcharge and a uniform tariff revision. The decision for any revision in tariff is still awaited as the DERC is yet to issue the Tariff Order for FY2009-10.

Financial Analysis

Income from sale of power of BRPL has increased at a Compounded Annual Growth Rate (CAGR) of 16% over the past three years reflecting increased consumption of power and better recovery due to containing AT&C losses by BRPL.

Financial Results

	(Rs. cr)		
For the year/ As on March 31,	2006	2007	2008
Income from sale of energy	2,283	2,538	3,091
Total income	2,388	2,647	3,138
PBILDT	149	107	-156
Interest	32	151	203
PAT / (loss)	(11)	28	-449
Net cash accruals	137	16	-294
Net fixed assets	1,833	2,008	2,111
Capital work in progress	433	323	309
Equity share capital	460	460	460
Tangible Network	719	793	435
Total capital employed	2,182	2,420	2,390
PBILDT margin (%)	6.31	4.12	-5.04
PAT margin (%)	-0.47	1.08	-14.30
Long-term debt-equity ratio (x)	1.91	1.98	4.44
Overall gearing ratio (x)	2.04	2.05	4.49
Interest coverage ratio (x)	1.02	-0.21	-1.53
Current ratio* (x)	0.93	1.37	1.19

*without considering consumer deposits as current liabilities

During FY08, there was loss at PBILDT level primarily on account of higher power purchase cost coupled with only marginal increase in RST. The units purchased have increased to 10,251 MU at average purchase price of Rs.2.77 per unit during FY08 as against 9,122 MU at an average purchase price of Rs.2.41 per unit during FY07. Prior to the assignment of PPA to individual Discoms, BRPL purchased power from DTL at a prefixed Bulk Supply Tariff (BST). However, post April 1, 2008 the responsibility of power purchase lies with individual Discom, which has resulted in higher power purchase cost and hence lower PBILDT.

The capital expenditure undertaken by BRPL in order to strengthen the network has resulted in continuous increase in fixed asset base. The debt-funded expansions resulted in increase in the total outside

liabilities of the company in turn resulting in high leverage ratios at the end of the period under consideration.

Increase in borrowings has resulted in higher interest outgo for FY08. Relatively higher decline in profitability coupled with increase in financial expenses resulted in adverse interest coverage ratio for FY 08.

The company has shown improved performance during the 9MFY09. The total income had increased by 19% compared to the same period last year. The primary reasons for this were higher sales, improved operational performance through continuous AT&C loss reduction and tighter control over the cost heads. The PAT however continued to be negative, primarily on account of higher interest expenses and depreciation charges.

For Further details please contact at :

March 2009

CREDIT ANALYSIS & RESEARCH LIMITED

4th floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (E), Mumbai - 400 022.
Tel.: (022) 6754 3456 • Fax : (022) 6754 3457 • E-mail : care@careratings.com

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.