

No.: F.11 (570)/DERC/2010-11/2492/

28.05.2010

To,

The Chief Executive Officer  
BSES Yamuna Power Ltd  
Shakti Kiran Building,  
Karkardooma,  
New Delhi – 110092.

**Sub.: Factual position vis-à-vis representation given by you to the GoNCTD on 3<sup>rd</sup> May 2010.**

Sir,

Your attention is invited to the representation submitted in the Chief Minister's office on 03.05.2010 in which you have pointed out that the financial position of the company is not good from lender's perspective because of severe cash flow constraints.

2. The financial position mentioned by you in the representation has been verified from the audited accounts from FY 2004-05 to FY 2009-10 of your company submitted by you as well as financial position reflected in the report of your credit rating agency CARE. It is also noticed that even though audited accounts were ready with you and full report of CARE was in your possession but neither did you furnish any data from these two important documents in your representation nor did you enclose these documents for reference to GoNCTD. Instead, you have given projected/estimated figures without any basis, ignoring the fact that the audited accounts for FY 2009-10 show **cash profit of Rs. 157.32 crores**. The financial figures, prepared from the audited books of accounts, are attached in **Annexure A. These figures show the following important points:-**

- i. **Highest Cash Profit** of Rs. 157.33 Crore in 2009-10 which increased from 16.89 Crore in 2007-08, an increase of 831% in two years only.
- ii. **Tangible Net worth in 2009-10 is Rs. 320.06 crores which increased from Rs. 224.20 crores in 2008-09 (43% increase) and from Rs. 38.54 crores in 2004-05 (730% increase)**
- iii. **Current Ratio is 2.47:1 in 2009-10** against ratio 0.87:1 in 2004-05 which shows ideal health of company as on date.

- iv. **High net cash accrual of Rs. 71.65 Crore** against 3.66 cr in 2004-05.
- v. Long term Debt/Equity Ratio improved considerably in 2009-10 to 5.32 from 9.10 in 2004-05.
- vi. Debt Service Coverage Ratio (DSCR) is 0.70 in 2009-10.
- vii. Interest service coverage Ratio (ISCR) is **2.03 in 2009-10**.

3. The report of the credit rating agency CARE is also enclosed in **Annexure B**. CARE have rated your company as **BBB+ (Triple B plus)** for long-term borrowing and **PR3** (PR three) for short-term borrowing. These are fairly reasonable credit rating. BBB denotes moderate safety for timely servicing of debt obligations which carry moderate credit risk. Your rating is higher than BBB as BBB+ is between BBB and A. The rating agency CARE in its latest available report dated March 2009 mentions the following important figures for three years on the basis of which good rating has been given to your company:

<b>Financial Results</b>			
	(Rs. Crore)		
FY	05-06	06-07	07-08
Tangible Networth	101	170	152
Long-term debt-equity ratio (x)	7.58	5.48	8.51
Overall gearing ratio (x)	8.51	6.00	9.40
Interest coverage ratio (x)	1.03	0.54	0.09
Current ratio * (x)	0.86	0.90	1.46
* without considering consumer deposits as current liabilities			

The figures upto FY 2009-10 on the basis of audited accounts are given in Annexure A.

4. Despite good financial position of your company and fairly good credit rating, as mentioned above, you have chosen to say, in your representation, that your net worth is negative/inadequate even though the tangible net worth as on 31.03.2010 is Rs. 320 crores. You will appreciate that the factual position as reflected in the audited books of accounts and in the report of the credit rating agency are entirely different from that mentioned by you in your representation which indicates that you have not given correct facts in your representation to the GoNCTD on 03.05.2010. It is also relevant to note that the audited accounts from 2004-05 to 2009-10 have been submitted to us by you only and the report of the credit rating agency CARE is also based on audited accounts only. The table below shows the factual position:-

Position in the representation made by you before GoNCTD	Factual position
<p>Apprehension that lenders will put a ban on fresh lending.</p> <p>Negative/inadequate net worth from the lenders perspective</p> <p>Borrowing limits are over stretched and there is no further possibility of borrowing unless banks are able to see a suitable way forward for recovery of their outstanding.</p>	<p>No letter from the any lender has been presented by you to establish that they have refused loan on the ground that net worth from the lenders' perspective is negative. On the contrary, the credit rating assigned by CARE in March 2010 to your company is BBB+(Triple B+) (upgraded from BBB in 2009) for long term bank facility and PR3 (PR three) for short term bank facility.</p> <p>This is not correct. The tangible net worth at the end of FY 2009-10 is Rs. 320.06 crores and as may be seen from Annexure A it has increased by 730% from 38.54 crores in 2004-05 to 320.06 crores in 2009-10. CARE report also calculates tangible net worth on the same basis as in Annexure A as the net worth for 05-06, 06-07 &amp; 07-08 in both statements (Annexure A&amp;B) are same. When the tangible net worth is so substantial, by no stretch of imagination it can be said to be inadequate or negative.</p> <p>BBB+ is third best possible rating given to corporate out of only eight credit ratings available for the purpose of obtaining loans.</p>
<p>Debt equity ratio is negative 13.6.</p>	<p>Annexure A shows the ratios from FY 2004-05 to 2009-10. <b>The Debt Equity Ratio in FY 2009-10 is 5.32 (and not negative 13.6 as claimed by you in the representation).</b> The total debt/net-worth has also come down to 5.76 in 2009-10 from 9.40 in 2007-08.</p> <p>It is noticed from the Annexure 5 to your representation that while calculating the debt equity ratio, you have deducted regulatory gap of Rs. 262.55 crores from the equity so that the total equity has become negative Rs. 112.28 crores. This is against norms of accounting standards. First of all, there is no basis for regulatory gap of Rs. 262.55 crores. Second, there is</p>

	<p>no basis for deduction of this amount from the equity as accounting norms do not provide for this. Third, it is seen that you have not mentioned on what date the debt equity ratio has been calculated by you in Annexure 5. Fourth, the debt equity ratio calculated by CARE even for past years in their report is also never negative.</p>
<p>Debt service coverage ratio is 0.16.</p>	<p><b>Debt service coverage ratio is 0.70 (and not 0.16 as mentioned by you).</b></p> <p>Calculation of debt service coverage ratio by you is also not correct in Annexure 5 because again regulatory gap has been deducted from the EBIDTA, against the norms of accounting standards. It is strange that you are deducting regulatory gap from equity also and from EBIDTA also. It is misleading to show the ratio on the basis of figures outside audited books of accounts.</p>
<p>Revenue gap of Rs. 235 crores upto FY 2008-09.</p>	<p>The actual revenue gap up to FY2008-09 is not Rs.235 crores and will be known only after Tariff Order. It may be a much lower figure or even a surplus. It is misleading to say that the gap is Rs. 235 crores, knowing fully well that true up order is pending. A licensee can never state that their petition is the final word as it is always subject to prudence check and public hearing and all information relating to tariff determination has to be placed before all stakeholders.</p>
<p>An additional revenue gap of Rs. 766 crores for FY 2009-10.</p>	<p>The figure of Rs.766 crores stated by you is again mere projection in the petition filed on 15 December 2009 and is not based on any audited/authenticated figures. It is only the energy account surplus or gap (i.e. Income from energy sale minus power purchase cost) which is relevant and <b>not</b> the difference between projection and power purchase cost differential.</p> <p>Audited accounts were ready with you on 28<sup>th</sup> April 2010 and even then these figures in your representation to the government submitted on May 3, 2010 is <b>not</b> based on the accounts but on the estimates made at the time of filing of the petition. You could have given the actual surplus on the basis of audited accounts. It is misleading to present such projection or estimate as the real figure, as you have done in the representation, without even referring to the figures in audited accounts already available with you.</p>

5. The above-mentioned factual position is based on the audited accounts submitted by you and the report of your credit agency enclosed here. If you think the figures in the audited accounts or in the report of the credit agency contain some discrepancies, please let us know within a week of receipt of this letter.

Yours faithfully,

Sd/-  
(A. K. Singh)  
Director (Tariff)

- Encl.: 1. Statement of important financial figures from FY 2004-05 to FY 2009-10 (Annexure A).
2. Report of CARE dated March 2009 (Annexure B).