

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

28.05.2010

To,

The Chief Executive Officer  
M/s North Delhi Power Ltd.,  
33 KV Grid Sub-Station Building,  
Hudson Lines, Kingsway Camp,  
New Delhi – 110009.

**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 ICRA. It is also noticed that even though audited accounts were ready with you and full report of ICRA 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. 468.82 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. 468.82 Crore in 2009-10 which increased from 169.60 Crore in 2004-05, an **increase of 176%**.
- ii. **Tangible Net worth in 2009-10 is Rs. 1561.11 crores which increased from Rs. 456.94 crores in 2004-05 (241% increase)**
- iii. **Current Ratio is 2.24:1 in 2009-10** against ratio 1.89:1 in 2004-05 which shows ideal health of company as on date.
- iv. **High net cash accrual of Rs. 82.71 Crore** In 2009-10 against cash accrual of 48.92 cr in 2008-09.

- v. Long term Debt/Equity Ratio improved considerably in 2009-10 to 0.95 from 1.89 in 2004-05, meaning excellent ratio and debts reduction continuously, **better than power Grid.**
- vi. Interest service coverage Ratio (ISCR) is **4.66 in 2009-10**, showing very good capacity to service interest, Power Grid Corporation (4.36).
- vii. Debt Service Coverage Ratio is 2.75 in 2009-10, better than Power Grid (2.16).

3. The latest available report of the credit rating agency ICRA is also enclosed in **Annexure B**. ICRA have rated your company as **LAA (L double A)** and A1+ (A one plus) for bank lines and CP programme. These are excellent credit rating. LAA denotes high credit quality rating which carry low credit risk and A1+ denotes higher than even the highest credit quality rating carrying the lowest credit risk in the short term. The following observations of ICRA in latest available report are very relevant showing your company's financial health.

- (a) ICRA upgrades North Delhi Power Limited (NDPL) long term rating from LAA (pronounced L double A minus) to LAA (pronounced L double A).  
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- (b) This rating (A1+) indicates highest-credit-quality rating assigned by ICRA to short-term debt instruments. Instruments rated in this category carry the lowest credit risk in the short term. Within this category, certain instruments are assigned the rating of A1+ to reflect their relatively stronger credit quality.  
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- (c) ICRA ratings factor in improving efficiency parameters, as reflected in its ability to reduce the aggregate technical and commercial (AT&C) losses to levels well below what is required under the current tariff regime and the cost plus nature of the tariff setting process, which has enabled it to report profitable operations and healthy cash generation. The positive credit profile also favourably factors in the stable demand growth and low level of business risks in its core operations' and its improving financial risk profile, with significant decline in gearing levels over the past two years and comfortable coverage indicators.  
.....
- (d) NDPL has maintained profitable operations since inception as the tariffs of the company are fixed on a cost plus basis and as it has achieved the stipulated efficiency targets.  
.....
- (e) The gearing levels of NDPL remained stable at around 0.9 times in FY 2008 as well as FY 2009 because of healthy profitability and accruals. Healthy profitability coupled with lower debt levels, resulted in substantially healthy coverage indicators. The NCA/total debt of NDPL stood at 20% in 2008-09 as against 45% in 2007-08.  
.....
- (f) Given the robust cash accruals, we expect the gearing levels of the company to remain comfortable and coverage numbers to remain steady in the medium and long term.  
.....

(g) ICRA has also drawn comfort from NDPL's strong liquidity as measured by unutilised bank limits.

..... ”

The rating agency ICRA in its report dated July 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>			
<b>FY</b>	<b>31.03.07</b>	<b>31.3.08</b>	<b>31.3.09</b>
Tangible Networth	673.63	876.17	956.94
Net Cash Accruals/Total Debt(%)	37%	45%	20%
Total Debt/Tangible Net worth	1.15	0.91	0.93
Amounts in Rs. Crores.			

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

4. Despite excellent financial position of your company and excellent credit rating, as mentioned above, you have chosen to say, in your representation, that your net worth is inadequate even though the tangible net worth as on 31.03.2010 is Rs. 1561 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 ICRA is also based on audited accounts only. The table below shows the factual position:-

<b>Position in the representation made by you before GoNCTD</b>	<b>Factual position</b>
Apprehension about default to lenders.  Inadequate net worth from the lenders perspective	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 inadequate. On the contrary, the credit rating assigned by ICRA in March 2010 to your company is LAA (upgraded from LAA in 2009) for long term bank facility and A1+ for short term bank facility. ICRA's observations reproduced above show the facts only.  This is not correct. The tangible net worth at the end of FY 2009-10 is Rs. 1561.10 crores and as may be seen from Annexure A it has increased by 241% from 456.93 crores in

<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>2004-05. ICRA report also shows very comfortable tangible net worth for 06-07, 07-08 &amp; 08-09. When the tangible net worth is so substantial, by no stretch of imagination it can be said to be inadequate.</p> <p>LAA is second best possible rating given to any corporate, equivalent to Tata Power and it is out of only eight credit ratings available whereas A1+ is better than even the highest rating. It is incorrect to say that borrowing limits are stretched when ICRA mentions that bank limits have been unutilized by you and gearing and coverage numbers will remain comfortable and steady in medium and long term.</p>
<p>Debt equity ratio is 7.80</p>	<p>Annexure A shows the ratios from FY 2004-05 to 2009-10. <b>The Debt Equity Ratio in FY 2009-10 is 0.95 (and not 7.80 as claimed by you in the representation)</b>. ICRA has also shown the ratio of total debt to Net worth at 0.9 in 2008-09 because of healthy profitability and accruals.</p> <p>It is noticed from the Annexure 6 to your representation that while calculating the debt equity ratio, you have deducted Rs. 980 crores on account of amount to be recovered from future tariff from the equity so that the total equity has come down to Rs. 159 crores. This is against norms of accounting standards. First of all, there is no basis for Rs. 980 crores. Second, there is no basis for deduction of this amount from the equity as accounting norms do not provide for this. It is misleading to show the ratio on the basis of figures outside audited books of accounts.</p>
<p>Debt Service Coverage Ratio (DSCR) is negative 1.45.</p>	<p>DSCR is, in reality, 2.75, better than even Power Grid Corporation of India.</p> $\begin{aligned} \text{DSCR} &= \frac{\text{EBIDT}}{\text{Interest Loan repayment}} \\ &= \frac{\text{PAT} + \text{Depreciation} + \text{Interest}}{\text{interest} + \text{Loan repayment}} \\ &= \frac{357.8 + 111.02 + 94.73}{94.73 + 111.02} \\ &= 2.75 \end{aligned}$
<p>Revenue gap of Rs. 446 crores upto FY 2008-09.</p>	<p>The actual revenue gap up to FY2008-09 is not Rs.446 crores and will be known after the tariff order. It may be a much lower figure or even a surplus. It is misleading to say that the gap is Rs. 446 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>

An additional revenue gap of Rs. 670 crores for FY 2009-10.	As regards Rs.670 crores stated, you are aware that 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.
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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 ICRA dated July 2009 (Annexure B).