

## Press Release

Uttar Haryana Bijli Vitran Nigam Limited

November 22, 2021

### Rating Reaffirmed



Product	Net Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>Bank Ratings</b> <b>Loan</b>	1500.00	ACUITE A   Stable   Reaffirmed	
<b>Total</b>	1500.00	-	-

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A**' (read as **ACUITE A**) to the bank facility of Rs.1,500.00 crore of Uttar Haryana Bijli Vitran Nigam Limited. The outlook is '**Stable**'.

### About the Company

Uttar Haryana Bijli Vitaran Nigam Limited (UHBVNL), incorporated in 1999, is a wholly owned entity of Government of Haryana (As on 31st March, 2019, GoH held 96% stake in UHBVNL and the balance was held by Uttar Haryana Vidyut Prasaran Nigam Limited) and is engaged in distribution of power. It is responsible for the distribution and retail supply of electricity in the North zone of Haryana comprising of Panchkula, Ambala, Yamunanagar, Kurukshetra, Kaithal, Karnal, Panipat, Sonapat, Rohtak and Jhajjar.

### Analytical Approach

Acuite has adopted the standalone approach while assessing the business and financial risk profile of HVPNL and has notched up the rating on the back of benefits emanating from the ownership by Government of Haryana (GoH). GoH holds ~96 per cent equity ownership in HVPNL besides regular managerial and financial support to HVPNL; the government has supported its bank borrowings by way of Guarantee.

### Key Rating Drivers

#### Strengths

#### >Strategically important role of UHBVNL for state and support extended by Government of Haryana

UHBVNL caters to the power requirements of entire North Haryana, thereby covering 10 districts and consumer base of 3.3 million. Besides that, the company maintains a monopoly in the entire region of North Haryana being the only licensed distributor and retail supplier of electricity in the said region. Government of Haryana has acquired stake of 96.52%, which provides adequate financial flexibility. UHBVNL's credit profile is also supported by its access to funds at lower cost and its ability to mobilise financial resources. The support also extended by Government of Haryana in the form of regular infusion of equity, grants, guarantees extended for bank facilities and payment of agricultural subsidies. The company has received aggregate subsidy to the tune of Rs. 2782.67 crore in FY21 as against Rs.3837.68 crore in FY20. Hence, support from GOH is crucial for rating and hence any change in credit profile of state of Haryana is key rating sensitivity. The outstanding debt of Haryana state as a percentage of GSDP remained modest at 23.30 percent for 2020-21 ((RE) as against and 22.30 percent for

2019-20. Any adverse movement in fiscal metrics of GoH is likely to have a bearing on the Haryana government's support to state PSUs like UHBVNL. Any significant changes in the rating of GoH due to factors such as a prolonged slowdown in industrial activities or challenges faced by Haryana for factors such as socio-economic changes or other such events can have an impact in its fiscal indicators. Further, timely budget allocation and timely receipt of revenue or capital grants from GoH for servicing the debt obligations will remain a critical element in the credit profile of UHBVNL.

### **>Satisfactory financial performance of the company during FY21, led by diversified consumer mix**

The company reported total operating income of Rs. 12,564.67 crores during FY21 as against Rs. 13,751.38 crores with marginal moderation in revenue to the tune of 0.09%. The company witnessed moderation in sale of power during April 2020 in industrial segment, however the same was mitigated to some extent by increase in domestic consumption. The operating profit of the company, however increased marginally, backed by decline in SLDC (State Load Dispatch Centre) charges. In line with increase in operating profit, net profit of the company also increased during the year to Rs.397.07 crore in FY21 as against Rs.217.72 crore in FY20.

The consumer profile of the company is moderately diversified and comprises of industrial, domestic, agricultural and commercial. The major portion of power is supplied to industrial segment (~35%), thereby also deriving major revenue from it. The same is followed by Domestic segment (~30%). While the unit supplied in agriculture segment is higher than commercial segment, the revenue derived is comparatively lower mainly due to lower tariff rate.

### **>Securitisation of cash flows through an escrow mechanism**

The facilities availed by UHBVNL is supported by a securitisation of its operating cash flows through an escrow account. The stipulation made by the lender is such that:

I. UHBVNL should route all collections/receipts/cash flows through the designated account at least to the extent of seven times of the monthly debt servicing obligation, which includes both principal and interest.

II. The company shall also make the repayment on 23rd of every month, i.e. 7 days before the scheduled date of payment.

III. In any instance of failing to adhere to above stipulations, the lender will exercise lien equivalent to monthly debt service obligations (Principal + Interest) on pooled cash flows commencing from the next day till the scheduled date of repayment (i.e. last day of every month).

Acuité takes comfort from the aforesaid escrow mechanism apart from the unconditional and irrevocable guarantee provided by GoH and believes that adherence to the stipulated structure will remain a key rating sensitivity factor.

## **Weaknesses**

### **>Relatively poor operational efficiency; albeit improving**

The transmission and distribution (T&D) losses have remained 17.20 per cent in FY2021 as against 19.01 per cent in the previous year. The aggregate technical & commercial (AT&C) losses have stood at 16.55 percent in FY2021 against 19.61 percent in FY2020. Further, the T&D losses and AT&C losses have improved year-on-year due to improved billing efficiency. The Company's collection efficiency has always remained above 95 percent through the last 10 years and stood at 100.0 percent in FY2021 and 99.26 percent in FY2020. The company, in order to limit the distribution and commercial losses, has concentrated its efforts to reduce power theft by digitalising the payment systems, replacing old meters with digital meters and implement feeder franchise scheme in areas with high distribution losses and low collection efficiencies. UHBVNL also consistently invests in increasing substation capacity and strengthening the network to reduce the distribution losses. The company has also been undertaking capex y-o-y for setting up of substation and transmission lines to augment its network.

Acuité believes that curtailment of AT&C losses and sustainability of collection performance will remain a key rating sensitivity factor.

### >Moderate albeit improving financial risk profile

The financial risk profile of the company is leveraged with debt-equity ratio above unity. The D-E ratio remained at 2.28 times as on March 31, 2021 vis-à-vis 4.05 times as on March 31, 2020. The company had availed additional debt to the tune of Rs. 1,053.96 crores during FY21,

in the form of working capital term loan and capex loans for setting up substation and transmission lines. However, the Government of Haryana has infused capital in the form of equity to the extent of Rs.194.38 crore in FY21, which mitigated the impact of incremental loan to some extent. Further, the borrowings by UHBVNL is covered by guarantee extended by Government of Haryana. The interest coverage ratio improved to 2.85 times during FY21 as against 1.78 times during FY20, backed by improved operating profit and lower interest cost. The Net Cash Accruals to Total debt, improved marginally by 80 bps to 0.25 times in FY21, on account of increase in NCA during the year. The total outstanding liability to tangible net worth also improved significantly to 5.80 times as on March 31, 2021 as against 9.26 times as on March 31, 2020. The same is due to increase in tangible net worth to Rs. 1471.99 crore in FY21 over Rs.879.50 crore in FY20, led by infusion of equity and accretion of profit to reserves.

### Liquidity Position: Adequate

The liquidity profile of the company continues to remain at adequate level with company reporting net cash accruals of Rs.789.18 crore against debt obligation of Rs.535.08 crore. The company has unencumbered cash and bank balance of Rs.458.69 crore as on March 31, 2021. The borrowings are supported by guarantee extended by Government of Haryana. The facilities are further supported by securitisation of its operating cash flows through an escrow account. Hence, all the collection receipts are routed through escrow account. The current ratio of the company, however continues to remain below unity. The company had not opted for any moratorium. Further, the company has been continuously undertaking capex w.r.t setting up of transmission lines and substation every year. The same is funded through combination of equity, term loan and Government grant.

The company has already availed term loan to the tune of Rs.500 crore sanctioned from Indian Overseas Bank and Central Bank of India. However, the term loans availed entails long tenor of 15 years with moratorium of 2-3 years, which provides adequate time for stabilisation of cash flows.

### Rating Sensitivities

>Weakening of credit profile of state of Haryana

>Increase in power utilisation along with increase in tariff rates

### Material covenants

Not Applicable

### Outlook: Stable

Acuité believes that UHBVNL will benefit from its natural monopoly in the power distribution business in Haryana and strong support from Government of Haryana. The outlook may be revised to 'Positive' in case of healthy growth in scale and profitability of the HVPNL along with improvement in credit profile of GoH. The outlook may be revised to 'Negative' in case of significant buildup in receivables beyond existing levels or sharp deterioration in GoH's credit profile.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	12564.67	13751.38
PAT	Rs. Cr.	397.07	217.72
PAT Margin	(%)	3.16	1.58

Total Debt/Tangible Net Worth	Times	2.28	4.05
PBDIT/Interest	Times	2.85	1.78

#### Status of non-cooperation with previous CRA (if applicable)

Not Applicable

#### Any other information

Not Applicable

#### Applicable Criteria

- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Public Finance - State Government Ratings: <https://www.acuite.in/view-rating-criteria-26.htm>

#### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

#### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Aug 2020	Term Loan	Long Term	1500	ACUITE A   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Size Of Issue	Rating
State Bank of India	Term Loan	Not available	Not available	Not available	1500.00	ACUITE A   Stable   Reaffirmed

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## About Acuité Ratings & Research

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