

Press Release

Dakshin Haryana Bijli Vitran Nigam Limited

July 22, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	500.00	ACUITE A Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	500.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A**' (read as **ACUITE A**) on the Rs. 500.00 crore bank facilities of Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL). The outlook is '**Stable**'

Rationale for Reaffirmation

The rating continues to derive strength from strategic importance of DHBVNL for State Government of Haryana (GoH) and continued support in the form of subsidy and guarantee extended by GoH, diversified consumption mix, moderate financial risk profile and adequate liquidity. The above strengths are, however underpinned by Susceptibility of operating performance to transmission charges set by Haryana Electricity Regulatory Commission (HERC) and moderation in total operating income in FY21, leading to moderate financial risk profile.

About the Company

Dakshin Haryana Bijli Vitaran Nigam Limited (DHBVNL), incorporated in 1999, is a wholly owned entity of Government of Haryana (As on March 31, 2021, GoH held 96.84% stake in DHBVNL and the balance was held by Haryana Vidyut Prasaran Nigam Limited) and is engaged in distribution of power. DHBVNL purchases power primarily from Central Generating Stations (CGS) and they are making efforts to source energy from renewable sources.

It is responsible for the distribution and retail supply of electricity in the South zone of Haryana comprising of Hisar, Bhiwani, Sirsa, Faridabad, Fatehabad Gurugram-1, Gurugram-2, Palwal, Rewari, Jind and Narnaul circles with approx. 39 lac consumers (FY22) across all categories.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of DHBVNL and has also factored in support extended by Government of Haryana (GoH) in the form of an unconditional and irrevocable guarantee for the entire tenor of the facility along with securitization of cash flows through an escrow mechanism.

Key Rating Drivers

Strengths

Strategically important role of DHBVNL in the state of Haryana

DHBVNL caters to the power requirements of the Southern Haryana Regions. The entity is systemically important and forms the backbone of the power distribution infrastructure for Haryana. DHBVNL has a consumer base of over 39 lakh consumers as on FY22. Government of Haryana (GoH) owns a 96.84% stake in the entity, thereby providing it adequate financial flexibility. DHBVNL's credit profile is also supported by its access to funds at low cost and its ability to mobilise financial resources from several financial institutions and multilateral development institutions. The rating also factors in the ongoing support extended by GoH to DHBVNL in the form of regular infusion of funds in the form of equity and guarantees extended by the state government for the incremental borrowings and timely payment of agricultural subsidy. The company received an aggregate subsidy of Rs. 2783.53 Cr in FY21. Since the support from GoH is central to the rating, the credit profile of Haryana state is of key importance. Any significant changes in the credit profile of GoH will be a key rating sensitivity. The outstanding debt of Haryana state as a percentage of GSDP remained modest at 30.70% for FY21 (RE). Any adverse movement in fiscal metrics of GoH is likely to have a bearing on the Haryana government's support to state PSUs like DHBVNL. 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 DHBVNL.

Diversified consumption mix and established regulatory processes in Haryana

DHBVNL has a favorable and diversified consumption mix with agricultural consumers accounting for Rs.291.10 Cr of total revenue, industrial connection (LT+HT) accounting for about Rs. 5,082.27 Cr, railways accounting for about Rs. 29.09 Cr, public works/municipal accounting for about Rs. 726.42 Cr, domestic and commercial connection accounting for Rs. 3,137.30 Cr and Rs. 1881.82 Cr respectively, while others account for about Rs.704.20 Cr in FY21. The company supplies power to railways and other public services like street lights and so on. DHBVNL has comparatively less agricultural consumers and the domestic, commercial and industrial consumption commands a higher tariff which augurs well for the revenues of the state utility. Besides that, the company maintains a monopoly in the entire region of South Haryana being the only licensed distributor and retail supplier of electricity in the said region. Acuité also notes that DHBVNL is regular in the filing of multi-year tariff (MYT) order, which provides near term tariff visibility. In accordance with the HERC (Terms and Conditions of Tariff) Regulations, 2005, DHBVNL files with HERC an application indicating the Annual Revenue Requirement (ARR) depending on the expected cost of distribution and return on equity. The cost of distribution is arrived at as per approved cost-plus tariff structure which ensured the full recovery of costs along with fixed return on equity. Revenue gap after inclusion of the true-up amount of FY21 comes to Rs. 249.67 Cr which the Haryana DISCOMs propose to meet through a continuation of existing tariff levels.

Securitization of cash-flows through an escrow mechanism

The facilities availed by DHBVNL is supported by a securitization of its operating cash-flows through an escrow mechanism. The stipulation made by the lender requires DHBVNL to route all collections/receipts/cash flows through the designated account at least to the extent of five times of the monthly debt servicing obligation, which includes both principal and interest. It also states that the entity shall make the repayment on a scheduled date of every month. Further, it stipulates that, in any instance of failing to adhere to aforesaid 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

The transmission and distribution (T&D) losses have remained at 16.93% in FY21. The aggregate technical & commercial (AT&C) losses have stood at 15.97% in FY21. The company's collection efficiency has remained above 96 percent through the last 10 years and stood

above 100% in FY21. However, the entity, in order to limit the distribution and commercial losses, has concentrated its efforts to reduce power theft by digitalizing the payment systems, replacing old meters with digital meters and implement feeder franchise scheme in areas with high distribution losses and low collection efficiencies. DBHVNL also consistently invests in increasing substation capacity and strengthening the network to reduce the distribution losses under the Deendayal Upadhaya Gram Jyoti Yojana (DDUGJY) and Integrated Power Development Scheme (IPDS). It has cumulatively incurred a capex of over the last three years to augment its network. Further, DBHVNL has implemented Mhara Gaon JagMag Gaon (MGJG) and Feeder Sanitisation Schemes in rural and urban areas to curb power theft and to improve quality of services to consumers as line losses of Rural Domestic Feeders (RDS) contributes a significant portion of distribution losses. 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 capital structure as represented by debt-equity ratio remained at moderate level at 1.38 times during FY21 as against 1.56 times in FY20. The improvement in debt-equity is mainly on account of infusion of equity to the extent of Rs.220.70 crore during FY21. Government of India launched UDAY scheme on 20th of November, 2015 and Haryana joined UDAY Scheme on 11th of March, 2016 (tripartite agreement among MoP, GoH & UHBVNL). UHBVNL +DHBVNL's outstanding loan as on September 30, 2015 stood at Rs. 34,600 Cr. The State Government had taken over debt of 75% of outstanding amount i.e. Rs. 25,950 Cr. Discom bonds for the balance amount of Rs. 8,566 Cr were issued with the support of MoP for which the GoH has already provided guarantee. This has helped the DISCOM reduce its AT&C losses considerably and lowered the finance cost. Under this scheme, the State Government has to take over 75% of Discom's debt outstanding as on September 30, 2015 over two years' period upto FY16-17. The loan taken over by the state government was further converted into equity/ grant over a period of 5 years upto FY19-20 and in the meantime the interest cost on the portion not converted into equity/ grant had to be borne by the discom (licensee). The Licensee has borne interest cost of Rs. 79.39 Crore in FY19-20 on such loans (UDAY Bonds). Consequently, the tangible net worth of the company turned to positive in FY20 and has been improving over the past two years. The tangible net worth of the company remained at Rs. 2,597.45 crores as on March 31, 2021 as against Rs. 2,118.79 crores as on March 31, 2020. During FY21, the debt component mainly comprises of term loan from Rural Electrification Corporation to the tune of Rs. 2010.29 crore as on March 31, 2021. The increase in operating profit also resulted in improvement in interest coverage ratio from 1.62 times in FY20 to 2.29 times in FY21. The net cash accruals to total debt continues to remain at 0.16-0.20 times during FY20-21. The total outstanding liability to tangible net worth also improved to 3.69 times in FY21 vis-à-vis 4.40 times in FY20.

Susceptibility of performance to changes in the regulatory framework

DHBVNL's revenues are influenced by the regulatory framework governing the power sector. Revenues of state distribution utilities like DHBVNL are determined by state electricity regulatory commissions. The Haryana Electricity Regulatory Commission (HERC) considers key parameters like the cost structure and expected to return on equity to arrive at distribution tariffs, wheeling & distribution and retail supply under MYT Framework (Multi Year Tariff). Presently, the company benefits from a HERC approved healthy return on equity (ROE) of 9.22% as on March 31, 2021. Acuité believes that significant changes in the regulatory environment will impinge on the credit profile of the company.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- >Any Improvement or decline in operational efficiency of the utility
- >Any Improvement or decline in credit profile of Government of Haryana.
- >Dynamics of the regulatory environment

Material covenants

None

Liquidity: Adequate Adequate

The liquidity profile of the company remained at adequate level with net cash accruals of Rs.722.62 crore during FY21 as against the debt repayment of Rs.353.53 crore. The net cash accruals are expected to remain at Rs.688.40 crore during FY22. The current ratio remained at 1.02 times as on March 31, 2021 as against 0.96 times as on March 31, 2020. The debtors' days remained at similar level at 55-58 during FY20-21. The company has maintained cash and bank balance of Rs. 288.54 crore as on March 31, 2021. The collection efficiency remained at 101.43% during FY21.

The borrowings made by DHBVNL are guaranteed by an unconditional and irrevocable guarantee by GoH for the entire tenor of the facility, further supported by securitization of operating cash flows through an escrow mechanism. Acuité believes that the liquidity position of DHBVNL is likely to be adequate over the medium term on account of a guarantee in place by the GoH and efficiency in its collections

Outlook: Stable

Acuité believes that the outlook on DHBVNL will remain 'Stable' over the medium term due to its favorable position of being one of two distribution companies in Haryana with a wide and diverse consumer base. The company will continue to benefit from the support provided by the state government. The outlook may be revised to 'Positive' in case of reduction in AT&C losses, crystallization of regulatory assets and improvement in the debt servicing indicators. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected support from the GoH, significant rise in AT&C losses or if the company revenue gap increases further or if there is any delay in timely collection of receivables.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	15942.07	17643.03
PAT	Rs. Cr.	239.61	113.67
PAT Margin	(%)	1.50	0.64
Total Debt/Tangible Net Worth	Times	1.38	1.56
PBDIT/Interest	Times	2.29	1.62

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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
28 Apr 2021	Term Loan	Long Term	500.00	ACUITE A Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Term Loan	Not available	7.10	Not available	500.00	ACUITE A Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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