

Press Release

Dakshin Haryana Bijli Vitran Nigam Limited

March 31, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2950.00	ACUITE A Stable Assigned	-
Bank Loan Ratings	1300.00	ACUITE A Stable Reaffirmed	-
Bank Loan Ratings	150.00	-	ACUITE A1 Assigned
Total Outstanding Quantum (Rs. Cr)	4400.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of **ACUITE A (Read as ACUITE A)** on the Rs.1300.00 crore bank facilities of Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL). Acuite has also assigned its long term rating of **ACUITE A (Read as ACUITE A)** on the Rs.2950 crore bank facilities and short term rating of **ACUITE A1 (read as ACUITE A one)** on Rs.150 crore bank facilities of DHBVNL. The outlook is 'Stable'.

Rationale for Reaffirmation and Rating assigned

The rating continues to factor the strategically important role of DHBVNL in the state of Haryana and the support received by DHBVNL in the form of grants and guarantees, defined collection structure/cashflow trapping which ensures timely payment of debt obligations and improved operating efficiency. These rating strengths are partly offset by its average financial risk profile and susceptibility of performance to change in regulatory framework.

DHBVNL has received aggregate subsidies to the tune of Rs. 3463.82 crore in FY22 as against Rs. 2783.53 crore in FY21. The company reported revenue from operations of Rs. 18,553.75 crore in FY22 as against Rs. 15,942.07 crore in FY21, i.e., an increase in revenue of 16.38%. The borrowings by DHBVNL are covered by a guarantee extended by the Government of Haryana. It has a diversified consumption mix, a moderate financial risk profile, and adequate liquidity. Acuite expects a mild moderation in the in profitability levels, primarily due to the increased power purchase cost during the first half of FY2023, as there was an inflation in coal prices due to its shortage in the domestic market during the same period.

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, 2022, GoH held 96.85% 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 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

Acuité 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 regions of Haryana. 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 96.85% 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. 3463.82 Cr in FY22. 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.

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.

Improved operational efficiency.

The transmission and distribution losses (T&D losses) stood at 13.55% in FY2022 against 16.93% in FY2021. The AT&C losses declined and stood at 12.59% in FY2022 against 15.97% in FY2021. The collection efficiency also remained over 100% in FY2022.

The entity, 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. DHBVNL 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 been cumulatively incurring capex over the last three years to augment its network. Further, DHBVNL 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.

Weaknesses

Average Financial Risk Profile

The financial risk profile of the company is average in nature with Debt-to-equity ratio of 1.9 times as of March 31, 2022 against 1.38 times as of March 31, 2021. The borrowings by DHBVNL are covered by guarantee extended by Government of Haryana. The interest coverage ratio improved to 3.19 times during FY22 as against 2.29 times during FY21. The Net Cash Accruals to Total debt stood at 0.20 times in both FY2022 and FY2021 as well. The total outside liability to tangible net worth slightly improved to 3.14 times as of March 31, 2022 as against 3.69 times as on March 31, 2021. The same is due to increase in tangible net worth to Rs. 2940.63 crore in FY22 over 2597.45 crore in FY21. The financial risk profile is expected to further moderate in the near-term on account of expected net losses in the current financial year.

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). Acuite 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 Position

Adequate

The liquidity profile of the company continue to remain at adequate level with company reporting net cash accruals of Rs. 674.14 crores against debt obligation of Rs. 353.53 crore in FY2022. The company has unencumbered cash and bank balance of Rs.211.85 crore as on March 31, 2022. 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 stood at unity in FY2022. The liquidity profile is expected to moderate in near term on account of expected losses at PAT levels in FY2023, however will remain adequate in the over the medium term.

Outlook:Stable

Acuite believes that the outlook on DHBVNL will remain 'Stable' over the medium term due to its favourable 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 sustained 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's 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 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	18553.75	15942.07
PAT	Rs. Cr.	178.97	239.60
PAT Margin	(%)	0.96	1.50
Total Debt/Tangible Net Worth	Times	1.19	1.38
PBDIT/Interest	Times	3.19	2.29

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

None

Any other information

Not applicable

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 Oct 2022	Term Loan	Long Term	600.00	ACUITE A Stable (Assigned)
	Term Loan	Long Term	500.00	ACUITE A Stable (Reaffirmed)
	Cash Credit	Long Term	200.00	ACUITE A Stable (Assigned)
22 Jul 2022	Term Loan	Long Term	500.00	ACUITE A Stable (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	200.00	ACUITE A Stable Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	200.00	ACUITE A Stable Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	200.00	ACUITE A Stable Assigned
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	300.00	ACUITE A Stable Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	177.00	ACUITE A Stable Assigned
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE A Stable Assigned
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	150.00	ACUITE A Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	338.91	ACUITE A Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	500.00	ACUITE A Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	456.87	ACUITE A Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	143.13	ACUITE A Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	425.72	ACUITE A Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	222.25	ACUITE A Stable Assigned
Central Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	336.12	ACUITE A Stable Assigned
Canara Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	200.00	ACUITE A Stable Assigned
Union Bank	Not	Working Capital Demand	Not	Not	Not	Simple	150.00	ACUITE A Stable

of India	Applicable	Loan (WCDL)	available	available	available			Assigned
Central Bank of India	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	300.00	ACUITE A Stable Assigned

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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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