

Press Release

Ajmer Vidhyut Vitran Nigam Limited

January 20, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1547.84	ACUITE BBB+ Stable Assigned	-
Bank Loan Ratings	551.98	-	ACUITE A2 Assigned
Total Outstanding Quantum (Rs. Cr)	2099.82	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its longterm rating of **ACUITE BBB+ (read as ACUITE triple B plus)** and its short term rating of **ACUITE A2 (read as ACUITE A two)** to the Rs 2099.82 Cr bank facilities of Ajmer Vidhyut Vitran Nigam Limited (AVVL). The outlook is 'Stable'.

Rationale for rating assigned

The rating assigned factors the stable revenue growth, sustained improvement in the AT&C and T&D losses along with improvement in the collection efficiency in the last three years ended 2022. The AT&C losses and T&D losses stood at around 12.73% in FY2022 against 21.60% and 15.15% in FY2021. Further, the rating also factors in the support received from the State Government of Rajasthan (GoR) in the form of subsidies, grants and government guarantee backed borrowings. Also, the rating draws comfort from AVVL's diverse consumer mix with high consumption from commercial and industrial consumers given their high tariff band. However, the rating is constrained on account of regulated nature of business, along with weak financial risk profile marked by negative net worth, and modest debt protection matrices given the high debt levels of the company.

About the Company

Incorporated in the year 2000, Ajmer Vidyut Vitran Nigam Limited. (AVVNL) is a state power distribution company of Rajasthan State Electricity Board (RSEB). As per the Rajasthan Power Sector Reforms Act, 1999 of GoR, the erstwhile Rajasthan State Electricity Board (RSEB) was unbundled into a Generation Company, a transmission company and three Distribution Companies (Discoms) w.e.f. July 19, 2000. AVVNL has its registered office located in Ajmer (Rajasthan). The Current directors of the company are Ms Aparna Arora, Mr Ashutosh Pednekar, Mr Anil Kumar Gupta, Mr Pranab Kumar Sinha, Mr Bhaskar Sawant, Mr Naresh Kumar Thakral, Mr Mukesh Kumar Goyal, Mr Narendra Singh Nirwan and Mr Harsh Baweja.

Standalone (Unsupported) Rating

Acuite BB/ Acuite /A4+

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Ajmer Vidhyut Vitran Nigam Limited (AVVNL). Further, the team has also factored in the inherent support extended from the state government of Rajasthan.

Key Rating Drivers

Strengths

Strategically important role of AVVNL for the state of Rajasthan & support extended by the GoR

AVVNL came into existence in 2000 and caters the power requirements of around 11 districts of the state including Ajmer, Bhilwara, Udaipur, Chittorgarh etc to name a few. It is a strategically important entity and forms the backbone of the power sector infrastructure for Rajasthan with area of operation of around 88000 sq. km. The status of the company as a 100 per cent government of Rajasthan (GoR) owned entity provides it adequate financial flexibility. AVVNL'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 GoR to AVVNL in the form of regular infusion of funds in the form of equity and unsecured loans and guarantees extended by the state government. During FY2022, there was an equity infusion of Rs. 408.78 Cr. made against share application money pending allotment Rs. 118.92 Cr and balance Rs. 289.86 Cr received against equity capital from GoR. Also, Rajasthan is India's leading industrial state with gross state domestic product (GSDP) growing at 11.60 per cent in 2022-23 (est.). GoR's revenue deficit and fiscal deficit has reduced in FY2022 as against FY2021, and is expected to further reduce as per the budgeted estimates (BE) of FY2023, mainly due to its higher revenue receipts than revenue expenditure. Further, well established regulatory processes in Rajasthan such as presence of multi-year tariff regulations and grants sanctioned by the GoR has strengthened the operations of AVVNL.

Acuité believes that AVVNL, being a fully owned undertaking of GoR, shall continue to benefit from the financial, operational and management support of GoR from time to time. Any event that impinges GoR's overall credit profile shall remain a key rating sensitivity.

Sustainable improvement in the AT&C losses and T&D losses

AVVNL has experienced sustained improvement in the Transmission and Distribution Losses [T&D] and Aggregate Technical and Commercial Losses [AT&C] over a period of last 10 years accrued to the implementation of multiple initiatives, capex to improve transmission lines, installing substations, among others. Further, it has also recorded significant improvement in its collection efficiency which stood over 97% since Q2FY2022. Further the company has entered into Distribution & Franchisee Agreement in 2017 with Tata Power Ajmer Distribution Limited, SPV of Tata Power Company Limited for a period of 20 years. This has helped in reduction of AT&C losses from 17.38% (Base year 2015-16) to 9.51% (FY2022). Further reduction in the DT failure rate from 3.33% (Base year 2015-16) to 1.13% (FY2022).

Weaknesses

Modest financial risk profile

The financial risk profile remains modest marked by negative net worth, low gearing, and deteriorating coverage indicators. The net worth of the company although improved but stood negative at Rs. (8,231.61) Cr as on March 31, 2022 as compared to Rs. (9,460.45) Cr as on March 31, 2021. The negative net worth is primarily due to losses incurred in the earlier years. The total debt of the company stood at Rs. 19,937 Cr. as on March 31, 2022 against Rs. 16,470 Cr. as on March 31, 2021. The gearing stood high at (2.42) times as on March 31, 2022 as against (1.74) times as on March 31, 2021. Further, it is a highly capital-intensive nature of business where in order to maintain operational efficiencies; the company has to incur regular capital expenditure. In addition, debt protection metrics stood moderate with interest coverage ratio (ICR) and debt service coverage ratio (DSCR) at 1.56 times and 0.98 times, in FY2022 as compared to 1.34 times and 0.89 times, in FY2021 respectively. Though the company's DSCR has been weak in the past 2 years ended FY2022, Acuité notes that AVVNL has received regular financial support from GoR which is expected to continue going forward.

Regulated nature of operations

The revenues are influenced by the regulatory framework governing the power sector. Revenues of players such as AVVNL are determined by Rajasthan Electricity Regulatory Commission (RERC) through revision in tariff. Any significant delays in tariff approvals or a reduction in return on equity or a tightening of the RERC norms could result in lower operating cash flows.

Acuité believes that any significant change in the regulatory environment will impinge on the credit profile of the company.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Credit profile of GoR.
- Improvement in overall operating efficiency with reduced AT&C and T&D losses
- Improvement in the overall financial risk and liquidity profile
- Dynamics in the regulatory environment.
- Change in shareholding and support from GoR.

Material covenants

None

Liquidity Position

Adequate

AVVNL has an adequate liquidity marked by net cash accruals of Rs. 1,438 Cr during FY2021-22 against repayment obligation of Rs. 1508.17 Cr. during the same period and the deficit has been funded from support in the form of grants from GoR. Furthermore, the liquidity position is also supported by equity infusion of Rs. 408.78 Cr. made against share application money pending allotment Rs. 118.92 Cr and balance Rs. 289.86 Cr received against equity capital from GoR during FY2022. Also, in order to come out of the unprecedented COVID-19 crisis, the Govt. of India announced special economic package under 'Atmanirbhar Bharat' which includes liquidity infusion for Discoms by Power Finance Corporation (PFC) & Rural Electrification Corporation Limited (REC) for a period of 10 years. The company's repayment obligation in the FY 2021-22 and going forward obligations will be repaid by way of newly availed term loans from REC & PFC and working capital loans which are backed by government guarantee and remaining by way of grants from GoR. AVVNL due to its strategic importance to GoR has been able to access various funding sources in the past to tide over the short-term liquidity mismatch. The unencumbered cash and bank balances stood at Rs. 306 Cr as on March 31, 2022. Further, Acuité receives comfort from the fact that AVVNL being a GoR entity warrants adequate financial support from GoR, time to time, to support the mismatches.

Outlook: Stable

Acuité believes that the AVVNL will maintain 'Stable' outlook over the medium term from its strategic importance to the GoR, experienced management and strong parentage. The outlook may be revised to 'Positive' if the company successfully ramps up its operation and registers growth in revenues while improving its profitability and AT&C and T&D losses. Conversely, the outlook may be revised to 'Negative' in case of less than expected growth in the revenues or increased AT&C and T&D losses deteriorating the operating profile.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	16781.22	15319.29

PAT	Rs. Cr.	557.55	175.73
PAT Margin	(%)	3.32	1.15
Total Debt/Tangible Net Worth	Times	(2.42)	(1.74)
PBDIT/Interest	Times	1.56	1.34

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.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:

Not Applicable

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	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	551.98	ACUITE A2 Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	140.00	ACUITE BBB+ Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	375.95	ACUITE BBB+ Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	289.50	ACUITE BBB+ Stable Assigned
Punjab and Sind Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	451.39	ACUITE BBB+ Stable Assigned
Indian Overseas Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	291.00	ACUITE BBB+ 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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