Eastern Power Distribution Company of Andhra Pradesh Limited (APEPDCL)

November 07, 2024

Ratings

Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Facilities	450.00	IVR C/ Stable (IVR C with Stable Outlook)	--	Assigned	**Simple**
Short Term Facilities	200.00	IVR A4 (IVR A Four)	--	Assigned	**Simple**
Total	**650.00 (Rupees Six hundred and fifty crore only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has assigned long term and short-term ratings to the bank facilities of Eastern Power Distribution Company of Andhra Pradesh Limited (APEPDCL). The ratings factor in the strong parentage, monopoly in power distribution business and healthy consumer mix. The rating strengths are, however, constrained by the delays in servicing debt obligations on loans not rated by Infomerics, weak financial risk profile, high receivable levels, higher Transmission and Distribution (T&D) loss and Aggregate Technical and Commercial (AT&C) loss in FY24 (FY refers to the period from April1 to March 31).

The Stable outlook factors in support for the basic infrastructure nature of service, steady demand and regulated nature of tariffs.

Key Rating Sensitivities:

Upward Factors

- Timely servicing of debt repayment obligations on a sustained basis.
- Reduction in tariff gap improving profitability and thereby leading to overall improvement in cash accruals.
- Timely realisation of receivables on a sustained basis improving cash accruals and liquidity of the company

- Improving capital structure and debt protection metrics on a sustained basis.

Downward Factors

- Delay in meeting the debt obligations of rated facilities.
- Increase in tariff gap over the medium-term impacting cash accruals and liquidity position of the company.
- Increase in receivables deteriorating the cash accruals and liquidity position of the company.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Strong parentage

APEPDCL is wholly owned by Government of Andhra Pradesh (GoAP) with adequate State Government support due to the strategic importance of the power sector and implicit support from GoAP. GoAP has guaranteed debt of APEPDCL. It further provides capital grants for various capex schemes and tariff subsidies.

Monopoly in the power distribution business

The company plays a critical role in the development of its service area, which covers a substantial portion of the industrial economy of Andhra Pradesh. The company is expected to maintain its monopoly in the long term given that it is financially unviable for competitors to duplicate the network of wires required in the retail power supply business.

Healthy consumer mix

APEPDCL has a healthy consumer mix with industrial and commercial consumers accounting for 65.68% in terms of revenues and 42.72% in terms of units sold.

Key Rating Weaknesses

Delays in servicing debt not rated by Infomerics in the past

There has been a past track record of delays in servicing debt repayment obligations of Power Finance Corporation debt, not rated by Infomerics in June 2024, July 2024, and August 2024. Timely servicing of debt obligations on a sustained basis will be a key rating monitorable.

Weak financial risk profile

The financial risk profile of the company is constrained by high leverage and weak debt protection metrics. Adjusted tangible net worth (ATNW) stood at Rs. 1982.43 crore as on March 31, 2024. Total debt increased by ~33% to Rs. 16120.02 crore as on March 31, 2024 (PY: Rs. 12144.68 crore). Adjusted overall gearing and Total Outside Liabilities/ATNW remained high at 8.13x and 13.73x respectively as on March 31, 2024, and 10.39x and 17.30x respectively as on March 31, 2023. Debt protection metrics like interest coverage ratio and debt service coverage ratio stood below unity for the last two years. Total debt to EBITDA remained high at 12.61 times as on March 31, 2024 (PY: 16.28 times). The revenue of the company increased by ~22% in FY24 to Rs. 22621.34 crore as against Rs. 18539.30 crore in FY23, on account of recovery of Fuel and Power Purchase Cost Agreement (FPPCA) and true up charges from the consumers.

High receivable levels

APEPDCL debtors stood high at Rs. 8293.15 crore as on March 31, 2024, and increased by 35% as against Rs. 5567.03 crore as on March 31, 2023. The increase in receivables is due to FPPCA. The debtors pending for more than 365 days are ~26% of the total debtors of FY24. Debtors include receivables from various government departments to the tune of Rs. 2368.94 crore as on March 31, 2024, which is ~28% of total receivables. APEPDCL's collection efficiency has moderated from 98.83% in FY23 to 95.71% in FY24. The subsidies in FY24 and FY23 have been received, however, in addition to the above debtors, the legacy subsidy arrears of Rs. 2710.88 crore are yet to be received. Going forward, timely realisation of receivables on a sustained basis improving cash flows and liquidity of the company will be a key rating monitorable.

Higher T&D and AT&C losses in FY24

APEPDCL has experienced increasing T&D and AT&C losses from 5.94% and 7.04% respectively for FY23 to 6.15% and 10.18% for FY24.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity – Stretched

The company's liquidity position is stretched, marked by insufficient cash accruals as against the maturing debt obligations in FY25. The company had generated insufficient cash accruals as against the maturing debt obligations in FY23 and FY24 also. The liquidity of the company remains stretched due to high receivables and increasing borrowings for meeting shortfalls and capex programmes. The average utilization of fund based working capital limits stood high at 86.67% for the last 12 months ended August 2024. The company has been supported by the state government of Andhra Pradesh which owns the entire shareholding in the company. The company has cash and cash equivalents of Rs. 186.88 crore as on March 31, 2024. The current ratio stands at 1.34 times as on March 31, 2024.

About the Company

The Eastern Power Distribution Company of Andhra Pradesh Limited has been formed as a successor entity of the erstwhile Andhra Pradesh State Electricity Board through the second statutory transfer scheme, which was notified in the official gazette of Government of Andhra Pradesh on March 31, 2000. APEPDCL is wholly owned by the Government of Andhra Pradesh. The jurisdiction of APEPDCL consists of 11 districts viz., Srikakulam, Alluri Sitharama Raju, Vizianagaram, Parvathipuram Manyam, Visakhapatnam, Anakapalli, Kakinada, East Godavari, Dr. B.R. Ambedkar Konaseema, Eluru, and West Godavari. The service area covers 42,100 square kilometres with a population of over 1.73 crore and customer base of 59.7 lakh.

Financials (Standalone): **(Rs. crore)**

For the year ended/ As on*	31-03-2023	31-03-2024

	Audited	Audited
Total Operating Income	18539.30	22621.34
EBITDA	746.21	1278.50
PAT	19.70	136.08
Total Debt	12144.68	16120.02
Tangible Net Worth	1462.59	2430.58
EBITDA Margin (%)	4.02	5.65
PAT Margin (%)	0.10	0.58
Overall Gearing Ratio (x)	8.30	6.63
Interest Coverage (x)	0.66	0.89

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA:

CRISIL has moved the ratings to Issuer Not Cooperating category via press release dated April 25, 2024, due to unavailability of information for monitoring the rating.

Any other information: Nil

Rating History for last three years:

Sr. No	Name of Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in in 2021-22
					--	--	--
1.	Fund Based Bank Facilities- Cash Credit	Long Term	450.00	IVR C/ Stable	--	--	--
2.	Non- Fund Based Bank Facilities- Letter of Credit	Short Term	200.00	IVR A4	--	--	--

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Facility Details

Name of Facility	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	--	--	--	--	450.00	IVR C/ Stable
Letter of Credit	--	--	--	--	200.00	IVR A4

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-epdcapl-nov24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.