

RATING RATIONALE

7 April 2020

UP Power Corporation Ltd

Brickwork Ratings reaffirms the ratings for the multiple Bond Issues aggregating ₹ 19401.10 Crores of UP Power Corporation Ltd

Particulars

Instrument**	Previous Amount (₹ Crs)	Present Amount (₹ Crs)	Tenure	Previous Rating	Present Rating*
UPPCL Bonds Series III & IV 2016-17	9999.50	9999.50	Long Term	BWR AA (CE)/Stable	BWR AA (CE)/Stable <i>Reaffirmation</i>
UPPCL Bonds Series I & II 2017-18	9989.20	9401.60		BWR AA- (CE)/Stable	BWR AA- (CE)/Stable <i>Reaffirmation</i>
Total	19988.70	19401.10	INR Nineteen Thousand Four Hundred One Crores and Ten Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of bank facilities are provided in Annexure-I

Note: The standalone rating of the company has been assessed at BWR BBB-/Stable

Rating Action / Outlook

The ratings assigned to the multiple bond issues of UP Power Corporation Ltd have been reaffirmed on account of the company's consistent operational and financial performance, with declining EBITDA losses. The reaffirmation also factors in the efficient functioning of the structured payment mechanism.

The ratings continue to derive comfort from the 100% ownership of the UP state and company's strategic importance for Uttar Pradesh, unconditional and irrevocable guarantee from the Government of Uttar Pradesh (GoUP) and continuous support to the company by way of subsidy, as well as equity infusion, maintenance of DSRA and strong payment mechanism with the GoUP ensuring timely servicing of dues to bondholders (discussed below). Brickwork Ratings (BWR) has also assessed the state's financial position to arrive at the rating decision for the company.

The ratings are however, constrained on account of significant operating losses suffered by the company, which although declining, are likely to continue over the next few years on the back of a variation from the targets for AT&C Losses and ACS-ARR Gap. While the company has taken various measures to improve the operational performance and achieve targets under the UDAY scheme, so far the performance has remained short of targets and base case projections.



The outlook has been maintained as Stable as the measures adopted by the company are likely to yield significant results only over the medium term, and thus, no major changes in parameters are expected over the next one year. Additionally, support from the GoUP is expected to continue in future as well.

Key Rating Drivers

Credit Strengths:

Guarantee by UP Government: The GoUP has given an unconditional and irrevocable guarantee for both the issues, wherein the state acts as a co-obligor, and not merely a surety. The state will also recognise the said bonds as a contingent liability in the state budget until redemption. Any change in the state's own rating would be a rating sensitivity.

Debt Service Reserve Account (DSRA): UPPCL is maintaining a Debt Service Reserve Account (DSRA) for an amount equivalent to the total servicing obligation (principal and interest) of the outstanding bonds for the next one quarter on a rolling basis for UPPCL Bonds Series III & IV 2016-17 and the next two quarters on a rolling basis for UPPCL Bonds Series I & II 2017-18. The company has been maintaining adequate balances in the DSRA since the raising of the bonds.

Structured Payment Mechanism - Bonds Series III & IV 2016-17: Under the mechanism, UPPCL is transferring funds proportionately to the UPPCL Bonds Servicing account to ensure the accumulation of required funds by T-15 days. The UPPCL Bonds Servicing account is regularly monitored by the Debenture Trustee (DT). In the case of a shortfall, the DT can contact the UP state to fund the shortfall by T-10 days. If the state fails to provide the funds, the DT can contact the RBI on the T-9th day to directly debit the state's account and make good the shortfall in the next 8 days, that is, on or before T-1 day to ensure sufficient funds are available in the account one day prior to the due date. The GoUP has given irrevocable written instructions to the RBI for the above mentioned structure. The structured mechanism has been adhered to from the beginning with adequate pro-rata transfers to the bond servicing account being made every day.

Structured Payment Mechanism - Bonds Series I & II 2017-18: Under this mechanism, UPPCL transfers funds proportionately to the designated Bonds Servicing account to ensure the accumulation of required funds by T-15 days. In the case of a shortfall, the DT can contact UP state to fund the shortfall by T-10 days. If the state fails to do the same, the DT can call on the UP Government Guarantee on the T-9th day for funding the shortfall by the T-3rd day. If a delay still persists, funds can be transferred from the DSRA on the T-2nd day. There is also a default escrow on the subsidy receipt account, which will be activated in case the DSRA is impaired and will remain in force until the DSRA is replenished. In this case also, the mechanism has been adhered to from the beginning with sufficient pro-rata transfers to the bond servicing account being made every day.

Subsidy & Equity Infusion from State: UPPCL has been consistently receiving subsidy support from the GoUP for subsidised power being supplied to agriculture and below-poverty-line consumers. The GoUP gave a subsidy amounting to Rs. 10769.82 Crs in FY19, considerably higher than Rs. 4404.92 Crs received during FY18. For 9MFY20, the company has received Rs. 7410.49 Crs towards subsidy. Additionally, UPPCL has been regularly getting equity funding from the state of Uttar Pradesh, which



has helped the company meet its cash flow mismatches. During FY19, the company received Rs. 10785.42 Crs as equity from the GoUP. Going forward also, the consistent infusion of funds from the state is imperative for the company to meet all its operational and financial dues, and the same has been taken into account while arriving at the rating. This is also a key rating sensitivity.

Credit Risks:

UPPCL's Performance: UPPCL continues to report operating, as well as net losses. While the losses have reduced from the FY15-FY16 levels, they continue to remain high. As per the provisional financials for FY19, UPPCL reported an EBITDA loss of Rs. 7778 Crs, lower than Rs. 8251.66 Crs for FY18. UPPCL has also not been able to achieve the targets of AT&C losses and ACS-ARR Gap under the UDAY scheme, which are critical for a reduction in the losses. The company reported AT&C Loss of 30.19% for the period of 9MFY20, significantly higher than the target of ~ 15% for FY20 and national average of 19.01% and ACS-ARR Gap of Rs. 0.08/unit for 9MFY20, against the target of (Rs. 0.06)/unit for FY20. While the company has taken various measures, such as capacity enhancements, feeder segregation and online payment mechanisms, to improve its operational performance, it will be able to show results over the medium term. Meanwhile, the company has been receiving consistent support from the state of Uttar Pradesh, both by way of continuous equity infusion, as well as subsidies to ensure the availability of adequate funds for debt servicing and operational expenses. BWR expects the same to continue in future as well.

State's Fiscal Deficit and High Debt Position: The state has been reporting healthy revenue surplus for more than a decade; however, fiscal deficit has surged on account of increased capital expenditure. Debt+Guarantees also continue to remain high, with Debt+Guarantees continuing to form more than 30% of the state's GSDP. The state's financial cost has also increased significantly, putting pressure on generated surplus. The finance cost for the state increased from Rs. 12232 Crs in FY18 to Rs. 32042 Crs in FY19 and further to Rs. 34563 Crs, as per the revised estimates for FY20.

Analytical Approach And Applicable Rating Criteria

BWR has rated multiple debt instruments of the company. The '*Credit Enhanced (CE)*' rating for both the instruments is due to credit enhancement derived from the payment mechanisms, maintenance of DSRA and guarantee from the GoUP. The state's credit rating, as well as its continuing support by way of subsidy and equity infusion, have also been taken into account while arriving at the rating. The difference in the rating of both the instruments is on account of differences in the payment mechanisms (as discussed above).

The unsupported rating of the company takes into account the company's position as the bulk supply licensee for the state of Uttar Pradesh, its monopoly in the distribution business through five discoms, 100% ownership of GoUP, company's strategic importance to the state of Uttar Pradesh and its demonstrated support to UPPCL by continuous fund infusion.

For more details on the criteria, please refer to hyperlinks given at the end.

Rating Sensitivities

Positive: Substantial improvement in the operational performance in terms of AT&C losses, ACS-ARR Gap and collection efficiency and improvement in the overall credit risk profile of GoUP

Negative: Weakening of support from GoUP and/or deterioration in its credit risk profile and divergence from the terms of the payment mechanism, accompanied by inadequate balances in the DSRA accounts

Company Profile

Uttar Pradesh Power Corporation Ltd (UPPCL) was incorporated in November 1999 by the Government of Uttar Pradesh in pursuance of the reform-restructuring of the erstwhile Uttar Pradesh State Electricity Board (UPSEB) under the UP Electricity Reforms Act, 1999.

UPPCL is specified as a Bulk Supply Licensee and is responsible for the procurement of power from the Gencos and distribution of power in the state via five discoms, viz., Dakshinanchal Vidyut Vitran Nigam Ltd (Agra Discom or DVVNL), Madhyanchal Vidyut Vitran Nigam Ltd (Lucknow Discom or MVVNL), Paschimanchal Vidyut Vitran Nigam Ltd (Meerut Discom or PVVNL), Purvanchal Vidyut Vitran Nigam Ltd (Varanasi Discom or PuVVNL) and Kanpur Electricity Supply Company Ltd (Kanpur Discom or KESCO). All these five discoms are subsidiaries of UPPCL.

Key Financial Indicators: Standalone

Key Parameters	Unit	FY18 (A)	FY19 (Prov)
TNW	Rs. Crs	4416.21	6759.28
Total Borrowings	Rs. Crs	52759.81	51744.34
D:E	Times	11.95	7.66
Operating Income	Rs. Crs	46424.92	55327.04
EBITDA	Rs. Crs	-8251.66	-7778.04
PAT	Rs. Crs	-8118.80	-7674.82

Note: All figures and ratios have been adjusted as per BWR standards.

Non-cooperation With Previous Rating Agency If Any: NA

Rating History

Instrument	Current Rating			Rating History		
	Bonds	Tenure	Amount (₹ Crs)	Rating	2019	2018
UPPCL Bonds Series III & IV 2016-17	Long Term	9999.50	BWR AA (CE)/Stable	BWR AA (SO)/Stable	BWR AA (SO)/Stable	BWR AA (SO)/Stable
UPPCL Bonds Series I 2017-18		4233.60	BWR AA-(CE)/Stable	BWR AA-(SO)/Stable	BWR AA-(SO)/Stable	BWR AA-(SO)/Stable
UPPCL Bonds Series II 2017-18		5168				
Total		19401.10	INR Nineteen Thousand Four Hundred One Crores and Ten Lakhs Only			

Complexity Levels Of The Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference To Applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Credit Enhancement](#)
- [Rating based on Government Support](#)

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UP Power Corporation Ltd
Annexure I - Details of Rated Instruments

Name of the Issue	ISIN Particulars	Amount (Rs. Crs)	Coupon Rate	Issue Date	Maturity Date
UPPCL Bonds Series III 2016-17	INE540P07046	930	8.97%	Feb 17, 2017	Feb 15, 2021
	INE540P07053	930	8.97%	Feb 17, 2017	Feb 15, 2022
	INE540P07061	930	8.97%	Feb 17, 2017	Feb 15, 2023
	INE540P07079	930	8.97%	Feb 17, 2017	Feb 15, 2024
	INE540P07087	930	8.97%	Feb 17, 2017	Feb 14, 2025
	INE540P07095	930	8.97%	Feb 17, 2017	Feb 13, 2026
	INE540P07103	930	8.97%	Feb 17, 2017	Feb 15, 2027
UPPCL Bonds Series IV 2016-17	INE540P07137	498.5	8.48%	March 27, 2017	March 15, 2023
	INE540P07178	498.5	8.48%	March 27, 2017	March 15, 2027
	INE540P07145	498.5	8.48%	March 27, 2017	March 15, 2024
	INE540P07129	498.5	8.48%	March 27, 2017	March 15, 2022
	INE540P07111	498.5	8.48%	March 27, 2017	March 15, 2021
	INE540P07160	498.5	8.48%	March 27, 2017	March 13, 2026
	INE540P07152	498.5	8.48%	March 27, 2017	March 14, 2025
UPPCL Bonds Series I 2017-18	INE540P07194	529.20	9.75%	Dec 5, 2017	Oct 20, 2020
	INE540P07202	529.20	9.75%	Dec 5, 2017	Oct 20, 2021
	INE540P07210	529.20	9.75%	Dec 5, 2017	Oct 20, 2022
	INE540P07228	529.20	9.75%	Dec 5, 2017	Oct 20, 2023
	INE540P07236	529.20	9.75%	Dec 5, 2017	Oct 18, 2024
	INE540P07244	529.20	9.75%	Dec 5, 2017	Oct 20, 2025
	INE540P07251	529.20	9.75%	Dec 5, 2017	Oct 20, 2026
	INE540P07269	529.20	9.75%	Dec 5, 2017	Oct 20, 2027
UPPCL Bonds Series II 2017-18	INE540P07285	646	10.15%	March 27, 2018	Jan 20, 2021
	INE540P07293	646	10.15%	March 27, 2018	Jan 20, 2022
	INE540P07301	646	10.15%	March 27, 2018	Jan 20, 2023
	INE540P07319	646	10.15%	March 27, 2018	Jan 19, 2024
	INE540P07327	646	10.15%	March 27, 2018	Jan 20, 2025
	INE540P07335	646	10.15%	March 27, 2018	Jan 20, 2026
	INE540P07343	646	10.15%	March 27, 2018	Jan 20, 2027
	INE540P07350	646	10.15%	March 27, 2018	Jan 20, 2028



For print and digital media

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