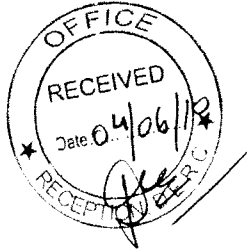




NDPL\DERC\2010-11

June 4, 2010

**Shri A. K. Singh**  
**Director (Tariff)**  
**Delhi Electricity Regulatory Commission**  
**Viniyamak Bhawan, C-Block, Shivalik**  
**Malviya Nagar,**  
**New Delhi – 110 017**



**Sub:** Our representation to the GoNCTD and our letter to you dated 3<sup>rd</sup> May, 2010

**Ref:** Your letter dated 28.05.2010

Dear Sir,

We are in receipt of the above referred letter from your side dated 28.05.2010 and are rather surprised to note its contents regarding NDPL's liquidity position and allegations that we misrepresented the facts to the GoNCTD. NDPL reiterates and re-emphasizes that it has represented the correct facts to the GoNCTD.

Representation dated 1<sup>st</sup> May, 2010 (copy enclosed as Annexure 1), made by us to Secretary (Power), GoNCTD dealt with mainly four issues viz.,

1. Apprehension about default to vendors and Inadequate net worth from the lenders perspective;
2. Over stretched borrowing limits and ability to raise additional finance;
3. Revenue gap of Rs. 446 Cr upto FY 2008-09 and Consequent need for a cost reflective consumer tariff;
4. An additional revenue gap of Rs. 670 Cr for FY 2009-10

Nowhere in our representation to GoNCTD, have we provided information on any liquidity ratios or any debt servicing parameters.

Debt Equity Ratio and Debt Service Coverage ratios and other information was shared with the Hon'ble Commission vide our letter no. NDPL\DERC\2010-11 dated 3<sup>rd</sup> May, 2010 as a follow up to the meetings convened by the Hon'ble Commission on 28<sup>th</sup> and 29<sup>th</sup> April, 2010. We had clearly mentioned in the said meetings and had emphasized in the aforementioned letter that extraordinarily accumulated unrecovered revenue gap is not considered as available by the Lenders for computation of various liquidity ratios and debt servicing parameters.

**North Delhi Power Limited**

(A Tata Power and Delhi Government Joint venture)

Grid Sub Station Building, Hudson Lines, Kingsway Camp, Delhi - 110 019  
Tel: 91 11 2746 8027-31 Fax: 91 11 2746 8023

We respectfully state that to the contrary, your entire analysis is based on an incorrect inclusion, for the purpose of computing various liquidity ratios and debt servicing parameters, of Rs. 673 Cr which is appearing in financial statements of FY 2009-10 as an amount as **"Recoverable from future tariffs"** (Schedule 14 of the Financial Statements) and Cumulative Tariff Adjustment Recoverable Account of Rs. 1016 Cr (Schedule 10 – Sundry Debtors - of the Financial Statements). This is an item in the nature of receivables reflecting the gap between our revenues at current tariffs and those chargeable based on costs incurred by us during FY 2009-10. This amount basically represents a revenue gap that would be realized only in the future, and hence under no circumstances can be considered as **being available** at this stage for ascertaining cash flows or liquidity of the Company. Inclusion of the same for the purpose of the calculation of various liquidity ratios and debt servicing parameters would be appropriate as and when the Hon'ble Commission carries out True Up of the ARR for FY 2009-10. However, for the purpose of accounting this amount needs to be recognized at this stage itself in FY 2009-10 financial results in accordance with the Accounting Standard – 9 (AS-9) issued by the Institute of Chartered Accountants of India (copy enclosed as Annexure - 2), which clearly states that:

*"9.1 Recognition of revenue requires that revenue is measurable and that at the time of sale or the rendering of the service it would **not be unreasonable to expect ultimate collection.**"*

While verifying the Annual Accounts, you seem to have ignored the cash flow statement (refer Page 3 of the Audited Accounts for FY 2009-10) of the company, for FY 2009-10 which forms an integral part of the audited accounts. A perusal of this statement clearly shows a decrease in the cash from operations in FY 09-10 (From Rs. (+) 316 Cr in FY 2008-09 to Rs. (-)35 Cr in FY 2009-10), a decrease of 110%. Liquidity position of the company is reflected in Cashflow statement and not in the Profit & Loss Account since the latter is prepared on Accrual Basis.

We would like to point out that your analysis about our current liquidity position is wrongly based on the last credit rating rationale of ICRA which was based on the **Audited Accounts for FY 2008-09**, whereas a large revenue gap of Rs. 673 Cr has arisen in FY 2009-10 only.

We wish to also highlight that NDPL made tremendous efforts over last 8 years in improving the financial health of the company and has been successful till FY 2008-09 as borne out by the said rating by ICRA based on the financial results of NDPL upto FY 2008-09. The huge underestimation of the ARR by the Hon'ble Commission for FY 2009-10 has adversely affected the otherwise healthy position built over the years.

It is for the first time in the history of NDPL that State Bank of India, the lead banker of our working capital consortium, has expressed caution in its letter (Annexure- 3) and has mentioned clearly that though there are accruals but actual cash flow is not there as company has booked income on accrual basis and has refused to allow us to create further charges to borrow additional amounts in view of our worsening cash flow position arising out of increasing revenue gap recoverable from future tariffs. The relevant extracts of State Bank of India's letter to NDPL are reproduced below:



*"3. Though there are cash accruals, actual cashflow is not there as the company has booked income on accrual basis and not on cash basis.*

*4. Repayment of the loan is proposed to commence from July 2010 whereas the cashflows are not adequate even to take care of the existing term loan repayment obligations."*

We would also like to mention that the deferment of recovery of costs needs to be bridge financed either by equity or borrowings from the market and both carrying financial costs. The opportunity cost of equity is 16% whereas cost of borrowed funds is 10-12%. The Hon'ble Commission is currently allowing us carrying cost for deferred recovery @ 9% p.a. by adding the same to the Tariff payable by the consumer. While the cost to the consumers for such deferrals is 9% p.a. against which the savings deposit rates a consumer earns is merely 3%-5%. Thus, deferment of true up actually makes the consumers worse off compared to a timely recovery. The only beneficiaries of such deferments are Financial Institutions and Banks. Thus, it is in interest of our consumers that the legitimate expenses get recovered as soon as possible and a tariff that is cost reflective is determined & is paid by the consumers, as close to the time of consumption as possible.

In this context, the observation of the Hon'ble Appellate Tribunal, in one of its judgment (Appeal No. 36 of 2008 – copy of relevant extract enclosed as Annexure 4) where the Hon'ble Commission was the Respondent, is reproduced:

*"117) All projections and assessments have to be made as accurately as possible. Truing up is an exercise that is necessarily to be done as no projection can be so accurate as to equal the real situation. Simply because the truing up exercise will be made on some day in future the Commission cannot take a casual approach in making its projections. We do appreciate that the Commission intends to keep the burden on the consumer as low as possible. At the same time one has to remember that the burden of the consumer is not ultimately reduced by under estimating the cost today and truing it up in future as such method also burdens the consumer with carrying cost."* (Emphasis Supplied)

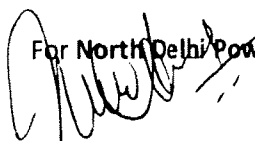
Notwithstanding the above, we provide a Para/ Point-Wise clarifications and the correct financial position on each of the issues raised by you in letter No. F.11(570)/DERC/2010-11/2492/ dated 28.05.2010 in the Appendix to this letter.

We hope you would find our reply in order and we shall be pleased to provide any further clarifications.

Thanking You

Yours Faithfully,

For North Delhi Power Limited



(Hemant Goyal)  
DGM (Finance)

## APPENDIX

### NDPL's responses on Para 2 of Your Letter

**Issue :** *"It is also noticed that even though audited accounts were ready with you and full report of ICRA was in your possession but neither did you furnish data from these two important documents in your representation nor did you enclose these documents for reference to GoNCTD"*

**NDPL's response:** It is clarified that on 03.05.2010 (date of meeting with the Hon'ble Chief Minister, GoNCTD), audited accounts were **NOT** available as the audit was still in progress. This was specifically pointed out to the Hon'ble Commission vide our letter dated May 4, 2010, wherein it was inter-alia stated that *"Our Annual Accounts are under Audit. The audited Accounts for FY 2009-10 are scheduled to be reviewed by the Audit Committee of the Board on May 10, 2010 and thereafter approved by the full Board of the Company on May 10, 2010 itself. We enclose herewith the accounts for FY 2009-10 (under audit) which are attested by the undersigned."* (Emphasis Supplied). A copy of the covering letter is enclosed at Annexure – 5.

With regard to Report of ICRA, the same was based on audited accounts of FY 08-09 and financial numbers for FY 09-10 were not yet considered at that stage in the report. This may be verified from ICRA's two page rating rationale enclosed with your letter. (Please Refer page 3 of the rating rationale of July 2009 enclosed herewith as Annexure 6)

**Issue:** *"Instead, you have given projected/estimated figures without any basis, ignoring the fact that the audited accounts for FY 2009-10 show cash profit of Rs. 468.82 crores."*

**NDPL's response:** In our representation to the GoNCTD, we reported a Gap of Rs. 721 Cr for FY 2009-10 due to lower estimation of power purchase cost for FY 2009-10 by the Hon'ble Commission, which is a fact that can be verified from the Auditors' certificate submitted to the Hon'ble Commission vide our letter dated 05.05.2010 reflecting actual expenditure of Rs. 2558.83 Cr on power purchase cost for 6956 MUs during FY 09-10 @ Rs. 3.68 per unit as against Rs. 2.63 per unit projected by the Hon'ble Commission in MYT order. Therefore to say that projected/ estimated figures have been given without a basis is incorrect.

Regarding your observation, that NDPL earned a cash profit of Rs. 468.82 Cr during FY 2009-10, we wish to point out that the you have come to this conclusion by simply adding "depreciation" amount of Rs. 111.02 Cr to Accounting Profit After Tax (PAT) of Rs. 357.80 Cr as reflected in the 'under audit/ provisional' accounts submitted by us to the Hon'ble Commission on May 4, 2010.

You have not realized that the PAT of Rs. 358 Cr also included non-cash incomes which had to be deducted for arriving at the "Cash Profit". The Tariff Adjustment Recoverable amount of Rs. 673 Cr which is yet to be recovered through future tariffs (refer to Schedule 14 of Accounts), and consequently the same cannot be construed to be available for purpose of determination of 'Cash Profit' as recovery of this amount would occur in future years. Further, the Accounting PAT included non-cash income of reversal of Deferred Tax Liability of Rs. 139 Cr. The deferred tax liability was created in our Books of Accounts in the previous years but has never been allowed by the Hon'ble Commission in ARR, therefore

the same has been written back. Consequently, against a Cash Profit computed/ interpreted by the Hon'ble Commission, there is actually a Cash Loss of Rs. 350 Cr for FY 2009-10, computation of which is presented in Table 1 below.

In addition to above, you have made the following observations which are also being clarified below:

- i) **Highest Cash Profit of Rs. 468.82 Cr in 2009-10 which increased from 169.60 Cr in 2004-05, an increase of 176%.**

**NDPL's response:** As stated above, there is actually a Cash Loss against a Cash Profit computed by you. The working of the same is provided below:

Table-1

Sl. No.	Description	Reference	Amount (Rs. Crore) FY 09-10	Amount (Rs. Crore) FY 04-05
1	Profit After Tax (As per Audited Accounts*)	P&L A/c	351	
2	<i>Add Non Cash Expenses:</i>			
a	Depreciation (As per Audited Accounts)	P&L A/c	111	
3	Net Cash Profit as computed by You (1+2)		462**	170
4.	<i>Less Non Cash Credits:</i>			
a)	Tariff Adjustment Recoverable Account – Yet to be recovered	Sch-14, item-'b' of Audited Accounts	673	
b)	Reversal of Deferred Tax Liability as the same is a non cash item	P&L A/c	139	(34)
5.	Cash Profit/(Loss) (3-4)		(350)	204

\*Copy of Audited Accounts is enclosed as Annexure 7

\*\*Rs. 469 Cr as computed by the Hon'ble Commission from Provisional Accounts

It can be observed from the above table that against a Cash Profit of Rs. 469 Cr worked out by you, actually there is a **Cash Loss of Rs. 350 Cr**. As against 176% increase in Cash Profit reflected by you, actually there is a **172% decrease in Cash Profit** as compared to FY 2004-05. Therefore, we wish to clarify that there has been no incorrect representation to the GoNCTD.

- ii. **Tangible Net worth in 2009-10 is Rs. 1561.11 cr which increased from Rs. 456.94 cr in 2004-05 (241% increase)**

**NDPL's response:** It is clarified that Net Worth is the residual amount available for / belonging to shareholders as on date.

You have mentioned that the figure of Net Worth is Rs. 1583 Cr (Rs. 1561 Cr as per provisional accounts) by incorrectly adding Rs 303 Cr of Consumer Contribution for Capital Works, Contingency Reserve and Capital Grants.

As pointed out above and in our various earlier correspondences, the Net Worth of Rs. 1,280 Cr includes Rs. 1,016 Cr of receivables from future tariff determination essentially representing the cumulative revenue gaps upto 31<sup>st</sup> March, 2010. It would be appropriate to consider this in computation of Net Worth only and when this revenue gap of Rs. 1016 Cr is recovered.

Since these recoverables are as high as 80% of the Net Worth, the lenders are taking serious note of the same and are cautious about any further lending. In this regard, we wish to rely on the letter of SBI which is enclosed herewith.

Based on the above, against a net worth of Rs. 1561 Cr as worked out by you, the same is actually Rs. 264 Cr as computed below:

Table-2

Sl No	Description	Reference	Amount (Rs Crore) FY 09-10	Amount (Rs Crore) FY 04-05
1.	Net worth as computed by You		1583*	457
2.	Less:			
a)	Cumulative Tariff Adjustment Recoverable Account – Yet to be recovered	Sch-10, item-'e' of Audited Accounts	1016	**
b)	Consumer Contribution for Capital work/ Capital Grant/Contingency Reserve – These are not part of net worth as the same have been incurred for Capex on behalf of consumers.	Item 2 & 3 of Audited Accounts	303	28
	Net worth (1-2(a+b+c))		264	429

\*Rs. 1561 Cr as per provisional accounts.

\*\*Not adjusted as the amount was not significant and true-up was carried within a year.

It can be observed from the above table that against Rs. 1583 Cr, net worth is only Rs. 264 Cr.

**As against 241% increase in Net Worth considered by you, Net Worth has actually declined by 38%.**

iii. **Current Ratio is 2.24:1 in 2009-10 against ratio 1.89:1 in 2004-05 which shows ideal health of company as on date.**

**NDPL's response:** Here again, for computing the current ratio you have considered cumulative Tariff Adjustment Recoverable amount of Rs. 1016 Cr as immediately recoverable. Current ratio is the ratio of Current Assets to Current Liabilities. The Current Ratio is computed considering only those assets which will be recovered within one year. Tariff Adjustment Account which aggregates to Rs. 1016 Cr (Rs. 993 Cr as per provisional accounts) (Pls. refer Schedule 10 of Accounts) can be considered for computation of current ratio only if there is certainty of its recovery within one year. Based on our apprehension that the same may not be liquidated within one year i.e. within FY 10-11, the same cannot be included in computation of current ratio. Based on this, the Current Ratio works out as below:

Table-3

Sl No	Description	Reference	Amount (Rs. Crore) FY 09-10	Amount (Rs Crore) FY 04-05
<b>(a)</b>	<b>Computed by You</b>			
(i)	Current Assets	Item 9 of Audited Accounts	1531	476
(ii)	Current Liabilities and Provisions	Item 10 of Audited Accounts	683	252
	Current Ratio a(i)/a(ii)		2.24	1.89
<b>(b)</b>	<b>Computation as per Accounting Principle and Banking Norms</b>			
(i)	Gross Current Assets	Item 9 of Audited Accounts	1522*	476
(ii)	Less: Tariff Adjustment Account – Not yet recovered, (doubtful of recovery within a year), hence excluded	Item 'e' of sch-10 of Audited Accounts	1016	**
<b>(iii)</b>	<b>Net Current Assets b (i)-(ii)</b>		<b>506</b>	<b>476</b>
<b>(iv)</b>	<b>Current Liabilities and Provisions</b>	Item 10 of Audited Accounts	<b>651***</b>	<b>252</b>
	<b>Correct Current Ratio – b(iii)/iv</b>		<b>0.78</b>	<b>1.89</b>

\* As per Audited Accounts as against Rs. 1531 Cr in provisional accounts

\*\* Not adjusted as the amount was not significant and true-up was carried within a year.

\*\*\* As per Audited Accounts as against Rs. 683 Cr in provisional accounts

You can witness from the Table-3 above that instead of ideal health indicated, Current Ratio is not even meeting the standard covenant of most lenders which requires Current Ratio to be 2:1. Rather current ratio has deteriorated by 59% vis-à-vis FY 2004-05.

*iv) High net cash accrual of Rs. 82.71 Cr in 2009-10 against cash accrual of Rs. 48.92 Cr in 2008-09.*

**NDPL's response:** It is clarified that the net accrual considered by you is actually nothing but the year-end cash/bank balance which is not the same as cash accrual. Cash Accruals from Operations during FY 2009-10 are actually **negative** Rs. 35 Cr (before reducing the interest payment of Rs. 90 Cr and loan repayment of Rs. 110 Cr) vis-à-vis a positive of Rs. 316 Cr in FY 08-09. **This 110% reduction of Operating Cash-flows in FY 2009-10 from FY 2008-09, reflects negative Cash Generation by our operations (i.e. Deficit) during FY 2009-10, is the true reflection of NDPL's financial position and is a worrying sign for our shareholders as well as lenders.**

*v) Long term Debt/Equity Ratio improved considerably in 2009-10 to 0.95 from 1.89 in 2004-05, meaning excellent ratio and debts reduction continuously*

**NDPL's response:** Even here the Debt Equity Ratio has been computed by including in Equity the Tariff Adjustment Recoverable amount of Rs. 1016 Cr which is not yet recovered at this stage and hence its inclusion would be an incorrect representation of the Debt Equity ratio at this stage.

You have found a 'continuous' reduction in debt which is contrary to the actual position which is evident from the Annual Accounts that the Hon'ble Commission is itself referring to. The Long Term Loans Outstanding at the end of FY 2009-10 are Rs. 1242 Cr against Rs. 785 Cr at end of FY 04-05, thereby reflecting a **NET INCREASE** of Rs. 457 Cr.

Table-4

Debt/Equity Ratio

Sl No	Description	Reference	Amount (Rs. Cr.) FY 09-10	Amount (Rs. Cr.) FY 04-05
(i)	Net worth as per Table-2 above	Table-2 above	264	505
(ii)	Long Term Debts Excl Cash Credit Limit	Sch-5 of Balance Sheet	1242	785
(iii)	<b>Debt/Equity Ratio- (i)/(ii)</b>		<b>4.70</b>	<b>1.55</b>

You shall observe from above that instead of improvement in Debt/Equity Ratio, it has **deteriorated by 203%** from 1.55 to 4.70.

vi. **Interest service coverage Ratio (ISCR) is 4.66 in 2009-10, showing very good Capacity to service interest**

**NDPL's response:** As highlighted in earlier paras, you have again considered Rs. 673 Cr of Recoverable amount from future tariffs for FY 2009-10, to arrive at the ISCR of 4.66. It is reiterated that Rs. 673 Cr of Tariff Adjustment Recoverable account was not available in cash to meet interest liability of FY 2009-10. Therefore, on excluding Rs. 673 Cr as above, the Interest Service coverage ratio for FY 2009-10 works out as under:

Table-5

**Interest Service Coverage Ratio (ISCR)**

Sl. No.	Description	(Rs Crore)
1.	Profit before Tax	260*
2.	Add: Interest and Finance Charges	95
3.	Add: Depreciation	111
4.	Sub Total (1+2+3)	466
5.	Less: Tariff Adjustment Recoverable Account – Non Cash item	673
6.	Cash Available for Debt Servicing (4-5)	(207)
7.	Interest Service Coverage Ratio – (6/2)	(2.18)

\*Rs. 246 Cr as per Provisional Accounts

You can observe as above from Table-5 that as against an ISCR of 4.66 as computed by the Hon'ble Commission, the same is actually **negative 2.18** times showing NDPL's inability to meet its interest payment obligations merely from the Cash generated from its' Operations. This may be corroborated from our Cash Flow Statement forming part of Audited Accounts wherein a **negative Rs. 35 Cr.** is appearing as Cash Deficit from Operations prior to debt service obligations.

vii. **Debt Service Coverage Ratio (DSCR) is 2.75 in 2009-10.**

**NDPL's response:**

DSCR reflects the amount of cash flow available to meet annual interest and principal payments on debt. A DSCR of less than 1 would mean a negative cash flow.

You have erred in the computation of DSCR.

While calculating DSCR we, have to take cognizance of and adjust "Non Cash Items" which are either debited or credited to profit and loss account.

In this context, it is pertinent to bring to the notice the relevant extracts of clauses of loan agreement with IDFC (being the largest Term Lender of NDPL):

**Rupee Debt Agreement dated 27<sup>th</sup> December 2007 executed between North Delhi Power Limited and Infrastructure Development Finance Company Limited for Rs. 175 Crores (copy of relevant extract is enclosed as Annexure -8)**

**"Debt Service Coverage Ratio or DSCR"** shall mean, on any date, in respect of any period, the ratio of (i) is to (ii) below:

- (i) **the aggregate of (a) profit after tax (excluding non cash adjustments, if any) for that period: (b) depreciation for such period (c) amortization for such period (d) interest and commission payable under the loan agreements and interest payable in respect of the working capital facilities for such period; and (e) financing costs payable under the loan agreements for such period;**
- (ii) **an amount equal to the sum of interest, commission and all financing costs payable with respect to the loans and the working capital facilities, and the repayment installment to be paid under the loan agreements and working capital facilities for that period.**

*(Refer page 3 of the Rupee Debt Agreement)*

**Debt Service Coverage Ratio is maintained at not less than 1.2 in preceding four quarters. (Refer page 34 of the Rupee Debt Agreement)**

While non cash charges such as depreciation are added back, non cash items like "Receivable Amount from Future Tariffs, etc are also reduced from the Book Profit for calculating the debt service coverage ratio. It is simple logic that Bankers cannot be paid from the profits which are not yet recovered.

Thus, while adding Depreciation to PAT being non cash item you have not reduced the amount of Recoverables from future tariffs, deferred tax written back, MAT Credit receivable in future as these too are non-cash items.

Based on the amount available for servicing debt, as computed in table 5 (Sl. No. 7) above, the DSCR works out to negative 1.25 as computed below:

Table-6

**Debt Service Coverage Ratio (DSCR)**

Sl No	Description	Reference	Rs Crore
1	Cash Available for Debt Servicing	(Table 5, Sl. No. 6) less (current taxes of Rs. 49 Cr)	(256)
2	Interest for FY 2009-10	Table 5, Sl. No. 2	95
3	Debt Repayment in FY 2009-10	Cash Flow, Audited Accounts	110
4	Debt Service Coverage Ratio – 1/(2+3)		(1.25)

You will observe from above that as against DSCR of 2.75 computed by it, the same actually is **negative 1.25** showing NDPL's inability to meet its interest payment obligations merely through Cash generated from its' Operations.

#### **NDPL's response to Contents of Para 3 of your letter**

#### **ICRA Ratings**

It is worthwhile to point out that **NDPL's Credit Rating was upgraded in July 2009 based (and not in March 2010) on FY 08-09 results.** The copy of letter of ICRA rating dated July 2009 is enclosed as Annexure 6 and ICRA letter of March 2010 is enclosed as Annexure 9.

ICRA has relied on the following aspects which can be verified from Rating Rationale issued by ICRA:

1. The **cost plus nature of the tariff setting process**, which has enabled NDPL to report profitable operations and healthy cash generation.
2. The **stable demand growth and low level of business risks** in its core operations.
3. Financial flexibility and strengths arising from its status as a **51% subsidiary of The Tata Power Company Limited (TPCL)**, which is rated LAA with a stable outlook by ICRA.
4. **Strong liquidity position of NDPL**, as measured by **un-utilised bank limits**.
5. These strengths are, however, partly **offset by the continued increase in power purchase costs** for Delhi-based utilities without corresponding recovery from Tariffs. However, NDPL has already initiated efforts to control the same through a variety of measures including setting up a captive gas-based power plant and signing power purchase agreements (PPAs) with a number of power projects, which are likely to become operational in the medium term and supply power at more reasonable rates.

It shall be observed that the actual situation in FY 2009-10 has been quite different i.e.:

1. Tariffs are not cost reflective; as seen by huge recoverable amounts appearing in the Audited Financial Statements for FY 2009-10.
2. The liquidity of the company has been severely affected as is reflected in the Cash Flow Statement forming part of Audited Accounts for FY 2009-10.
3. The borrowings have exceeded the stretched limits. In this context, we wish to point out that the rating has high co-relation with the level of leverage (i.e. amount of debt availed). As the leverage increase, credit worthiness decreases.
4. The Power Purchase cost as allowed in tariffs for FY 2009-10 has been much lower due to various factors including lower estimation by the Hon'ble Commission.

ICRA, vide its letter dated May 13, 2010 (copy enclosed as Annexure-10) has communicated the following:

*"ICRA is currently carrying out a surveillance of the existing ratings of your company and the same will be concluded shortly. Kindly note that the surveillance will take into account the current financial*

***position, fixation of tariffs for FY 2010-11 and all other significant developments impacting the credit quality of NDPL”***

Given the current precarious financial position as explained above and demonstrated in the Cash-flows of the Company, coupled with apprehension of unlikely true-up of the large FY 2009-10 Revenue Gap in the tariffs fixed for FY 2010-11, it is unlikely that NDPL's Credit Ratings shall sustain at the existing level; in such an eventuality, raising further financing would become increasingly difficult and/or would be at a much higher cost due to increased Risk Premium being charged by lenders. Even the existing loans could be re-priced at a higher rate, if the ratings were to drop significantly.

However, in case the Hon'ble Commission Trues-Up the Revenue Gap upto FY 2009-10 thereby allowing its recovery in FY 2010-11 itself, NDPLs ratings should not be impacted as all the financial parameters and various liquidity ratios and debt servicing parameters would reflect a healthy situation as computed by you.

**NDPL's responses to Para 4 of your Letter:**

<b>Apprehension about default to lenders. Inadequate net worth from the lenders perspective.</b>	
<b>Your Contention:</b>  No Letter from any lender has been presented by you to establish that they have refused loan on the ground that net worth from lenders' perspective is inadequate.	<b>NDPL's Response:</b>  In this context, we wish to bring to your notice the letter from State Bank of India (i.e. the lead banker of Working Capital Consortium of NDPL, copy of letter enclosed herewith) rejecting our request to cede first pari-passu charge in favour of CLSS 7 Trust 2010 for loan availed by NDPL.  The SBI in the said letter has clearly pointed out that there is no return on equity which can be recouped as the substantial portion of Net Worth in the form of receivable which are yet to be recovered.  This clearly brings out the fact that lenders are cautious and also highlight that SBI has even refused to cede charge in favour of new lenders. It is noteworthy that SBI is the lead banker for our consortium of banks that finances our working capital needs.



<b>Apprehension about default to lenders. Inadequate net worth from the lenders perspective.</b>	
<p>ICRA rating in March 2010 to your company is LAA (upgraded from LAA(-) in 2009 for long term bank facility and A1+ for short term bank facility.</p> <p>It is incorrect to say that borrowing limits are stretched when ICRA mentions that bank limits have been unutilized by you and gearing and coverage numbers will remain comfortable and steady in medium and long term.</p>	<p>As stated above in reply to para 3 of your Letter.</p> <p>NDPL has availed all loans allowed by the Hon'ble Commission in FY 2009-10.</p>
<p>The Net Worth at the end of FY 2009-10 is Rs. 1561 Cr.</p>	<p>As stated above in reply to para 2, (ii) of your letter.</p>

<b>Debt / Equity ratio</b>	
<p><b>Your Contention:</b></p> <p>Annexure A shows the ratios from FY 2004-05 to 2009-10. <b>The Debt Equity Ratio in FY 2009-10 is 0.95.</b></p> <p>ICRA has also shown the ratio of total debt to Net worth at 0.9 in 2008-09 because of healthy profitability and accruals.</p>	<p><b>NDPL 's Response:</b></p> <p>We reiterate that the debt / equity is 4.70 and not 0.95. The Networth / Equity has been computed by deducting the recoverables from future tariffs.</p> <p>As already stated, normally recoverable from future tariffs are not reduced unless the amount is material. Further, since no time frame for recovery of these receivebales is prescribed by the Hon'ble Commission, Financial Institutions are cautious. Since these recoverables now constitute as high as 80% of the Net Worth and hence, the same is being questioned by the Lenders. The same can be verified by the letter from State Bank of India.</p>
<p>Deduction of Rs. 980 Cr is against norms of accounting standards.</p> <p>First of all, there is <b>no basis for Rs. 980 cr.</b></p> <p>Second, there is no basis for deduction of this amount <b>from the equity as accounting norms do not provide for this.</b> It is misleading to show the ratio on the basis of figures outside audited</p>	<p>It is incorrect to state that the Rs. 1016 Cr (Rs. 980 Cr as per provisional accounts) is <b>without any basis.</b> The same has been reflected in our Audited Accounts refer Schedule 10 on Debtors where this figure is clearly mentioned. The same is partly based on the Tariff Orders already passed by the Hon'ble Commission and partly taking cognizance of the uncontrollable parameters and norms fixed in MYT Regulations. These need to be recognized in accordance with</p>

Debt / Equity ratio	
books of accounts.	<p>AS-9 issued by ICAI and mandated by the Ministry of Corporate Affairs.</p> <p>Excerpts from AS 9 issued by Institute of Chartered Accountants of India ;</p> <p><b><i>"9.1 Recognition of revenue requires that revenue is measurable and that at the time of sale or the rendering of the service it would not be unreasonable to expect ultimate collection."</i></b></p> <p>As already stated, under normal circumstances your contention would have been correct that as per accounting norms this recoverable are not deductible for computation of Net Worth for the purpose of computation of the Debt/Equity Ratio but under the current circumstances when these recoverables (increasing year after year) are as high as 80% of the Net Worth, lenders are hesitant to include it in their computations. Even our lead bank has a problem in treating such recoverable as retained earnings; therefore, we have subtracted the same for computing Debt/Equity. Debt to Equity ratio is computed for assessing the margin of safety available to lenders. When such significant amount is pending True up, the lenders don't consider the same for computing the margin of safety available to them.</p>

Debt Service Coverage Ratio (DSCR) is negative 1.45.	
<p><b>Your Contention:</b></p> <p>DSCR = EBIDT/Interest +Loan repayment  = (PAT+ Depreciation + Interest )/ (interest + Loan repayment)  = (357.8 + 111.02 + 94.73) /(94.73 + 111.02)  = 2.75  DSCR is, in reality, 2.75, better than even Power Grid Corporation of India.</p>	<p><b>NDPL's Response:</b></p> <p>As stated above in reply to para 2, (vii) of your letter.</p>

**Revenue Gap of Rs. 446 Crores upto FY 2008-09**

**Your Contention:**

The actual revenue gap up to FY2008-09 is not Rs. 446 Cr and will be known after the tariff order.

It may be a much lower figure or even a surplus.

It is misleading to say that the gap is Rs. 446 Cr, knowing fully well that true up order is pending.

A licensee can never state that their petition is the final word as it is always subject to prudence check and public hearing and all information relating to tariff determination has to be placed before all stakeholders.

**NDPL Response:**

NDPL has not misrepresented that the revenue gap upto FY 2008-09 is Rs. 446 Cr and it is in line with NDPL's filling on True Up for FY 2008-09 which was also published in newspaper as part of Public Notice. (copy of Public Notice is enclosed as Annexure 11)

NDPL has never mentioned that Rs. 446 Cr is the "trued up revenue gap" till for FY 2008-09. It is our claim and till it is trued up NDPL shall continue to refer to this figure only.

It shall further be noted that out of the Revenue Gap of Rs. 446 Cr, Rs. 343 Cr is the revenue gap already recognized and Trued Up by the Hon'ble Commission at the end of FY 2007-08 in its Tariff Order for FY 10. (copy of relevant extract of the Tariff Order for FY 10 enclosed as Annexure 12)

NDPL firmly believes that based on the actual Revenues and Power Purchase Cost for FY 2008-09, it is unlikely to have a surplus at the end of FY 2008-09 on true up by the Hon'ble Commission.

**An additional revenue gap of Rs. 670 crores for FY 2009-10**

**Your Contention:**

As regards Rs. 670 Cr stated, you are aware that it is only the energy account surplus or gap (i.e. Income from energy sale minus power purchase cost) which is relevant and **not** the difference between projection and power purchase cost differential.

**NDPL Response:**

The actual revenue gap for FY 2009-10 is Rs. 673 Cr reflected in Schedule 14 to the Accounts as against the Revenue Surplus of Rs. 235 Cr estimated by the Hon'ble Commission in its Tariff Order for FY 10 dated 28.05.2009. Thus, a total under estimation of over Rs. 900 Cr for ARR of FY 2009-10 by the Hon'ble Commission.

**An additional revenue gap of Rs. 670 crores for FY 2009-10**

The revenue gap is mainly on account of three reasons:

- Power Purchase Cost for FY 2009-10 being underestimated by Rs. 748 Cr NDPL has already provided auditor's certificate certifying the power purchase incurred by NDPL during FY 2009-10.
- Additional cost on account of implementation of Sixth Pay by Rs. 86 Cr.
- Overestimation by the Hon'ble Commission of the Revenue recoverable by NDPL based on Tariffs allowed to us by Rs. 80 Cr (approximation error by the Hon'ble Commission). The revenue collected (excluding consumers' share of revenue from overachievement of AT&C Loss reduction target of Rs. 59 Cr) for FY 2009-10 was Rs. 2,513 Cr against the Hon'ble Commission's estimate of Rs. 2,652 Cr for the same. A shortfall of Rs. 139 Cr for NDPL on this account alone.

This sort of over estimation has been consistent in Tariff estimations by the Hon'ble Commission since the beginning of MYT regime.

e.g. Avg. Billing rate for FY 2007-08 was estimated at Rs. 4.78/unit whereas the actual rate turned out to be Rs. 4.48/unit.

Avg. Billing rate for FY 2008-09 was estimated at Rs. 4.85/unit whereas the actual rate turned out to be Rs. 4.53/unit.

Avg. Billing rate for FY 2007-08 was estimated at Rs. 4.74/unit whereas the actual rate turned out to be Rs. 4.47/unit.