

Press Release

Tripura State Electricity Corporation Limited

April 22, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 250.00 Cr.
Long Term Rating	SMERA BBB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB**' (read as **SMERA BBB**) on the Rs. 250.00 crore bank facilities of Tripura State Electricity Corporation Limited. The outlook is '**Stable**'.

Tripura State Electricity Corporation Limited (TSECL) is engaged in the generation, transmission and distribution of power in the state of Tripura. TSECL is a Government of Tripura (GoT) undertaking incorporated in 2005. Apart from having its own generation facility, TSECL also procures power from neighbouring states and from the Power Grid Corporation of India Limited.

Key Rating Drivers

Strengths

- **Ongoing support from the Government of Tripura**

TSECL is a wholly owned undertaking of the Tripura government and is the sole power utility in the state. It is a strategically important entity and forms the backbone of the power sector infrastructure for the state of Tripura. SMERA believes that TSECL shall continue to benefit from the financial, operational and managerial support received from GoT from time to time. TSECL's credit profile will also be supported by its access to funds at low cost and its ability to mobilise financial resources from several financial institutions and multilateral development institutions. GoT has guaranteed TSECL's existing debt obligation of around Rs 150 cr apart from the proposed limits of Rs. 100 cr. The rating centrally factors in the ongoing support extended by GoT to TSECL. Any event which may impinge GoT's ability to support its undertakings shall result in substantial deterioration in TSECL's overall debt servicing abilities.

- **About the Government of Tripura (GoT)**

As reported by the Comptroller & Auditor General (CAG), GoT, the Debt-to- Gross State Domestic Product (GSDP) ratio of the state stood at 30.14 per cent as on 31st March, 2015. The state reported a revenue surplus of Rs.1,796 cr in FY2015 (5.81 per cent of the GSDP) mainly on account of substantial quantum of grants received from the Central Government under various schemes. The state, however, reported a fiscal deficit of 3.39 per cent of the GSDP in FY2014-15 against a fiscal surplus of 0.18 per cent of the GSDP in FY2013-14.

- **Monopoly in transmission and distribution of electricity in Tripura**

The power supply industry in Tripura was under the control of the Department of Power, Government of Tripura till 31st December 2004. Since its inception w.e.f 1st January 2005, TSECL took over the existing network along with assets to operate and maintain power supply in the state thereby creating a monopoly in Tripura. TSECL has recently started supplying 54 million units of power per month to Bangladesh via NTPC Vidyut Vyapar Nigam Ltd, thereby resulting in earnings of around Rs 356 cr during FY2016-17 (provisional) from this source. SMERA expects significant buoyancy in TSECL's operating cash flows on account of the favourable tariff rates and transmission/wheeling charges received from the aforementioned sale of power.

Weaknesses

- **Weak operating cashflows resulting in dependence on timely support from GoT**

TSECL is the nodal agency for administration and execution of policies pertaining to the power sector in the state of Tripura. TSECL is required to undertake developmental projects with low internal rate of return (IRR) from time to time. The return metrics for such capital expenditures is further subdued on account of unauthorised use of power and delays in collection of receivables. Consequently, TSECL reported an operating loss of Rs. 101.47 cr in FY2016 (provisional) as against an operating loss of Rs. 101.64 crore in FY2015. TSECL is required to undertake substantial capital expenditure in order to maintain, upgrade and expand the power infrastructure in the State of Tripura. A significant portion of this capital expenditure is funded by grants/transfer payments from the state government and central government under several schemes. While the support from GoT is expected to continue over the medium term, any delay in equity infusion/grants will require TSECL to take on additional debt to support the capital expenditure program - thereby affecting the overall credit risk profile.

- **Susceptibility of performance to changes in the regulatory framework**

TSECL's revenues are influenced by the regulatory framework governing the power sector. Revenues of players like TSECL are determined by state electricity regulatory commissions. The Tripura Electricity Regulatory Commission (TERC) takes into account key parameters like the cost structure and expected return on capital employed to arrive at transmission tariffs, wheeling SLDC (State Load Dispatch Centre) charges, distribution tariffs. SMERA believes that significant changes in the regulatory environment will impinge on the credit profile of the company.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of TSECL.

Outlook: Stable

SMERA believes that the outlook on TSECL will remain stable over the medium term on account of the corporation's monopoly in the market. TSECL will also continue to benefit from the strong support provided by the GoT. The outlook may be revised to 'Positive' in case of fall in operating level losses and if TSECL registers improvement in the credit risk profile reflected in the improvement in debt servicing indicators. The outlook may be revised to 'Negative' in case the corporation receives lower-than- expected support from GoT or experiences time and cost overruns in project execution. Any delay in timely collection of receivables may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

For FY2015, TSECL reported PAT level losses of Rs.79.95 cr on total operating income of Rs.688.31 cr, as compared with PAT level losses of Rs.106.73 cr on total operating income of Rs.520.46 cr in FY2014. During FY2016 the company incurred PAT level losses of Rs.96.32 cr on total operating income of Rs.736.32 cr (provisional).

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Criteria For State Government Support - <https://www.smera.in/criteria-gov.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	31-Jul-2026	100.00	SMERA BBB / Stable
Term loans	Not Applicable	Not Applicable	31-Jul-2026	100.00	SMERA BBB / Stable
Term loans	Not Applicable	Not Applicable	31-Jul-2026	50.00	SMERA BBB / Stable

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ABOUT SMERA

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