

Press Release

Tripura State Electricity Corporation Limited

November 15, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	250.00	ACUITE BBB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	250.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 250.00 crore bank facilities of Tripura State Electricity Corporation Limited (TSECL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation derives comfort from the support extended by the parent i.e. Government of Tripura (GoT) which holds 100.00 per cent stake in TSECL as on March 31, 2022, in the form of need-based infusion in the company and guarantee provided against the borrowings. The rating also take into account the healthy business risk profile in view of "Nodal Agency" status of TSECL for administration and execution of policies pertaining to the power sector in the state of Tripura and established relationships with counterparties. These rating strengths are partially offset by weak cash flow position and dependence on parent to make timely payments.

About the Company

TSECL was incorporated in the year 2005, as a wholly owned enterprise of GoT. TSECL is engaged in the business of generation, transmission, distribution and rural electrification in the state of Tripura. TSECL operates Rokhia Gas Thermal Power Project (3 x 21 MW), Baramura Gas Thermal Power Project (2 x 21 MW) and Gumti Hydro Power Project (3 x 5 MW). TSECL's own generation is about 100 MW, Central Sector allocation is 286 MW and Private Sector allocation from ONGC Tripura Power Company (OTPC) is 196 MW). Apart from having its own generation facility, TSECL also procures power from neighboring states and Power Grid Corporation of India (PGCIL).

TSECL has entered into long-term agreements with North Eastern Electric Power Corporation Limited (NEEPCO) for 211 MW, NHPC Limited for 12.93 MW and NTPC Limited 62.33 MW. The electricity consumption in Tripura is dominated by domestic use accounting for 58.26 per cent followed by commercial use (6.20 per cent), industrial use (4.74 per cent), agriculture (4.34 per cent) and others (26.46 per cent).

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of TSECL to arrive at

the rating while taking into account the inherent backing of GoT, given its 100 per cent ownership in the company and track record of support extended.

Key Rating Drivers

Strengths

Strategically important entity and guarantee extended by GoT

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. TSECL shall continue to benefit from the financial, operational and managerial support provided by GoT. Moreover, GoT has provided an unconditional and irrevocable guarantee to cover any shortfall in debt servicing for the long-term facilities availed from Power Finance Corporation (PFC) and from banks. 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 also extended unsecured loans of Rs. 132.95 crore as of March 31, 2022 (Provisional) in TSECL, apart from equity infusion of Rs. 665.76 crore, resulting in a gearing of 0.67 times and TOL/ TNW of 2.14 times.

Acuité believes the operations of TSECL is expected to remain stable over the medium term on account of continued support from its parent.

Only utility in transmission and distribution of electricity in the entire state of Tripura

The power supply industry in Tripura was under the control of the Department of Power, Government of Tripura till 31st December 2004 which entrusted with generation, transmission, distribution and also rural electrification. Since TSECL's inception w.e.f 1st January 2005, it took over the existing network along with assets to operate and maintain power supply in the state thereby creating single utility in Tripura.

Weaknesses

Weak operating cash flows and dependence on 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 occasional delays in collection of receivables. Consequently, TSECL reported an operating loss of Rs. 103.68 Cr in FY2022 (Provisional).

Additionally, 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, thereby affecting the overall credit risk profile.

Susceptibility to changes in 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.

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

ESG Factors Relevant for Rating

TSECL is engaged in the business of generation, transmission, distribution and rural electrification. The other material factors from the environmental perspective are green

supply chain and waste management. The governance factors that play an important role are ethical business practices, board oversight and management compensation. Further, risk management practices to minimise corruption associated with electricity and gas distribution plays a crucial role. Additionally, regulatory compliance, shareholder's rights and audit control are other material issues in the power generation industry. On the social front, occupational and workforce health & safety management are of primary importance to this industry given the nature of operations. The policies on responsible procurement and product safety as well as quality are of utmost significance.

Rating Sensitivities

- Significant weakening of operating performance
- Substantial debt-funded capital expenditure

Material covenants

None

Liquidity position - Adequate

Liquidity profile of TSECL is supported by need-based infusion and guarantee extended by GoT. The company incurred cash loss of Rs.74.37 crore during FY2022 (Provisional). The company's working capital operations are moderately intensive marked by GCA of 177 days for FY2022 (Provisional). Liquidity is further supported by unsecured loans of Rs.132.95 crore extended by GoT. Moreover, TSECL maintains unencumbered cash and bank balances (including untied fixed deposits) of Rs.312.92 crore.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of absence of any significant debt over the medium term and continued support from GoT.

Outlook: Stable

Acuité believes that TSECL will maintain 'Stable' business risk profile on account of strong parentage and monopoly in transmission and distribution segment in the state. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its business risk profile and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile or delay in realization of receivables.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	1562.76	1440.06
PAT	Rs. Cr.	(102.43)	14.76
PAT Margin	(%)	(6.55)	1.02
Total Debt/Tangible Net Worth	Times	0.67	0.38
PBDIT/Interest	Times	(4.57)	3.63

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

None

Any other information

None

Applicable Criteria

- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Aug 2021	Term Loan	Long Term	100.00	ACUITE BBB Stable (Upgraded from ACUITE BB)
	Term Loan	Long Term	100.00	ACUITE BBB Stable (Upgraded from ACUITE BB)
	Term Loan	Long Term	50.00	ACUITE BBB Stable (Upgraded from ACUITE BB)
23 Feb 2021	Term Loan	Long Term	100.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	100.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	50.00	ACUITE BB (Downgraded and Issuer not co-operating*)
17 Dec 2019	Term Loan	Long Term	50.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	100.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	100.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
30 Sep 2019	Term Loan	Long Term	50.00	ACUITE BBB (Issuer not co-operating*)
	Term Loan	Long Term	100.00	ACUITE BBB (Issuer not co-operating*)
	Term Loan	Long Term	100.00	ACUITE BBB (Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	100.00	ACUITE BBB Stable Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	100.00	ACUITE BBB Stable Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	50.00	ACUITE BBB Stable Reaffirmed

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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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