

Press Release

West Bengal State Electricity Distribution Company Limited

August 17, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 6100.00 Cr.
Long Term Rating	SMERA A- / Outlook: Stable
Short Term Rating	SMERA A2+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA A-**' (read as **SMERA A minus**) and short term rating of '**SMERA A2+**' (read as **SMERA A two plus**) on the Rs. 6100.00 crore bank facilities of West Bengal State Electricity Distribution Company Limited. The outlook is '**Stable**'.

West Bengal State Electricity Distribution Company Limited (WBSEDCL) was incorporated in April, 2007 and is engaged in power distribution in the state of West Bengal. The entity is a wholly owned undertaking of the Government of West Bengal and is a power distribution licensee catering to around 80 per cent of the requirement of West Bengal.

Key Rating Drivers

Strengths

• Ongoing support from the Government of West Bengal

WBSEDCL is a wholly-owned undertaking of the West Bengal government and caters to around 80 per cent of the power requirements in the state. It is a strategically important entity and forms the backbone of the power sector infrastructure for West Bengal. It is also the nodal Agency of the government for undertaking Rural Electrification (RE) task in the state with the objective of providing access of electricity to all rural households in line with the National Rural Electrification Policy. The status of the company as a 100% government of West Bengal (GoWB) owned entity provides it financial flexibility. WBSEDCL'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. The rating also factors in the ongoing support extended by GoWB to WBSEDCL. SMERA believes that WBSEDCL being a 100% undertaking of GoWB shall continue to benefit from the financial, operational and management support from time to time. Any change in the ownership pattern of WBSEDCL or any event that impinges GoWB's overall credit profile shall remain a key rating sensitivity.

• Favorable consumption mix and near term tariff visibility

WBSEDCL has a favorable consumption mix with commercial and industrial connection accounting for about 40.51 per cent in FY2016 as against 40.35 per cent in the previous year while domestic connection accounts for about 34.84 per cent in FY2016 as against 31.06 per cent in the previous year. Apart from the industrial and domestic consumption the company supplies to railways, irrigation and other sectors. Since commercial and industrial consumption commands a higher tariff, this augurs well for the revenues of the company. Going forward, SMERA believes that the commercial and industrial consumption mix is likely to increase with GoWB's continuous focus on attracting investment for the overall economic development of the state. SMERA also notes that WBSEDCL is regular in filing of multi -year tariff (MYT) order which provides near term tariff visibility, and therefore supports ratings. West Bengal Electricity Regulation Commission (WBERC) has released WBSEDCL's multi -year tariff (MYT) order for FY2015-FY2017 control period, and has

allowed an increase in tariff as evident from Rs.6.09/Kwh for FY2014 issued on Dec. 26, 2013 to Rs.6.89/kwh for FY2017 issued on Oct. 28, 2016. In addition, WBSERC has allowed collection of Monthly Variable Cost Adjustment (MVCA) to the extent of Rs 0.23 per unit from July 2016, which provides partial respite to the high regulatory asset. The management has already filed MYT for FY 2017-18.

- **Moderate financial risk profile**

The moderate financial risk profile is marked by healthy net worth, modest gearing and debt protection measures. The net worth levels stood at around Rs. 8590.00 crs in FY2016 compared to Rs. 7207.00 crore in the preceding year. The rise in net worth is primarily due to government subsidies and grants receipt for construction of capital assets. The gearing stood at a moderate 1.62 times in FY2016 as against 1.68 times in FY2015. WBSEDCL's debt profile consists of Rs 6,371.10 crore of long term loan and bonds, Rs 2,059.95 crore of loans from state government, Rs 4,305.97 crore of working capital facilities and Rs 1,116.43 crore of current year obligations. During FY2017, the company received Rs 2,646.00 crore as grant from the West Bengal government which has been utilised to repay the loan from the state government thereby reducing its debt obligation. The outstanding loan to the government has been reduced to Rs 120 crore in FY2016- 17 (Provisional), thereby improving its debt-equity ratio to ~ 1.34 times in FY2016-17 (Provisional) from 1.62 times in FY2015-16. The Interest coverage ratio and debt service coverage ratio (DSCR) stood at 1.43 times and 0.85 times respectively in FY2016 compared to 1.36 times and 1.05 times respectively in FY2015. SMERA believes that despite a constrained DSCR, WBSEDCL will receive regular support in the form of grants to meet its annual debt obligation.

- **About the Government of West Bengal (GoWB)**

As reported by the Comptroller & Auditor General (CAG), the Debt-to-Gross State Domestic Product (GSDP) ratio of the state stood at 32.58 per cent as on 31 March, 2016. The state reported revenue deficit of Rs. 9741.64 crore in FY2016 (0.97 per cent of the GSDP) mainly on account of a higher plan and non- plan expenditure under various schemes. The state, however, reported a fiscal deficit of 2.22 per cent of the GSDP in FY2015-16 against 3.28 per cent in FY2014-15.

Weaknesses

- **High AT&C loss**

The distribution losses have remained in the range of 27.74 per cent in FY2016 as against 27.60 per cent in the previous year- considerably higher than normative levels allowed by WBERC (17.5 per cent). The company plans to reduce its technical loss and is currently undertaking capex to build PPSP Turga Project at a total project cost of Rs. 4,600 crore (approx) with mix of debt and own funds. The expected date of completion is 2024. The management has also introduced REC cell, energy audit, implementation of Integrated Power Development Scheme (IPDS), sub-station built-up to reduce AT&C losses and overcome low voltage problem.

- **Susceptibility of operating metrics to changes in the regulatory framework**

The revenues are influenced by the regulatory framework governing the power sector. Revenues of players such as West Bengal Electricity are determined by the state electricity regulatory commissions. The West Bengal Electricity Regulatory Commission (WBERC) takes into account key parameters like the cost structure and expected return on capital employed to arrive at distribution tariffs. SMERA believes that significant changes in the regulatory environment will impinge on the credit profile of the company.

- **Huge build up of regulatory assets**

SMERA has observed the significant rise in regulatory assets on account of the gap between the average cost of supply and average tariff resulting in build- up of regulatory asset to the extent of Rs 12,947 crore as on 31 March 2016 from Rs 10,892 crore as on 31 March, 2015. The company filed Annual Performance Review(APR) for crystallization of RA till FY2016 which is pending with

WBERC. The considerable rise in RA resulted in rise in short term borrowing levels thereby putting interest cost burden. However, with the receipt of grant of Rs 2,646 crore in FY2016- 17, there has been a reduction in RA to Rs 11,462.95 crore as on 31 March, 2017(Provisional). The APR for FY2017 will be filed by the WBSEDCL by November 2017.

Analytical Approach

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

Outlook: Stable

SMERA believes that the outlook on WBSEDCL will remain stable over the medium term on account of its established market position. The company will continue to benefit from the support provided by the state government. The outlook may be revised to 'Positive' in case of reduction in AT&C losses, crystallisation of regulatory assets and improvement in the credit risk profile, debt servicing indicators. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected support from the West Bengal government, significant rise in AT&C losses or if the company experiences delay in tariff orders. Any delay in timely collection of receivables may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

For FY2016, West Bengal Electricity reported PAT of Rs.21.58 crore on total operating income of Rs.18,547.93 crore compared with PAT of Rs.19.82 crore on total operating income of Rs.19,437.86 crore in FY2015.

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	900.00	SMERA A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	400.00	SMERA A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1200.00	SMERA A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	500.00	SMERA A- / Stable
Cash Credit	Not	Not	Not	100.00	SMERA A- /

	Applicable	Applicable	Applicable		Stable
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	150.00	SMERA A- / Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	500.00	SMERA A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	600.00	SMERA A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	SMERA A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	250.00	SMERA A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	400.00	SMERA A- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	300.00	SMERA A2+
Inland Letter of Credit /Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	100.00	SMERA A2+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	100.00	SMERA A2+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	100.00	SMERA A2+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	100.00	SMERA A2+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	100.00	SMERA A2+
Letter of Guarantee/ Bank guarantee	Not Applicable	Not Applicable	Not Applicable	200.00	SMERA A2+

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