

Press Release

West Bengal State Electricity Distribution Company Limited

28 August, 2018



Rating Re-affirmed

Total Bank Facilities Rated*	Rs. 6500.00 Cr.
Long Term Rating	ACUITE A-/Stable (Re-affirmed)
Short Term Rating	ACUITE A2+ (Re-affirmed)

* Refer Annexure for details

Rating Rationale

Acuité has re-affirmed long term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and short long term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) on the Rs. 6500.00 crore bank facilities of West Bengal State Electricity Distribution Company Limited (WBSEDCL). 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 company 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 mobilize financial resources from several financial institutions and multilateral development institutions. The rating also factors in the ongoing support extended by GoWB to WBSEDCL.

West Bengal has been one of the fastest growing states in India with gross state domestic product growing at 11.5% in 2017-18 (advanced estimates). While the state's revenue deficit continues to be relatively high at 1.11% (revised estimates), its fiscal deficit was at than 3% in 2017-18 (revised estimates). GoWB has significantly increased its focus on increasing industrial development in the state. It is also focusing on asset creation towards infrastructure and social sectors. The state is ranked tenth in ease of doing business ranking for Indian States by Department of Industrial Policy & Promotion, Government of India. However, the state's overall borrowing level continues to remain high and is a challenge to its overall fiscal profile.

Acuité believes WBSEDCL being a 100% undertaking of GoWB shall continue to benefit from the financial, operational and management support from time to time. Any changes 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 & industrial connection accounting for about 42.32 per cent in FY 2017 as against 40.51 per cent in the previous year while domestic connection accounts for about 37.02 per cent in FY2017 as against 34.84 per cent in the previous year. Apart from the industrial and domestic consumption the company is supplying to railways, irrigation and other sectors. Since the commercial and industrial consumption commands a higher tariff, this augurs well for the revenues of the company. Going forward, Acuité believes commercial and industrial consumption mix is likely to increase with GoWB's continuous focus to attract investment for the overall economic development of the state.

Acuité also notes WBSEDCL is regular in filing of multi -year tariff (MYT) order which provides near term tariff visibility, and therefore supports the ratings. West Bengal Electricity Regulation Commission (WBERC) has released WBSEDCL's multi -year tariff (MYT) order for FY2015-FY2018 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 FY2018 issued on July. 04, 2018.

Moderate financial risk profile

The moderate financial risk profile is marked by healthy net worth, comfortable gearing and modest debt protection measures. The net worth levels of the company stood at around Rs. 15997.39 cr in FY'18 as compared to Rs. 14,045.61 cr in the immediately 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 0.83 times in FY2018 as against 0.90 times in FY2017. WBSEDCL debt profile consists of Rs 4562.10 cr of long term loan from Power Finance Corporation, Rural Electrification Corporation Limited and banks, Rs 2,221 cr of bonds, Rs 4,922.54 cr of working capital facilities and Rs 1,550.92 cr of CPLTD. Interest coverage ratio and debt service coverage ratio (DSCR) stood at 1.64 times and 0.75 times respectively in FY2018 as compared to 1.54 times and 0.93 times respectively in FY2017. Though the company's DSCR has been below unity in the past 3 years ended FY'2018, Acuite notes that WBSEDCL has received regular support from GoWB in the form of grants which is expected to continue going forward.

Weaknesses

High AT&C loss

The distribution losses have remained in the range of 27.33 per cent in FY2018 as against 28.96 per cent in the previous year. Though there has been a reduction in the Aggregate Technical & Commercial (AT&C) losses, however the same is considerably higher than normative levels allowed by WBERC (17.5 per cent). The company plans to reduce its technical loss and is currently undertaking a 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 WBSEDCL are determined by 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. Acuité believes that significant changes in the regulatory environment will impinge on the credit profile of the company.

Huge buildup of regulatory assets

Acuité has observed that a significant rise in the regulatory assets of the company 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 11,910.18 cr as on 31st March'18 from Rs 11,581.71 cr as on 31st March' 17. The company has filed an Annual Performance Review (APR) for the crystallization of RA till FY 2016-17 which is pending with WBERC. The considerable rise in RA has resulted in rise in short term borrowing levels to Rs 4,922.54 cr as on 31st March'18 from Rs 4,074.60 cr in the previous year thereby putting interest cost burden.

Outlook: Stable

Acuité 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, crystallization 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.

Analytical Approach: Acuité has taken a standalone view of the business and financial risk profile of the company.

About the Rated Entity - Key Financials

	Unit	FY18 (Prov)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	20768.34	19912.07	18613.61
EBITDA	Rs. Cr.	2410.28	2559.69	2439.76
PAT	Rs. Cr.	40.85	31.33	21.56
EBITDA Margin	(%)	11.61	12.85	13.11
PAT Margin	(%)	0.20	0.16	0.12
ROCE	(%)	5.70	6.53	12.27
Total Debt/Tangible Net Worth	Times	0.83	0.90	1.22
PBDIT/Interest	Times	1.64	1.54	1.52
Total Debt/PBDIT	Times	5.23	4.75	6.01
Gross Current Assets (Days)	Days	346	359	401

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Service Entities - <https://www.acuite.in/criteria-service.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>
- State Government Support - <http://www.acuite.in/view-rating-criteria-26.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17th August 17	Cash Credit	Long Term	4450.00	ACUITE A-/Stable (Assigned)
	Secured Overdraft	Long Term	650.00	ACUITE A-/Stable (Assigned)
	Letter of Credit	Short Term	600.00	ACUITE A2+ (Assigned)
	Bank Guarantee/ Letter of Credit	Short Term	400.00	ACUITE A2+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4600.00	ACUITE A-/Stable (Re-affirmed)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	900.00	ACUITE A-/Stable (Re-affirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	600.0	ACUITE A2+ (Re-affirmed)
Bank Guarantee/ Letter of Credit	Not Applicable	Not Applicable	Not Applicable	400.00	ACUITE A2+ (Re-affirmed)

Contacts

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in	Varsha Bist Sr. Executive Tel: 022-67141160 rating.desk@acuite.in
Aniruddha Dhar Rating Analyst Tel: 033-66201209 aniruddha.dhar@acuiteratings.in	

About Acuité Ratings & Research:

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