

## Press Release

### West Bengal State Electricity Distribution Company Limited (WBSEDCL)

April 24, 2020



## Rating Update

<b>Total Bank Facilities Rated*</b>	Rs. 7500.00 Cr.
<b>Long Term Rating</b>	ACUITE A- (Under Watch with Negative Implications)
<b>Short Term Rating</b>	ACUITE A2+ (Under Watch with Negative Implications)

\* Refer Annexure for details

## Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and short-term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) on the Rs. 7500.00 Cr bank facilities of West Bengal State Electricity Distribution Company Limited (WBSEDCL). The rating is placed '**Under Watch with Negative Implications**'.

### Watch with Negative Implications

WBSEDCL was formed by unbundling West Bengal State Electricity Board (WBSEB) in 2007. As per the transfer scheme of the Government of West Bengal (GoWB), Pension Trust Bonds were issued to WBSEDCL Employee Pension Trust Fund. The said bonds are guaranteed by GoWB; the bonds issued in 2007 had a 10 year moratorium period after which, it was repayable in 5 equal annual installments starting from FY2018. Acuité understands that WBSEDCL has not made the payments due on these bonds from FY2019 mainly due to non receipt of tariff revision orders in FY2019 and FY2020. This lack of tariff revision has also resulted in buildup of regulatory assets and a strained liquidity position. WBSEDCL has also not repaid Rs.10.46 Cr of loans due from Government of West Bengal although the repayment of the defaulted amount was expected by March 31, 2020. Despite persistent requests to WBSEDCL, Acuité has not received complete clarity on these Pension Trust Bonds and hence has not been able to ascertain the reasons for such irregularities and whether the Covid-19 lockdown has been a factor in such delays. However, Acuité has noted that the payments are due to the state government or a pension trust owned by its employees. After receipt of complete information, it will initiate necessary action to resolve the watch. The occurrence of any adverse credit event in such a situation could impart a negative bias towards the rating.

### About WBSEDCL

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.

### Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of WBSEDCL to arrive at the rating.

### 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 per cent 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.

West Bengal has been one of the fastest growing states in India with gross state domestic product (GSDP) growing at 12.65 per cent in 2018-19. While the state's revenue deficit continues to be at 0.65 per cent, its fiscal deficit stood at 2.83 per cent in 2018-19. 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 and 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 that WBCL, being a 100 per cent 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 WBCL 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 42 per cent in FY2018 as against 42.32 per cent in the previous year, while domestic connection accounts for about 37 per cent in FY2018 as against 37.02 per cent in the previous year. Apart from the industrial and domestic consumption, the company supplies 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 that 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 that 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 (WBRC) 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 December 26, 2013 to Rs.6.89/kwh for FY2018 issued on July 04, 2018. However, the tariff petition for FY2019 is yet to be filed by the company.

- **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. 18985.54 Cr in FY19 as compared to Rs. 15997.39 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 0.67 times in FY2019 as against 0.83 times in FY2018. WBSEDCL debt profile consists of Rs 5132.40 Cr of long term loan from Power Finance Corporation, Rural Electrification Corporation Limited and banks, Rs.2170.48 Cr of bonds, Rs.5228.93 Cr of working capital facilities, Rs.114.57 Cr of loan from state government of West Bengal. Interest coverage ratio and debt service coverage ratio (DSCR) stood at 1.69 times and 0.81 times, respectively, in FY2019 as compared to 1.64 times and 0.83 times, respectively, in FY2018. Though the company's DSCR has been below unity in the past 3 years ended FY2018, Acuité notes that WBSEDCL has received regular support from GoWB in the form of grants which is expected to continue going forward. Further, WBCL has undrawn working capital limit of Rs 1500 Cr which can be utilised to bridge the gap between cash flow and debt repayment.

### **Weakness**

- **High AT&C loss**

The distribution losses have remained in the range of 22.96 per cent in FY2019 as against 27.33 per cent in the previous year. Though there has been a reduction in the Aggregate Technical & Commercial (AT&C) losses, the same is considerably higher than normative levels allowed by WBRC (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. 4,600.00 Cr (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 WBSDECL are determined by state electricity regulatory commissions. The West Bengal Electricity Regulatory Commission (WBRC) takes into account key parameters such as 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.13145.60 Cr as on 31 March, 2019 from Rs 11910.18 Cr as on 31 March, 2018. The company has filed an Annual Performance Review (APR) for the crystallization of RA till FY 2016-17, which is pending with WBRC. The considerable rise in RA has resulted in rise in short-term borrowing levels to Rs.5228.93 Cr as on 31 March, 2019 from Rs.4922.54 Cr in the previous year, thereby putting interest cost burden.

### Rating Sensitivity

- Improvement in the scale of operation while maintaining profitability margin
- Working capital management in operations

### Material Covenant

None

### Liquidity Profile

The company has moderate liquidity profile marked by net cash accruals of Rs.975.00 Cr during FY2018-19 against repayment obligation of Rs.1550.00 Cr in the same period. The deficit has been funded from the higher working capital utilisation and support in the form of grant from GoWB. Further, the company has Rs.2200.00 Cr of repayment obligations in the FY2019-20. The same is expected to be repaid from the accruals to the tune of Rs.975 Cr, undrawn working capital limit of Rs.1500 Cr which can be utilised to bridge the gap between cash flow and debt repayment. Further, Acuité receives comfort as the repayment obligation in FY2019-20 includes Rs 603.00 Cr of loans secured against the guarantee received from GoWB. In addition repayment obligation consists of short term loan availed from banks amounting Rs 422.00 Cr fully secured against fixed deposit.

### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	22765.02	20768.34
PAT	Rs. Cr.	47.93	40.85
PAT Margin	(%)	0.21	0.20
Total Debt/Tangible Net Worth	Times	0.67	0.83
PBDIT/Interest	Times	1.69	1.64

### Status of non-cooperation with previous CRA

Not Applicable

### Any other information

Not Applicable

### Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Entities - <https://www.acuite.in/view-rating-criteria-50.htm>
- State Government Support - <https://www.acuite.in/view-rating-criteria-26.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-Aug-2019	Cash Credit	Long Term	1000.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	600.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	1000.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	700.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	200.00	ACUITE A-/Stable (Reaffirmed)
	Secured Overdraft	Long Term	400.00	ACUITE A-/Stable (Reaffirmed)
	Overdraft	Long Term	500.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	600.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	250.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	500.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	300.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long Term	450.00	ACUITE A-/Stable (Assigned)
	Letter of Credit	Short Term	300.00	ACUITE A2+ (Reaffirmed)
	Inland Letter of credit/ Bank Guarantee	Short Term	100.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	100.00	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	100.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	100.00	ACUITE A2+

				(Reaffirmed)
	Proposed Letter of Credit	Short Term	100.00	ACUITE A2+ (Assigned)
	Letter of credit/ Bank Guarantee	Short Term	200.00	ACUITE A2+ (Reaffirmed)
28-Aug-2018	Cash Credit	Long Term	4600.00	ACUITE A-/Stable (Reaffirmed)
	Secured Overdraft	Long Term	900.00	ACUITE A-/Stable (Reaffirmed)
	Letter of Credit	Short Term	600.00	ACUITE A2+ (Reaffirmed)
	Bank Guarantee/ Letter of Credit	Short Term	400.00	ACUITE A2+ (Reaffirmed)
17-Aug-2017	Cash Credit	Long Term	4450.00	ACUITE A-/Stable (Reaffirmed)
	Secured Overdraft	Long Term	650.00	ACUITE A-/Stable (Reaffirmed)
	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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1000.00	ACUITE A- (Under watch with Negative Implications)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	600.00	ACUITE A- (Under watch with Negative Implications)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1000.00	ACUITE A- (Under watch with Negative Implications)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	700.00	ACUITE A- (Under watch with Negative Implications)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A- (Under watch with Negative Implications)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	400.00	ACUITE A- (Under watch with Negative Implications)
Overdraft	Not Applicable	Not Applicable	Not Applicable	500.00	ACUITE A- (Under watch with Negative Implications)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	600.00	ACUITE A- (Under watch with Negative Implications)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	250.00	ACUITE A- (Under watch with Negative Implications)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	500.00	ACUITE A- (Under watch with Negative Implications)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A- (Under watch with Negative

					Implications)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	450.00	ACUITE A- (Under watch with Negative Implications)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A2+ (Under watch with Negative Implications)
Inland Letter of credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A2+ (Under watch with Negative Implications)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A2+ (Under watch with Negative Implications)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A2+ (Under watch with Negative Implications)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A2+ (Under watch with Negative Implications)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A2+ (Under watch with Negative Implications)
Letter of credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A2+ (Under watch with Negative Implications)

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