

Press Release

West Bengal State Electricity Distribution Company Limited (WBSEDCL)

June 19, 2020

Rating Downgraded



Total Bank Facilities Rated*	Rs. 7500.00 Cr.
Long Term Rating	ACUITE BBB/Negative (Downgraded from A-)
Short Term Rating	ACUITE A3+ (Downgraded from A2+)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE A-**' (read as **ACUITE A minus**) and short-term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A2+**' (read as **ACUITE A two plus**) to the Rs. 7500.00 Cr bank facilities of West Bengal State Electricity Distribution Company Limited (WBSEDCL). The outlook is '**Negative**'.

The rating downgrade is primarily on account of increased liquidity challenges in the company driven by continuous revenue gaps, further aggravated by an absence of tariff revision from FY2019, lack of timely receipt of subsidy from the State Government and accumulation of huge regulatory assets. Going forward, the liquidity position is expected to remain under pressure due to delayed payments from customers and also lower billing from commercial and industrial segment arising from significantly reduced demand during the Covid-19 lockdown period. However, the rating draws comfort from GoWB's 100% ownership in WBSEDCL and the strategic importance of the latter in ensuring electricity distribution across the state.

Acuite has noted that the company has discontinued with the principal payments on the Government of West Bengal (GoWB) guaranteed 8.50 per cent WBSEDCL Bond since June 2018. These bonds were issued by WBSEDCL to WBSEDCL Employees Pension Fund in FY2007-08 at the time of unbundling of West Bengal State Electricity Board (WBSEB) into WBSEDCL and West Bengal State Electricity Transmission Limited (WBSETCL). The non-convertible and non-transferable bonds amounting to Rs. 1530 Cr were issued with a 10 year moratorium from the date of issue. While WBSEDCL has repaid these bonds to the tune of Rs. 357 Cr till May 2018 and continues to service the interest in a timely manner, the decision to discontinue further redemption had been taken due to the absence of any tariff revision since FY2018-19 and lack of timely financial assistance from the GoWB, the parent and the guarantor of these bonds. Acuite understands from the management of WBSEDCL that the relevant stakeholders i.e. GoWB as well as the trustees of the Pension Fund had been duly informed of the decision to defer the principal obligations on these bonds. It is further understood that these stakeholders have taken cognizance of the deferment in the principal payments and status quo has been maintained over the last two years. Acuite therefore is of the opinion that all the stakeholders including the trustees of the employees' pension fund have an implicit consent in such a decision. We have also got a confirmation from the bond trustees and the bankers that WBSEDCL has been timely in servicing all its debt except for the aforesaid instance.

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 GoWB and is a power distribution licensee catering to around 80 per cent of the requirement of West Bengal.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of WBSEDCL to arrive at the rating. Acuite has also factored in benefits emanating from the ownership by Government of West Bengal. GoWB's financial support to WBSEDCL is in the form of its 100 per cent ownership and its guarantee for certain borrowings of WBSEDCL.

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 factors in the ongoing support extended by GoWB to WBSEDCL.

West Bengal has been one of the fastest growing states in India and is the sixth largest state economy 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, which gets reflected from the phenomenal growth in FDI inflows onto the state which has witnessed a growth of about 241 percent from FY2006 to FY2018. 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. The ongoing Covid-19 pandemic and the super cyclone Amphan have taken a huge hit on the overall economic position of the state. WBSEDCL, one of the prime service utilities of the state have also suffered humongous losses due to the debacle.

Acuité believes that WBSEDCL, being a 100 per cent undertaking of GoWB, shall continue to benefit from the financial, operational and management support from time to time. The GoWB has demonstrated financial support by way of loans to WBSEDCL on a regular basis. 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**

WBSEDCL has a favorable consumption mix with commercial and industrial connection accounting for about 51 per cent in FY2019 as against 42 per cent in the previous year, while domestic connection accounts for about 36 per cent in FY2019 as against 37 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.

Weakness

- **High level of Aggregate Technical & Commercial (AT&C) losses**

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 of 17.5 per cent allowed by West Bengal Electricity Regulatory Commission (WBERC). The company plans to reduce its technical loss of the state after 2022 and onwards, by developing another 1000 MW Pumped Storage type Power Project at Ayodhya hills under Baghmundi Block in Purulia District in addition to the existing 900 MW Purulia Pumped Storage Project, at a total project cost of Rs. 6921.90 Cr (approximately). The loan agreement had been signed between Government of India and Japan International Cooperation Agency (JICA) for the implementations of the project. 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.

- **Huge buildup of regulatory assets**

There is 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 West Bengal Electricity Regulatory Commission (WBERC). The considerable rise in regulatory asset 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.

- **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 such as the cost structure and expected return on capital employed to arrive at distribution tariffs. Acuite believes that significant changes in the regulatory environment will impinge on the credit profile of the company.

Rating Sensitivity

- Timely support from the GoWB
- Timelines for tariff revision
- Substantial moderation in regulatory assets
- Improvement in liquidity profile

Material Covenant

None

Liquidity Profile

The company's liquidity is stretched marked by net cash accruals of Rs.974.34 Cr in March 31, 2019 as against debt repayment obligation of Rs.2201.14 Cr. The current ratio stood strong at 1.52 times as on March 31, 2019 as compared to 1.60 times as on March 31, 2018. The fund based limit remains utilised at around 72 per cent over the six months ended Mar, 2020. The company has not availed any loan moratorium or additional covid loans. The cash and bank balances of the company stood at Rs.785.64 Cr as on March 31, 2019 as compared to Rs.731.59 Cr as on March 31, 2018. However, the company's operations are working capital intensive as reflected by high Gross Current Assets (GCA) of 339 days as on March 31, 2019 as against 346 days in March 31, 2018. Further, the constrained liquidity position of the company is marked by no revision in tariff order from FY2019, dearth of timely receipt of subsidy from the State Government and piling up of huge regulatory assets. Acuite believes that going forward; the liquidity position is expected to remain stretched due to delayed payments from customers due to the lockdown and also lower billing due to reduced usage during the lockdown period.

Outlook: Negative

Acuite has revised the outlook of West Bengal State Electricity Distribution Company Limited to 'Negative' due to deterioration in the liquidity position of the company. The revision in outlook also reflects Acuite's expectation that the liquidity position would remain under pressure over the medium term. The rating may be downgraded in case any further deterioration in liquidity or any further decline in the topline levels. Conversely, the outlook may be revised to 'Stable' in case of improvement in liquidity profile and an adequate revision in tariffs which will translate into higher revenues and sustenance in the profitability margins.

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
	Cash Credit	Long Term	1000.00	ACUITE A- (Under watch with Negative Implications)
	Cash Credit	Long Term	600.00	ACUITE A- (Under watch with Negative Implications)
	Cash Credit	Long Term	1000.00	ACUITE A- (Under watch with Negative Implications)
	Cash Credit	Long Term	700.00	ACUITE A- (Under watch with Negative Implications)
	Cash Credit	Long Term	200.00	ACUITE A- (Under watch with Negative Implications)
	Secured Overdraft	Long Term	400.00	ACUITE A- (Under watch with Negative Implications)
	Overdraft	Long Term	500.00	ACUITE A- (Under watch with Negative Implications)

24-Apr-2020	Cash Credit	Long Term	600.00	ACUITE A- (Under watch with Negative Implications)
	Cash Credit	Long Term	250.00	ACUITE A- (Under watch with Negative Implications)
	Cash Credit	Long Term	500.00	ACUITE A- (Under watch with Negative Implications)
	Cash Credit	Long Term	300.00	ACUITE A- (Under watch with Negative Implications)
	Cash Credit	Long Term	450.00	ACUITE A- (Under watch with Negative Implications)
	Letter of Credit	Short Term	300.00	ACUITE A2+ (Under watch with Negative Implications)
	Inland Letter of credit/ Bank Guarantee	Short Term	100.00	ACUITE A2+ (Under watch with Negative Implications)
	Letter of Credit	Short Term	100.00	ACUITE A2+ (Under watch with Negative Implications)
	Letter of Credit	Short Term	100.00	ACUITE A2+ (Under watch with Negative Implications)
	Bank Guarantee	Short Term	100.00	ACUITE A2+ (Under watch with Negative Implications)
	Proposed Letter of Credit	Short Term	100.00	ACUITE A2+ (Under watch with Negative Implications)
	Letter of credit/ Bank Guarantee	Short Term	200.00	ACUITE A2+ (Under watch with Negative Implications)
	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	

22-Aug-2019				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)

***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 BBB/Negative (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	600.00	ACUITE BBB/Negative (Downgraded)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	1000.00	ACUITE BBB/Negative (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	700.00	ACUITE BBB/Negative (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE BBB/Negative (Downgraded)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	400.00	ACUITE BBB/Negative (Downgraded)
Overdraft	Not Applicable	Not Applicable	Not Applicable	500.00	ACUITE BBB/Negative (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	600.00	ACUITE BBB/Negative (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	250.00	ACUITE BBB/Negative (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	500.00	ACUITE BBB/Negative (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE BBB/Negative (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	450.00	ACUITE BBB/Negative (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A3+ (Downgraded)
Inland Letter of credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A3+ (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A3+ (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A3+ (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A3+ (Downgraded)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A3+ (Downgraded)
Letter of credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A3+ (Downgraded)

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About Acuite Ratings & Research

Acuite Ratings & Research Limited (erstwhile ACUITE Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

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