

Press Release

West Bengal State Electricity Distribution Company Limited

June 03, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 8200.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Reaffirmed and Outlook revised from Negative)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 8200.00 Cr bank facilities of West Bengal State Electricity Distribution Company Limited (WBSEDCL). The outlook is revised from '**Negative**' to '**Stable**'.

The revision in outlook is driven by a gradual improvement in the business risk profile of WBSEDCL marked by significant increase in the revenues levels of the company coupled with lower AT&C losses and a moderately healthy financial risk profile. The outlook revision also factors in an improvement in the fiscal profile of the Government of West Bengal which is expected to provide significant support to WBSEDCL, as and when necessary. These strengths are partly offset by the inherently regulated nature of operations in the electricity distribution business and the inordinate delay in tariff revision from FY2019, further aggravated by, lack of timely receipt of subsidy from the State Government and accumulation of huge regulatory assets.

Acuité has noted that the company continues its non-payment on the principal obligations of 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 adequate financial assistance from the GoWB, the parent and the guarantor of these bonds. Acuité 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. Given that all the relevant stakeholders including the trustees of the employees' pension fund have an implicit consent in the principal deferment decision, Acuité has not considered it as a credit event. It has also got a confirmation from the bond trustees and the bankers that WBSEDCL has otherwise been timely in servicing all its debt.

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

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

- **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.

The State Government of West Bengal has supported WBSEDCL by providing a short term loan of Rs.500 Cr in FY2020.

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 14.60 per cent in 2019-20. While the state's revenue deficit has been relatively modest at 0.48 per cent, its fiscal deficit stood at 2.63 per cent in 2019-20. GoWB has significantly increased its focus on increasing industrial development in the state, which gets reflected from the improving FDI inflows onto the state. However, the state's overall borrowing level continues to remain high and is a challenge to its overall fiscal profile.

Acuite 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 FY2020 similar as the previous year, while domestic connection accounts for about 35 per cent in FY2020 as against 36 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, Acuite 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.

- **Steady business risk profile**

WBSEDCL has achieved revenues of Rs. 25,993.41 Cr in FY2020 as compared to revenues of Rs. 22,765.02 Cr in FY2019, thereby registering a y-o-y growth of 14.18 per cent. The growth in top line is on account of increase in number of units sold and increase in average billed tariff. WBSEDCL has achieved revenue of Rs. 16673.66 Cr as on 31st December, 2020 (Provisional). The profitability margins of the company are steady with operating margin of 10.83 per cent in FY2020 as compared to 9.97 per cent in FY2019. The increase in operating profit margin is on account of increase in income receivable through regulatory mechanism. The PAT margins stood at 2.50 per cent in FY2020 as against 0.21 per cent as on FY2019. The increase in PAT margin is primarily on account of reduction of AT&C losses. The ROCE level for the company is about 6.50 per cent in FY2020 as against 4.97 per cent in FY2019.

Weakness

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

The distribution losses have remained in the range of 20.10 per cent in FY2020 as against 22.97 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 expects to reduce its technical loss of the state after 2022

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.16792.72 Cr as on 31st December, 2020 (provisional) from Rs.15519.14 as on 31 March, 2020 and Rs.13145.60 Cr as on 31 March, 2019. The company has filed an Annual Performance Review (APR) for the revision of tariff, which is pending with West Bengal Electricity Regulatory Commission (WBERC) since FY2019. The considerable rise in regulatory asset has resulted in rise in short-term borrowing levels to Rs. 6,638.59 Cr as on December, 2020 (provisional) from Rs. 5,860.36 Cr as on 31 March, 2020 and Rs. 5,228.93 Cr in the previous year, thereby increasing their interest cost burden.

- **Regulated nature of operations**

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: Stretched

The company's liquidity is stretched marked by net cash accruals of Rs.1546.69 Cr in March 31, 2020 as against debt repayment obligation of Rs.1674.26 Cr. The current ratio stood low at 1.15 times as on March 31, 2020 as compared to 1.19 times as on March 31, 2018 on account of high other current liabilities arising from employee benefit obligation and other liabilities such as earnest money, security deposits, liability of O & M supplies and retention, money deducted. The fund based limit remains utilised at around 78 per cent over the twelve months ended Mar, 2020. The company has not availed any loan moratorium but has availed additional Covid loans of Rs.298 Cr. The cash and bank balances of the company stood at Rs.642.70 Cr as on March 31, 2020 as compared to Rs.785.64 Cr as on March 31, 2019. However, the company's operations are working capital intensive as reflected by high Gross Current Assets (GCA) of 302 days as on March 31, 2020 as against 339 days in March 31, 2019. The liquidity position of the company continues to be constrained with the lack of tariff revision from FY2019 and timely receipt of subsidy from the State Government, translating to a buildup of large regulatory assets. Acuite believes that going forward; the liquidity position may continue to face challenges due to delayed payments from customers due to the lockdown and also lower billing due to reduced usage during the lockdown period.

Outlook: Stable

Acuite has revised the outlook of West Bengal State Electricity Distribution Company Limited to 'Stable' over the medium term on account of an improvement in its operational parameters including AT&C

losses. The outlook may be revised to 'Positive' in case of an improvement in its liquidity profile and an adequate revision in tariffs which will translate into higher revenues and sustenance in the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any significant deterioration in its leverage and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	25,993.41	22,765.02
PAT	Rs. Cr.	648.72	47.93
PAT Margin	(%)	2.50	0.21
Total Debt/Tangible Net Worth	Times	0.69	0.67
PBDIT/Interest	Times	2.08	1.69

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 – <http://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
19-Jun-2020	Cash Credit	Long Term	1000.00	ACUITE BBB/Negative (Downgraded)
	Cash Credit	Long Term	600.00	ACUITE BBB/Negative (Downgraded)
	Cash Credit	Long Term	1000.00	ACUITE BBB/Negative (Downgraded)
	Cash Credit	Long Term	700.00	ACUITE BBB/Negative (Downgraded)
	Cash Credit	Long Term	200.00	ACUITE BBB/Negative (Downgraded)
	Secured Overdraft	Long Term	400.00	ACUITE BBB/Negative (Downgraded)
	Overdraft	Long Term	500.00	ACUITE BBB/Negative (Downgraded)
	Cash Credit	Long Term	600.00	ACUITE BBB/Negative (Downgraded)

	Cash Credit	Long Term	250.00	ACUITE BBB/Negative (Downgraded)
	Cash Credit	Long Term	500.00	ACUITE BBB/Negative (Downgraded)
	Cash Credit	Long Term	300.00	ACUITE BBB/Negative (Downgraded)
	Cash Credit	Long Term	450.00	ACUITE BBB/Negative (Downgraded)
	Letter of Credit	Short Term	300.00	ACUITE A3+ (Downgraded)
	Inland Letter of credit/ Bank Guarantee	Short Term	100.00	ACUITE A3+ (Downgraded)
	Letter of Credit	Short Term	100.00	ACUITE A3+ (Downgraded)
	Letter of Credit	Short Term	100.00	ACUITE A3+ (Downgraded)
	Bank Guarantee	Short Term	100.00	ACUITE A3+ (Downgraded)
	Proposed Letter of Credit	Short Term	100.00	ACUITE A3+ (Downgraded)
	Letter of credit/ Bank Guarantee	Short Term	200.00	ACUITE A3+ (Downgraded)
24-Apr-2020	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)
	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	ACUITE A-/Stable (Reaffirmed)
	Secured Overdraft	Long Term	400.00	ACUITE A-/Stable (Reaffirmed)
	Overdraft	Long Term	500.00	

22-Aug-2019				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)

***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	800.00	Acuite BBB/Stable (Reaffirmed and outlook Revised from Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1000.00	Acuite BBB/Stable (Reaffirmed and outlook Revised from Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	700.00	Acuite BBB/Stable (Reaffirmed and outlook Revised from Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	200.00	Acuite BBB/Stable (Reaffirmed and outlook Revised from Negative)
Overdraft	Not Applicable	Not Applicable	Not Applicable	950.00	Acuite BBB/Stable (Reaffirmed and outlook Revised from Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	800.00	Acuite BBB/Stable (Reaffirmed and outlook Revised from Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1250.00	Acuite BBB/Stable (Reaffirmed and outlook Revised from Negative)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	500.00	Acuite BBB/Stable (Reaffirmed and outlook Revised from Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	300.00	Acuite BBB/Stable (Reaffirmed and outlook Revised from Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	700.00	Acuite BBB/Stable (Reaffirmed and outlook Revised from Negative)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	300.00	Acuite A3+ (Reaffirmed)
Inland Letter of credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	100.00	Acuite A3+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	100.00	Acuite A3+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	100.00	Acuite A3+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	100.00	Acuite A3+ (Reaffirmed)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	100.00	Acuite A3+ (Reaffirmed)
Letter of credit/ Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	200.00	Acuite A3+ (Reaffirmed)

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About Acuité Ratings & Research

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