

Press Release

Maharashtra State Electricity Distribution Company Limited

July 07, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 18,600.00 Cr.
Long Term Rating	ACUITE A+ / Outlook: Stable
Short Term Rating	ACUITE A1+

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE A+**' (**read as ACUITE A plus**) and short-term rating of '**ACUITE A1+**' (**read as ACUITE A one plus**) on the Rs. 18,600.00 Crore bank facilities of Maharashtra State Electricity Distribution Company Limited. The outlook is '**Stable**'.

Maharashtra State Electricity Distribution Company Limited (MSEDCL) was incorporated in 2005 as a wholly owned entity of Maharashtra State Electricity Holding Company Limited, which in turn is a Government of Maharashtra (GoM) entity. MSEDCL was incorporated with the objective of undertaking power distribution activity of erstwhile Maharashtra State Electricity Board (MSEB) through a separate dedicated entity. MSEDCL's operations span across its licensed area of 3.08 lacs sq. kms in the entire state of Maharashtra except some parts in Mumbai (457 cities and 41,928 villages) with over 25 million customers across all categories.

Standalone (Unsupported) Rating: ACUITE BBB+/A2

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of MSEDCL and has also factored in support extended by Government of Maharashtra (GoM) given the latter's 100 percent ownership of MSEDCL and its strategic importance for the state.

Key Rating Drivers

Strengths

- **Strategically important role of MSEDCL for state of Maharashtra**

MSEDCL came into existence post debundling of MSEB in 2005 and caters to around 98 per cent of the power requirements of the state. It is a strategically important entity and forms the backbone of the power sector infrastructure for Maharashtra with a consumer base of over 25 million consumers. The status of the company as a 100 per cent government of Maharashtra (GoM) owned entity provides it adequate financial flexibility. MSEDCL's credit profile is also 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 GoM to MSEDCL in the form of regular infusion of funds in the form of equity and unsecured loans and guarantees extended by the state government for the incremental borrowings under the UDAY scheme. Maharashtra is India's leading industrial state with gross state domestic product (GSDP) growing at 6 per cent in 2018-19. Further, well established regulatory processes in Maharashtra such as presence of multi-year tariff regulations and grants sanctioned by the Government of Maharashtra has strengthened the operations of MSEDCL.

Acuité believes that MSEDCL, being a fully owned undertaking of GoM, shall continue to benefit from the financial, operational and management support of GoM from time to time. Any event that impinges GoM's overall credit profile shall remain a key rating sensitivity.

- **Favorable consumption mix and established regulatory processes in Maharashtra**

MSEDCL has a favourable consumption mix with agricultural consumers accounting for Rs.8,374 Cr of revenue, commercial and industrial connection accounting for about Rs.9,207 Cr and Rs.25,206 Cr respectively, while domestic and others accounts for about Rs.13,827 Cr and Rs.18,253 Cr respectively, in FY2020. The company supplies power to railways and other public services. Since the commercial and

industrial consumption commands a higher tariff, this augurs well for the revenues of the state utility. Going forward, Acuité believes that commercial and industrial consumption mix is likely to increase with GoM's continuous focus to attract investment for the overall economic development of the state. Acuité also notes that MSEDCI is regular in filing of multi-year tariff (MYT) order, which provides near term tariff visibility. In accordance with the MERC (Terms and Conditions of Tariff) Regulations, 2005, MSEDCI files with MERC an application indicating the Annual Revenue Requirement (ARR) depending on the expected cost of distribution and return on equity. The cost of distribution is arrived at as per approved annual power procurement plan which considers approved level of transmission and distribution losses. Maharashtra Electricity Regulation Commission (MERC) has already released MSEDCI's multi-year tariff (MYT) order for FY2020-21 to FY2024-25, the fourth control period, and the modified Average Cost of Supply (ACoS) was Rs. 7.31/kWh in FY2020-21 and the consequent Average Billing Rate (ABR) is Rs. 7.37/kWh. As per the MERC order, the approved cumulative revenue gap of the company stood at Rs. 12,382 Cr for FY2020.

- **Relatively healthy operational and collection efficiency**

The transmission and distribution (T&D) losses have remained 13.63 per cent in FY2019 as against 13.90 per cent in the previous year. The aggregate technical & commercial (AT&C) losses have stood at 16.94 percent in FY2019 against 17.41 percent in FY2018. Further, the T&D losses and AT&C losses increased and stood at 15 percent and 21 percent respectively, in FY2020 (Prov) due to billing done on an average consumption basis during Q4FY2020. The Company's collection efficiency has always remained above 90 percent through last 10 years and stood at 96 percent in FY2019 and 94 percent in FY2020 (Prov). The Company, in order to limit the distribution and commercial losses, has concentrated its efforts to reduce power theft by digitalizing the payment systems, replacing old meters with digital meters and implement distribution franchise scheme in areas with high distribution losses and low collection efficiencies. The company also consistently invests in increasing substation capacity and strengthening the network to reduce the distribution losses. Acuite nevertheless, believes the sustainability of the operating performance of the company would be a key rating sensitivity factor.

Weaknesses

- **Moderate financial risk profile**

The average financial risk profile is marked by strong net worth, average gearing though remains partly constrained on account of modest debt protection measures. The net worth levels of the company stood at around Rs. 21,807 Cr as on March ending 2019 as compared to Rs. 20,590 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 besides an equity infusion of Rs.369 Cr. The gearing stood average at 1.57 times as on March 2018 as against 1.32 times as on March 2018. MSEDCI's debt profile as on year ending March 2019 consists of Rs.29,167.6 Cr of long-term borrowings which include Rs.4,357.39 Cr of long-term loan from Power Finance Corporation, Rs.19,263 Cr from Rural Electrification Corporation Limited and remaining from other banks and state government. The Company also has working capital borrowings from banks which stood at Rs.4,455 Cr as on March 2019. It is a highly capital-intensive nature of business where in order to maintain operational efficiencies, the company would have to incur regular capital expenditure. This results in rise in borrowings which in turn affects the debt protection metrics. Therefore, Interest coverage ratio and debt service coverage ratio (DSCR) stood at 1.88 times and 0.75 times, respectively, in FY2019 as compared to 1.57 times and 0.88 times, respectively, in FY2018. Though the company's DSCR has been weak in the past 3 years ended FY2019, Acuite notes that MSEDCI has received regular support from GoM in the form of grants which is expected to continue going forward.

- **Sizeable portion of regulatory assets**

Acuité has observed a sizeable portion of regulatory assets on account of the revenue gap between the average cost of supply and average tariff resulting in build-up of regulatory asset to the extent of Rs. 12,382 Cr as on 31 March, 2020 (Prov). A recovery of Rs.8,268 Cr has been allowed over a period of two years whereby the earlier approved total revenue gap of Rs.20,651 Cr has now come down to Rs.12,382 Cr. Albeit improved, the revenue gap stood considerably high in which has resulted in rise in short-term borrowing levels, thereby increasing the interest cost burden.

- **Linkages to the fiscal position of Maharashtra**

MSEDCI's rating is driven by continued support from GoM. Hence the fiscal profile of Maharashtra will be a key rating sensitivity factor influencing the rating. Any significant changes in the rating of GoM due to factors such as prolonged slowdown in industrial activities or challenges faced by Maharashtra for factors such as socio-economic changes or other such events can have impact in its fiscal indicators. Further, timely budget allocation and timely receipt of revenue and capital grants from GoM for servicing the debt obligations is another rating sensitivity factor.

Rating Sensitivities

- Credit profile of GoM
- Improvement in operating efficiency with reduced AT&C and T&D losses and sustained collection efficiency

Material Covenants

None

Liquidity: Adequate

The company has adequate liquidity profile marked by net cash accruals of ~ Rs. 4,045 Cr during FY 2018-19 against repayment obligation of Rs. 6,454 Cr in the same period. The deficit has been funded from the higher working capital utilisation and support in the form of grant from GoM. During FY2019, there was an equity infusion of Rs. 369 Cr. Further, the company has ~ Rs.6,800 Cr of repayment obligation in the FY 2020-21 same is expected to be repaid from the accruals to the tune of Rs. 4,000 Cr, and remaining by way of grants from GoM. MSEDCL due to its strategic importance to GoM has been able to access various funding sources in the past to tide over the short-term liquidity mismatch. The unencumbered cash and bank balances stood at Rs. 442 Cr as on 31st March, 2019. Further, Acuité receives comfort from the fact that MSEDCL being a GoM entity warrants adequate financial support from GoM, time to time, to support the mismatches.

Outlook: Stable

Acuité believes that the outlook on MSEDCL 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 GoM, 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

	Unit	FY2019 (Actual)	FY2018 (Actual)
Operating Income	Rs. Cr.	79,647.28	63,889.28
PAT	Rs. Cr.	1,096.62	492.24
PAT Margin (%)	(%)	1.38	0.77
Total Debt/Tangible Net Worth	Times	1.57	1.32
PBDIT/Interest	Times	1.88	1.57

Government of Maharashtra – Key Financials

	Unit	FY2018-19 (Actual)	FY2017-18 (Actual)
Total Receipts	Rs. Cr.	3,08,154	2,95,101
Total Expenditure	Rs. Cr.	3,32,260	2,86,769
Revenue Surplus	Rs. Cr.	11,975	2,802
Fiscal Deficit	Rs. Cr.	(23,105)	(23,961)
Debt/GSDP	%	15.50	16.70

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.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)

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
Term Loan	31-Dec-2018	Not Applicable	15-Dec-2023	8,800.00	ACUITE A+ /Stable
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	3,500.00	ACUITE A+ /Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	2,800.00	ACUITE A+ /Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3,325.00	ACUITE A1+
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	175.00	ACUITE A1+

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About Acuité Ratings & Research:

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