

Press Release

Maharashtra State Electricity Distribution Company Limited

June 09, 2022



Rating Assigned and Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14000.00	ACUITE A Stable Assigned	-
Bank Loan Ratings	2000.00	-	ACUITE A1 Assigned
Bank Loan Ratings	21000.00	ACUITE A Stable Downgraded	-
Bank Loan Ratings	4000.00	-	ACUITE A1 Downgraded
Total Outstanding Quantum (Rs. Cr)	41000.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE A**' (read as **ACUITE A**) from **ACUITE A+** (read as **ACUITE A plus**) and short-term rating to '**ACUITE A1**' (read as **ACUITE A one**) from '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 25,000 crore bank facilities of Maharashtra State Electricity Distribution Company Limited (MSEDCL). Further, Acuite has assigned long-term rating of '**ACUITE A**' (read as **ACUITE A**) and short-term rating of '**ACUITE A1**' (read as **ACUITE A one**) on the 16,000 crore bank facilities of MSEDCL. The outlook is 'Stable'.

Rationale for Downgrade

The rating downgrade factors the deterioration in the overall financial risk profile in FY2021 against the previous year, on account of the reduction in the overall scale of operations marked by reduction in billing and collection efficiency and lowered demand from industrial customers owing to the Covid 19 effects. Acuite notes that the regulatory assets remained at Rs.19,078 crore as on March 31, 2021 as compared to Rs.16,169 crore during the previous year. Also, the rating takes into the stretched liquidity that may further deteriorate considering the payables to Adani Power Maharashtra Limited going forward. However, the rating factors the regular support from the Government of Maharashtra (GoM) in the form of timely receipt of subsidies, grants and guarantees, the diverse consumer mix with high consumption from commercial and industrial consumers given their high tariff band and the long term PPA with suppliers thereby providing purchase price stability.

About the Company

Maharashtra State Electricity Distribution Company Limited (MSEDCL) incorporated in 2005 is a wholly owned entity of Government of Maharashtra (GoM) with the objective of carrying

out power distribution activity of erstwhile Maharashtra State Electricity Board (MSEB) through a separate dedicated company. MSEDCL is wholly owned by Maharashtra State Electricity Holding Company Limited, which in turn is a GoM entity. Its 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 28.5 million customers across all categories.

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 the 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 28.5 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. Maharashtra is India's leading industrial state with gross state domestic product (GSDP) growing at 9.2 per cent in 2020-21 (est.). Further, well established regulatory processes in Maharashtra such as presence of multi-year tariff regulations and grants sanctioned by the GoM 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 process in Maharashtra:**

MSEDCL has a favorable consumption mix with agricultural consumers accounting for Rs.12,843 Cr of revenue, commercial and industrial connection accounting for about Rs.8332.09 Cr and Rs.31,366.52 Cr respectively, while domestic and others accounts for about Rs.15,825.97 Cr and Rs.4,744.25 Cr respectively, in FY2021. 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 MSEDCL 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, MSEDCL 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 MSEDCL's multi-year tariff (MYT) order for FY2020-21 to FY2024-25, the fourth control period, and the cost coverage ratio of improved to 1.14 for the 9 month of FY2022 against 0.86 in FY2020-21.

- **Improvement in operating performance in the 9M2022 against subdued performance in FY2021:**

The operations of the company improved during the 9 month of FY2022 marked by improved

billing and collection efficiency. The billing and collection efficiency improved to 86 percent and 98 percent for the 9M period of FY2022 against ~80 percent and 91 percent in FY2021. The fall in billing and collection efficiency in FY2021 is due to billing done on an average consumption basis during March 2020 and Q1FY2021. However, the collection efficiency continues to remain above 90 percent through last 10 years. 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

• Average financial risk profile with deteriorating coverage indicators:

The financial risk profile remains average marked by moderate net worth, gearing and deteriorating coverage indicators. The net worth of the company reduced to Rs. 22,968.23 Cr as on March 31, 2021 as compared to Rs. 24,293.56 Cr. The fall in the net worth is primarily due to losses incurred in FY2021 due to the effects of Covid 19. The total debt of the company stood at Rs. 37,940.45 as on March 31, 2021 against Rs. 39,086.02 Cr, reduced debt is attributable to the lower short term debt. The gearing stood average at 1.65 times as on March 31, 2021 as against 1.61 times as on March 31, 2020. 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. Further, going forward gearing is expected to go above ~2, since ~Rs. 10,000 Cr is payable to Adani Power Maharashtra Limited as per the direction of the supreme court in February.

In addition, debt protection metrics of interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.34 times and 0.73 times, in FY2021 as compared to 1.86 times and 0.75 times, in FY2020 respectively. Though the company's DSCR has been weak in the past 3 years ended FY2020.

Acuite notes that MSEDCL has received regular support from GoM in the form of grants, which is expected to continue going forward.

• Sizeable portion of regulatory assets:

Acuite 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. 19,078.67 Cr as on March 31, 2021. The low scale of operations resulted into considerably high revenue gap in FY2021 which has resulted in rise in short-term borrowing levels, thereby increasing the interest cost burden.

ESG Factors Relevant for Rating

Not applicable.

Rating Sensitivities

- Credit profile of GoM.
- Improvement in overall operating efficiency with reduced AT&C and T&D losses
- Dynamics in the regulatory environment.
- Change in shareholding and support from GoM.

Material covenants

None.

Liquidity Position: Adequate

MSEDCL has adequate liquidity marked by net cash accruals of Rs. 2072.94.58 Cr during FY

2021 against repayment obligation of Rs. 7,718.55 Cr. The deficit has been funded through increased term loan and support in the form of grant from GoM. Further, MSEDCL has ~ Rs.15,462.26 Cr of repayment obligation in the FY2023, some of these loans are expected to be refinanced. 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. 780.86 Cr as on 31st March, 2021. 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 due to its favorable position of being the only power distribution company in Maharashtra with a wide and diverse consumer base. 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 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 revenue gap increases further or if there is any delay in timely collection of receivables.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	79141.70	81805.23
PAT	Rs. Cr.	(1321.60)	684.54
PAT Margin	(%)	(1.67)	0.84
Total Debt/Tangible Net Worth	Times	1.65	1.61
PBDIT/Interest	Times	1.34	1.86

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

None.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
	Working Capital Demand Loan	Long Term	590.00	ACUITE A+ Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	1732.50	ACUITE A+ Stable (Reaffirmed)
	Letter of Credit	Short Term	92.00	ACUITE A1+ (Reaffirmed)
	Term Loan	Long Term	1000.00	ACUITE A+ Stable (Assigned)

31 May 2021	Bank Guarantee	Short Term	50.00	ACUITE A1+ (Reaffirmed)
	Term Loan	Long Term	500.00	ACUITE A+ Stable (Assigned)
	Bank Guarantee	Short Term	100.00	ACUITE A1+ (Reaffirmed)
	Term Loan	Long Term	2000.00	ACUITE A+ Stable (Assigned)
	Term Loan	Long Term	1300.00	ACUITE A+ Stable (Assigned)
	Working Capital Demand Loan	Long Term	250.00	ACUITE A+ Stable (Assigned)
	Term Loan	Long Term	1000.00	ACUITE A+ Stable (Assigned)
	Letter of Credit	Short Term	400.00	ACUITE A1+ (Reaffirmed)
	Term Loan	Long Term	2932.97	ACUITE A+ Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	637.50	ACUITE A+ Stable (Reaffirmed)
	Letter of Credit	Short Term	1100.00	ACUITE A1+ (Reaffirmed)
	Term Loan	Long Term	1500.00	ACUITE A+ Stable (Assigned)
	Term Loan	Long Term	900.00	ACUITE A+ Stable (Assigned)
	Term Loan	Long Term	600.00	ACUITE A+ Stable (Assigned)
	Letter of Credit	Short Term	1983.00	ACUITE A1+ (Reaffirmed)
	Working Capital Demand Loan	Long Term	300.00	ACUITE A+ Stable (Reaffirmed)
	Letter of Credit	Short Term	250.00	ACUITE A1+ (Assigned)
	Working Capital Demand Loan	Long Term	490.00	ACUITE A+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A1+ (Reaffirmed)
	Term Loan	Long Term	4432.24	ACUITE A+ Stable (Reaffirmed)
Proposed Bank Facility	Long Term	834.79	ACUITE A+ Stable (Assigned)	
	Working Capital Demand Loan	Long Term	3500.00	ACUITE A+ Stable (Assigned)
		Short		
07 Jul 2020	Bank Guarantee	Term	175.00	ACUITE A1+ (Assigned)
	Term Loan	Long Term	8800.00	ACUITE A+ Stable (Assigned)
	Letter of Credit	Short Term	3325.00	ACUITE A1+ (Assigned)
	Proposed Term Loan	Long Term	2800.00	ACUITE A+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1 Downgraded (from ACUITE A1+)
Bank of Maharashtra	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A1 Downgraded (from ACUITE A1+)
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A1 Downgraded (from ACUITE A1+)
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	250.00	ACUITE A Stable Downgraded (from ACUITE A+)
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A Stable Downgraded (from ACUITE A+)
Bank of Maharashtra	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	637.50	ACUITE A Stable Downgraded (from ACUITE A+)
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	490.00	ACUITE A Stable Downgraded (from ACUITE A+)
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	400.00	ACUITE A1 Downgraded (from ACUITE A1+)
UCO Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	250.00	ACUITE A1 Downgraded (from ACUITE A1+)
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1983.00	ACUITE A1 Downgraded (from ACUITE A1+)
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1100.00	ACUITE A1 Downgraded (from ACUITE A1+)
Bank of Maharashtra	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	92.00	ACUITE A1 Downgraded (from ACUITE A1+)

Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	910.42	ACUITE A Stable Downgraded (from ACUITE A+)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	5000.00	ACUITE A Stable Assigned
Punjab and Sind Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1300.00	ACUITE A Stable Downgraded (from ACUITE A+)
Central Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	1000.00	ACUITE A Stable Downgraded (from ACUITE A+)
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	2000.00	ACUITE A Stable Downgraded (from ACUITE A+)
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	860.00	ACUITE A Stable Downgraded (from ACUITE A+)
Bank of Maharashtra	Not Applicable	Term Loan	Not available	Not available	Not available	733.50	ACUITE A Stable Downgraded (from ACUITE A+)
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	2000.00	ACUITE A Stable Downgraded (from ACUITE A+)
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	830.00	ACUITE A Stable Downgraded (from ACUITE A+)
UCO Bank	Not Applicable	Term Loan	Not available	Not available	Not available	430.00	ACUITE A Stable Downgraded (from ACUITE A+)
UCO Bank	Not Applicable	Term Loan	Not available	Not available	Not available	561.00	ACUITE A Stable Downgraded (from ACUITE A+)
State Bank	Not		Not	Not	Not		ACUITE A Stable Downgraded

of India	Applicable	Term Loan	available	available	available	3541.68	(from ACUITE A+)
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1500.00	ACUITE A Stable Downgraded (from ACUITE A+)
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	1333.40	ACUITE A Stable Downgraded (from ACUITE A+)
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	2000.00	ACUITE A1 Assigned
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	4000.00	ACUITE A Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	5000.00	ACUITE A Stable Assigned
Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	590.00	ACUITE A Stable Downgraded (from ACUITE A+)
Canara Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	1732.50	ACUITE A Stable Downgraded (from ACUITE A+)

UCO Bank: Cash credit (CC) includes Working capital demand loan (WC DL) as sublimit.

Bank of India: WC DL includes CC as sublimit.

Bank of Maharashtra: CC includes WC DL as sublimit.

Canara Bank: WC DL includes CC and overdraft against book debts (ODBD) of Rs. 693.00 Cr as sublimit.

Punjab National Bank: CC includes sublimit WC DL as sublimit.

State Bank of India: Letter of Credit includes Bank Guarantee (BG) of Rs. 225.00 Cr as sublimit.

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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