

Press Release

Maharashtra State Electricity Distribution Company Limited

January 30, 2023



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	37000.00	ACUITE A Stable Reaffirmed	-
Bank Loan Ratings	4000.00	-	ACUITE A1 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	41000.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

ACUITE has reaffirmed its long-term rating of **ACUITE A** (read as ACUITE A) and short-term rating of **ACUITE A1** (read as ACUITE A one) on the Rs.41000 crore bank facility of Maharashtra State Electricity Distribution Company Limited (MSEDCL). The outlook is '**Stable**'.

Rationale for Reaffirmation

The rating reaffirmation factors the improvement in operating performance of MSEDCL driven by, 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 and regular support from the Government of Maharashtra (GoM) in the form of timely receipt of subsidies, grants and guarantees. Acuite notes that these rating strengths are partly offset by its average financial risk profile, with moderate gearing and debt protection metrics and stretched liquidity that may further come under stress considering the outstanding payables to MAHAGENCO and MAHATRANCO due to application of Late Payment Surcharge (LPS). Further, the regulatory assets which remained at Rs. 21194.53 crore as on March 31, 2022, as compared to Rs.19078.68 crore during the previous year impinge a negative bias to the rating.

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.

Standalone (Unsupported) Rating

Standalone/Unsupported Rating ACUITE BB+/Stable/ ACUITE A4+

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 12.1 per cent in 2021-22 (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.

Favourable consumption mix and established regulatory process in Maharashtra:

MSEDCL has a favourable consumption mix with agricultural consumers accounting for 14% of revenue, commercial and industrial connection accounting for about 11% and 43% respectively, while domestic and others accounts for about 24% and 7% respectively, in FY2022. 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 improved to 1.03 times in FY2022 against 0.86 times in FY2020-21.

Improvement in operating performance in 2022 against subdued performance in FY2021

The operating performance of the company improved in FY2022 marked by reduction in AT&C losses to 15.5% in FY2022 against 20.78% in FY2021. Collection efficiency improved to 98.60% in FY2022 against 90.80% in FY2021. T&D losses stood at 14.74% in FY2022 against 15.29% in FY2021. The Company, to further 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 implementation of 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. Acuité nevertheless, believes the sustainability of the operating performance of the company would be a key rating sensitivity factor.

Weaknesses

Average financial risk profile

The financial risk profile remains average marked by moderate net worth, gearing and coverage indicators. The net worth of the company stood at Rs. 23,679.71 Cr as on March 31, 2022, as compared to Rs. 22,968.23 Cr as on March 31, 2021. The improvement in the net worth is primarily due to accretion of profits to reserves and equity infusion in FY2022.

The total debt of the company stood at Rs. 45,577.01 Cr as on March 31, 2022, against Rs. 43,174.55 Cr as on March 31, 2021. It comprises long-term debt of Rs. 35,332.08 Cr, Short-term debt of Rs. 9,184.04 Cr and Rs. 1,060.89 Cr of Unsecured Loans.

The gearing stood average at 1.92 times as on March 31, 2022, as against 1.88 times as on March 31, 2021. 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. Company plans to incur capex of approximate Rs. 28,000 Cr by FY2026 towards system strengthening which would include overhauling existing transformers, Lines & Cables etc. The project is proposed to be funded in the ratio of 60% by government grants and 40% by debt. Also, an opex of Rs. 12,000 Cr is planned during the same period towards installation of smart meters. Thus, going forward gearing is expected to remain high over medium term.

Interest coverage ratio (ICR) stood at 1.74 times in FY2022 against 1.34 times in FY2021, debt service coverage ratio stood at 0.7 times for both FY2022 and FY2021. Though the company's DSCR has been weak in the past 3 years ended FY2022. Acuité notes that MSEDCL has received regular support from GoM in the form of grants, which is expected to continue over the medium term.

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 realised resulting in build-up of regulatory asset to the extent of Rs. 21,194.53 Cr as on March 31, 2022. Regulatory assets are discom expenses that are recoverable in power tariff hikes. High regulatory assets indicate non-recoverability of costs incurred, thus, underlying cash flow management issues and increasing reliance of discoms on timely infusion of additional funds.

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 Stretched

MSEDCL has stretched liquidity marked by net cash accruals of Rs. 3893.01 Cr in FY2022 against a repayment obligation of Rs. 7,718.55 Cr. For FY2023, repayment obligation is of Rs. 10,068.14 Cr against expected cash accruals of Rs. 3818.02 Cr. Additional term-loans and support from working capital are used to cover this liability. Furthermore, as directed by the court, the company repaid Rs. 7,800 Cr of its dues to Adani Power Maharashtra Limited through additional term loans during FY2023. The company has to honour its LPS (late payment surcharge) liability of Rs. 17,200 crores towards the dues of Mahagenco and Mahatransco in the next 4 years, payment towards the same has started from August, 2022. The company has obtained a long-term loan of Rs. 1900 Cr from Bank of Maharashtra and Indian Bank for this purpose in FY2023. Also, the company is expected to receive approximately Rs. 4000 Cr in dues from the Government of Maharashtra before the end of

FY2023. Further, Acuité receives comfort from the fact that MSEDCL, being a GoM entity, warrants adequate financial support from GoM from 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 lowerthan-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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	89634.15	79141.70
PAT	Rs. Cr.	279.93	(1321.60)
PAT Margin	(%)	0.31	(1.67)
Total Debt/Tangible Net Worth	Times	1.92	1.88
PBDIT/Interest	Times	1.74	1.34

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Jun 2022	Term Loan	Long Term	4000.00	ACUITE A Stable (Assigned)
	Letter of Credit	Short Term	250.00	ACUITE A1 (Downgraded from ACUITE A1+)
	Term Loan	Short Term	2000.00	ACUITE A1 (Assigned)
	Term Loan	Long Term	5000.00	ACUITE A Stable (Assigned)
	Working Capital Demand Loan	Long Term	1732.50	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Bank Guarantee	Short Term	100.00	ACUITE A1 (Downgraded from ACUITE A1+)
	Term Loan	Long Term	1500.00	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Cash Credit	Long Term	250.00	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Bank Guarantee	Short Term	50.00	ACUITE A1 (Downgraded from ACUITE A1+)
	Term Loan	Long Term	2000.00	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Letter of Credit	Short Term	1100.00	ACUITE A1 (Downgraded from ACUITE A1+)
	Letter of Credit	Short Term	400.00	ACUITE A1 (Downgraded from ACUITE A1+)
	Term Loan	Long Term	2000.00	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Term Loan	Long Term	733.50	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Term Loan	Long Term	830.00	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Term Loan	Long Term	3541.68	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Proposed Bank Facility	Long Term	910.42	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Proposed Bank Facility	Long Term	5000.00	ACUITE A Stable (Assigned)
	Cash Credit	Long Term	490.00	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Cash Credit	Long Term	637.50	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Term Loan	Long Term	1333.40	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Letter of Credit	Short Term	92.00	ACUITE A1 (Downgraded from ACUITE A1+)
	Letter of Credit	Short Term	1983.00	ACUITE A1 (Downgraded from ACUITE A1+)
	Term Loan	Long Term	1000.00	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Cash Credit	Long Term	300.00	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Working Capital Demand Loan	Long Term	590.00	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
		Long		ACUITE A Stable (Downgraded from

	Term Loan	Term	430.00	ACUITE A+ Stable)
	Term Loan	Long Term	1300.00	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Term Loan	Long Term	561.00	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Term Loan	Long Term	860.00	ACUITE A Stable (Downgraded from ACUITE A+ Stable)
	Bank Guarantee	Short Term	25.00	ACUITE A1 (Downgraded from ACUITE A1+)
31 May 2021	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	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)
	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)
07 Jul 2020	Working Capital Demand Loan	Long Term	3500.00	ACUITE A+ Stable (Assigned)
	Bank Guarantee	Short 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	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A1 Reaffirmed
Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE A1 Reaffirmed
Bank of Maharashtra	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A1 Reaffirmed
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	250.00	ACUITE A Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	300.00	ACUITE A Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	637.50	ACUITE A Stable Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	490.00	ACUITE A Stable Reaffirmed
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	400.00	ACUITE A1 Reaffirmed
UCO Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	250.00	ACUITE A1 Reaffirmed
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1983.00	ACUITE A1 Reaffirmed
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1100.00	ACUITE A1 Reaffirmed
Bank of Maharashtra	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	92.00	ACUITE A1 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	59.12	ACUITE A Stable Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4000.00	ACUITE A Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1000.00	ACUITE A Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	900.00	ACUITE A Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1000.00	ACUITE A Stable Reaffirmed

Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2850.00	ACUITE A Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2000.00	ACUITE A Stable Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3384.52	ACUITE A Stable Reaffirmed
Central Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	960.01	ACUITE A Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2625.00	ACUITE A Stable Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1500.00	ACUITE A Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	266.70	ACUITE A Stable Reaffirmed
Punjab and Sind Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1300.00	ACUITE A Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1866.65	ACUITE A Stable Reaffirmed
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	735.00	ACUITE A Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	614.25	ACUITE A Stable Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1400.00	ACUITE A Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	700.00	ACUITE A Stable Reaffirmed
UCO Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	358.75	ACUITE A Stable Reaffirmed
UCO Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	480.00	ACUITE A Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5000.00	ACUITE A Stable Reaffirmed
Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	590.00	ACUITE A Stable Reaffirmed
Canara	Not	Working Capital Demand	Not	Not	Not	Simple	1732.50	ACUITE A Stable

Bank	Applicable	Loan (WCDL)	available	available	available			Reaffirmed
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