

Press Release

Karnataka Power Transmission Corporation Limited

February 02, 2021



Rating Assigned

| | |
|------------------------------------|---------------------------------|
| Total Bank Facilities Rated | Rs.1800.00 crore |
| Long Term Rating | ACUITE A / Stable (Assigned) |
| Short Term Rating | ACUITE A1 (Assigned) |

* Refer Annexure for details

Rating Rationale

Acuité has assigned the 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.1,800.00 crore bank facilities of Karnataka Power Transmission Corporation Limited (KPTCL). The outlook is '**Stable**'.

Karnataka Power Transmission Corporation Limited (KPTCL) was incorporated on July 28, 1999 is wholly owned by Government of Karnataka (GoK). KPTCL was formed by carving out the Transmission and Distribution functions of the erstwhile Karnataka Electricity Board (KEB). KPTCL is engaged in transmission to 5 major power distributors of Karnataka State. All power purchase agreements entered into with KPTCL by the central power utilities, state utilities, and private generators, were transferred to the five independent ESCOMS namely Bangalore Electricity Supply Company (BESCOM), Mangalore Electricity Supply Company (MESCOM), Hubli Electricity Supply Company (HESCOM), Gulbarga Electricity Supply Company (GESCOM) and Chamundeswari Electricity Supply Corporation Ltd (CESCOM). These companies are in charge of distribution of power within their jurisdiction.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of KPTCL along with factoring in the expectations of support from the Government of Karnataka (GoK), given the latter 100% ownership of GoK.

Key Rating Drivers

Strengths

- **Strategically important entity to Government of Karnataka**

KPTCL was unbundled in 1999 with 100% ownership of Government of Karnataka (GoK). KPTCL is the sole transmission entity in the State of Karnataka, thus making it a critical and strategically important company for GoK. Being the transmission licensee, KPTCL is mandated to ensure the development of an efficient, coordinated and economical transmission network for smooth flow of power to the load centres.

The company operates through 1,222 sub stations with different voltage grades from 400KV to 66KV. The company transmits power to 5 State Power Distribution companies which, includes Bangalore Electricity Supply Company (BESCOM), Mangalore Electricity Supply Company (MESCOM), Hubli Electricity Supply Company (HESCOM), Gulbarga Electricity Supply Company (GESCOM) and Chamundeswari Electricity Supply Corporation Ltd (CESCOM). As per the Karnataka Electricity Regulatory Commission (KERC), the company has been able to lower the transmission losses to ~3.16% in FY2019 from 3.22% in FY2018 and 4.70% in 2006-07.

The rating factors in the 100% ownership of GoK along with its strategic importance to GoK. Acuité believes, in case required, GoK will support KPTCL whenever required. Further, well-established regulatory processes in Karnataka such as presence of multiyear tariff regulations, etc. is benefitting the KPTCL's operations. Under MYT regulations, KPTCL files to KERC an application indicating the Annual Revenue

Required (ARR) depending on the expected cost of transmission and 15.5% rate of return on equity (RoE). Irrespective of the electricity drawn by a beneficiary in a particular month, the ESCOMs would be required to pay the fixed tariff to the KPTCL.

Acuité believes that KPTCL, being a 100 per cent undertaking of GoK, shall continue to benefit from the financial, operational and management support as and when required. The GoK has demonstrated financial support by way of equity to KPTCL on a regular basis. Any changes in the ownership pattern of KPTCL or any event that impinges GoK's overall credit profile shall remain a key rating sensitivity.

- **Healthy Collection Efficiency**

The collection efficiency of KPTCL has remained healthy on month on month basis. Further, the average collection efficiency stood at ~100% in FY2019 which fell to ~88% in FY2020. The company has raised bills of Rs.3,506 Cr. in FY2020 as against the collection of Rs.3,083 Cr. for the same period. The gap in collection as majorly on account of outbreak of COVID-19 in the month of March 2020. The collection for the month of March 2020 was at record low, 52%. However, this gap in collections has been recovered by KPTCL in FY2021, the collection efficiency for 9MFY2021 stood at ~108%. Acuité believes the collection efficiency of KPTCL will continue to remain healthy. KPTCL has witnessed minor setback in FY2020 and early FY2021, however, Acuité believes, the setback of was one of an instance on account of Covid – 19 and going ahead, the collection efficiency will continue to remain healthy.

- **Healthy Coverage Indicators**

The company has a healthy tangible net worth base of Rs.4,976 Cr. as on 31 March 2020 as against Rs.4,331 Cr. as on 31 March 2019. The company continues to achieve healthy profitability marked by operating profit margin of more than 55 per cent in FY2020 as against 43 per cent in the previous year. The company has achieved operating profit of Rs.1,998 Cr. for FY2020 as against Rs.1,272 Cr. in the previous year. This has led to healthy coverage indicators marked by interest coverage of 4.86 times for FY2020 as against 3.70 times in FY2019. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.15 times for FY2020. Further, the DSCR stood moderate at 1.36 times for FY2020. However, the company has achieved net cash accruals of Rs.1,160 Cr. as against the debt repayment of Rs.733 Cr. in FY2020. Acuité believes that going ahead, the company will continue to achieve healthy profitability margins with modest reliance on external debt, thus resulting in continued healthy coverage indicator.

Weaknesses

- **High Gearing and TOL/TNW**

The company has been upgrading its transmission lines and undergoing other capex for upgradation purpose for which the company's reliance over external debt has remained slightly on an elevated side. The company has been undertaking capex of around Rs.2,500 Cr. for past three years ending FY2020. Further, the company also has plans to undergo capex of ~Rs.2,000 Cr. in FY2022 and FY2023. The same is expected to be funded in a ratio of 70:30 (debt : equity). The current debt levels marked by gearing of 1.51 times as on 31 March 2020 as against 1.42 times on 31 March 2021. Further, the Total outside liabilities to tangible net worth (TOL/TNW) stood at above 3 times for last 2 years ending FY2020. Despite planned debt funded capex, the gearing is expected to remain below 1.5 times and TOL/TNW below 3 times. This is on account of healthy acceleration of profits and expected infusion of capital by GoK in FY2021. Any major deviation from these will impinge a negative bias towards the rating.

- **High Gross Current Asset Days**

The Gross Current Asset (GCA) Days for KPTCL is high at 367 days for FY2020 as compared to 199 days in the previous year. This is on account of significant increase in Current Assets. The increase in current assets is on account of creation of Regulatory Assets to the tune of Rs.2,095 Cr. These regulatory assets are created on purchase of 'Tanvir Bhavi Company' with a carrying cost of Rs.1111 Cr. Further, the GCA days is also impacted on account increase in debtor days as on 31 March 2020 which stood at 109 as compared to 85 in the previous year. Any further increase in debtor days, thus leading to liquidity pressures will impinge a

negative bias towards the rating.

Liquidity position: Strong

The company's liquidity is strong, marked by net cash accruals of Rs.1160 Cr. in FY2020 as against debt repayment obligation of Rs.733 Cr. The cash and bank balances of the company stood at Rs.73.61 Cr as on March 31, 2020. However, the company's operations are working capital intensive as reflected by high Gross Current Assets (GCA) of 367 days for FY2020 as against 199 days for FY2019, primarily due to creation of Regulatory Assets in FY2020. Further, the liquidity is also supported by timely infusion of equity by GoK. Acuité believes that the company will maintain a strong liquidity position due to its steady operating cash flows and support from GoK.

Rating Sensitivities

- Timely Support from GoK
- Increase in gearing to beyond 2 times

Material Covenants

None

Outlook: Stable

Acuité believes that the company will maintain 'Stable' outlook over the medium term due to the steady cash flows inherent in the power transmission business along with its strategic importance and the support provided by the state government. The outlook may be revised to 'Positive' in case the company registers consistent growth in revenues while maintaining its profitability and liquidity. Conversely, the outlook may be revised to 'Negative' in case of any unexpected deterioration in the financial profile, elongation of a working capital cycle or any significant pressures on the fiscal position of the state government.

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 3,593.79 | 2,952.12 |
| PAT | Rs. Cr. | 207.78 | 77.69 |
| PAT Margin | (%) | 5.78 | 2.63 |
| Total Debt/Tangible Net Worth | Times | 1.51 | 1.42 |
| PBDIT/Interest | Times | 4.86 | 3.70 |

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>
- Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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. Crore) | Ratings/Outlook |
|-----------------------------|------------------|----------------|----------------|-------------------------------|------------------------------|
| Term Loan | 12-11-20 | 7.2% | 12-11-33 | 500.00 | ACUITE A / Stable (Assigned) |
| Proposed Bank Facilities | Not Applicable | Not Applicable | Not Applicable | 500.00 | ACUITE A / Stable (Assigned) |
| Working Capital Demand Loan | Not Applicable | Not Applicable | Not Applicable | 300.00 | ACUITE A1 (Assigned) |
| Proposed Bank Facilities | Not Applicable | Not Applicable | Not Applicable | 500.00 | ACUITE A1 (Assigned) |

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About Acuité Ratings & Research:

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