

Press Release

The West Bengal Power Development Corporation Limited

November 10, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.3185.00 Cr.
Long Term Rating	ACUITE A-/Stable (Assigned)
Short Term Rating	ACUITE A2+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) to the Rs.3185.00 Cr bank facilities of The West Bengal Power Development Corporation Limited (WBDCL). The outlook is '**Stable**'.

The rating on WBDCL takes into account the strong business risk profile marked by a cost plus based tariff mechanism. Acuité also derives comfort from the steady fiscal position of the Government of West Bengal, which is expected to provide significant support to WBDCL, as and when necessary. These strengths are partly offset by the inherently regulated nature of operations in the electricity generation business and the counterparty exposure to the state distribution entity, WBSEDCL (rated at ACUITE BBB/Stable/A3+), which has a relatively weaker credit profile.

About the company

Incorporated in 1985, The West Bengal Power Development Corporation Limited (WBDCL) is a wholly owned undertaking of the state government of West Bengal. The company is engaged in the business of thermal power in the state. Currently, WBDCL operates and maintains 20 units at 5 locations, Kolaghat, Bandel, Bakreswar, Santaldih and Sagardighi. The installed capacity of Kolaghat Thermal Power Station is 1260 MW, Bakreshwar Thermal Power Station is 1050MW, Sagardighi Thermal Power Project is 1600MW, Bandel Thermal Power Station is 335 MW and Santaldih Thermal Power Station is 500 MW. WBDCL supplies all its power to West Bengal State Electricity Distribution Company Limited (WBSEDCL).

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of WBDCL 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 WBDCL is in the form of its 100 per cent ownership and its guarantee for certain borrowings of WBDCL.

Key Rating Drivers

Strengths

- **Support from the Government of West Bengal**

WBDCL is a wholly-owned undertaking of the GoWB and a strategically important entity of the power sector infrastructure for the state of West Bengal. The ownership structure provides adequate financial flexibility. It is also the nodal agency of the government for undertaking power generation activity in the state. WBDCL is mandated to ensure the generation of power from its installed capacity and supply the same to WBSEDCL. WBDCL'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.

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 11.30 per cent in 2020-21. While the state's revenue deficit is nil, its fiscal deficit stood at 2.18 per cent in 2020-21. GoWB has significantly increased its focus on increasing industrial development in the state, which gets reflected from the high growth in FDI inflows onto the state which has witnessed an amount of about Rs.4508 Cr from October 2019 and March 2021. However,

the state's overall borrowing level continues to remain high and is a challenge to its overall fiscal profile. Acuité believes that WBDCL, being a 100 per cent undertaking of GoWB, shall continue to benefit from the financial, operational and management support as and when required. The GoWB has demonstrated financial support by way of loans to WBDCL on a regular basis. Any changes in the ownership pattern of WBDCL or any event that impinges GoWB's overall credit profile shall remain a key rating sensitivity.

- **Strong business risk profile**

WBDCL has achieved revenues of Rs. 9,522.28 Cr in FY2021 (Prov) as compared to Rs. 9,741.62 Cr in FY2020. The decline in revenue is primarily due to decrease in procurement cost, which is in turn on account of usage of 43.50 per cent of required coal from captive coal mines. Again, this instance is due to cost plus based tariff mechanism, where the regulator controls the tariffs and the lower cost is further passed on to the end consumers.

The business risk profile is strengthened by the increase in usage of captive coal, going forward, which is expected to be increase further.

The cost plus tariff model has translated into moderate albeit steady ROCE levels for the company of about 8.27 per cent in FY2021 (Prov) as against 6.38 per cent in FY2020. The profitability is driven by superior Plant Availability Factor (PAF) of 78.43 per cent in FY2021 (Prov) compared to 62.17 per cent in FY2020, and other operating efficiencies namely reduced oil consumption rate with respect to the normative rate, reduction in demurrage related to inefficiencies in unloading of coal to Rs.3.46 Cr in FY2021 (Prov) compared to Rs. 24.95 Cr in FY2020, reduction of boiler tube leakage and reduction in unit tripping

- **'Cost plus' tariff mechanism**

The billing of generation charges of WBDCL are regulated and based on the Annual Revenue Requirement (ARR) under 'cost-plus' based tariff mechanism. The regulator, West Bengal Electricity Regulatory Commission (WBERC) allows a pre-tax return on equity of 15.50 per cent and other uncontrollable expenses are allowed to be passed through in tariff through Annual Performance Review (APR) process. Acuité believes the 'cost-plus' based tariff mechanism will continue to sustain the stable business outlook for the company. In the event of delay in determination of tariff in any financial year, WBEDCL pays to WBDCL as per the tariff last determined by the regulatory commission.

- **Assured offtake on account of power purchase agreement**

There is a power purchase agreement (PPA) between WBEDCL and WBDCL for 15 years, from 2011 to 2026. As per the agreement, the entire generating capacity of WBDCL is allotted to WBEDCL, who purchases such power as per terms conditions set forth in the agreement. Acuité believes that the long term agreement ensures the availability of a captive market and an assured offtake of the company's power generation.

Weakness

- **Moderate financial risk profile**

The company's moderate financial risk profile is marked by a strong networth base, moderate gearing and average debt protection metrics. The tangible net worth of the company improved to Rs.9312.28 Cr as on March 31, 2021 (Prov) from Rs.9045.98 Cr as on March 31, 2020 due to steady earnings. Gearing of the company stood moderate at 1.28 times as on March 31, 2021 (Prov) as against 1.29 times as on March 31, 2020. The debt of Rs.11931.94 Cr mainly consists of long term borrowings of Rs.5391.44 Cr, working capital borrowing of Rs.4682.66 Cr, current obligations of Rs.1682.48 Cr and state government loan of Rs.175.36 Cr as on March 31, 2021 (Prov). The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.47 times as on March 31, 2021 (Prov) as against 2.35 times as on March 31, 2020. The average debt protection metrics of the company is marked by Interest Coverage Ratio at 2.34 times as on March 31, 2021 (Prov) and Debt Service Coverage Ratio at 0.84 times as on March 31, 2021 (Prov). Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.11 times as on March 31, 2021 (Prov). Acuité believes that going forward the financial risk profile of the company will improve backed by increasing accruals.

- **Regulated nature of operations**

The revenues are influenced by the regulatory framework governing the power sector. Revenues of players such as WBDCL are determined by West Bengal Electricity Regulatory Commission (WBERC). The company operates through a cost-plus return on equity model laid down by WBERC. Any significant delays in tariff

approvals or a reduction in return on equity or a tightening of the WBERC norms could result in lower operating cash flows. Acuité believes that any significant change in the regulatory environment will impinge on the credit profile of the company.

Rating Sensitivity

- Continued support from the Government of West Bengal
- Periodical and timely tariff revision
- Any significant increase in receivables from WBSEDCL

Material Covenant

None

Liquidity Profile: Adequate

The state government of West Bengal has given guarantee for certain borrowings of WBPDCL; which provides financial flexibility to the company. Further, the company's liquidity is adequate marked by the high cash and bank balances of Rs.1323.56 Cr as on March 31, 2021 (Prov) and investment in fixed deposits and other deposits of Rs.1742.78 Cr as on March 31, 2021 (Prov). The company has availed loan moratorium and additional Covid loans of Rs.45 Cr. The current ratio stood moderate at 1.13 as on March 31, 2021 (Prov). However, the net cash accruals stood at Rs.1281.22 Cr in FY2021 (Prov), which is inadequate compared to the debt repayment obligation of Rs.1710.37 Cr for the same time period. High cash and deposit balances continue to support the repayment of debt. The fund based limit remains highly utilised at around 91 per cent over the six months ended September, 2021. Further, the working capital intensive operation of the company is marked by high Gross Current Assets (GCA) of 643 days in 31st March 2021 (Prov) as compared to 192 days in 31st March 2020. The GCA days are high on account of high debtor days and other current assets. The debtor days stood at 167 days in 31st March 2021 (Prov) as compared to 145 days as on 31st March 2020. The payments are stretched from the only customer WBSEDCL. The other current assets are high primarily due to the high regulatory assets in the form of fuel cost and fixed cost recoverable. Acuité believes that going forward the liquidity position of the company will improve backed by the gradually improving accruals.

Outlook: Stable

Acuité believes that the company will maintain 'Stable' outlook over the medium term due to the assured offtake on account of PPA with WBSEDCL along with its strategic importance and the support provided by the state government. The outlook may be revised to 'Positive' in case of significant improvement of the financial risk profile, liquidity position and its revenue level. Conversely, the outlook may be revised to 'Negative' in case of any unexpected deterioration in the financial profile, elongation of working capital cycle or any significant pressures on the fiscal position of the state government.

About the Rated Entity - Key Financials

	Unit	FY21 (Prov)	FY20 (Actual)
Operating Income	Rs. Cr.	9,522.28	9,741.62
PAT*	Rs. Cr.	572.54	193.60
PAT Margin	(%)	6.01	1.99
Total Debt/Tangible Net Worth	Times	1.28	1.29
PBDIT/Interest	Times	2.34	1.86

*This is exclusive of other comprehensive income/expenses

Status of non-cooperation with previous CRA

Not Applicable

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>
- Entities in service sector- <https://www.acuite.in/view-rating-criteria-50.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

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Punjab National Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	325.00	ACUITE A-/Stable (Assigned)
Canara Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	550.00	ACUITE A-/Stable (Assigned)
Indian Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1250.00	ACUITE A-/Stable (Assigned)
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	650.00	ACUITE A-/Stable (Assigned)
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	360.00	ACUITE A2+ (Assigned)
Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A2+ (Assigned)

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About Acuité Ratings & Research

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