



Press Release
MANGALORE ELECTRICITY SUPPLY COMPANY LIMITED
June 18, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2025.00	ACUITE A Stable Assigned	-
Bank Loan Ratings	475.00	-	ACUITE A1 Assigned
Total Outstanding Quantum (Rs. Cr)	2500.00	-	-

Rating Rationale

Acuite has assigned the long term rating to '**ACUITE A**' (read as **ACUITE A**) and the short term rating to '**ACUITE A1**' (read as **ACUITE A one**) on the Rs.2500.00 Crore bank facilities of Mangalore Electricity Supply Company Limited (MESCOM). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned reflects comfort drawn from the Government of Karnataka's (GOK's) complete ownership of MESCOM and its strategic importance to GOK to cater to electricity distribution in four districts of Karnataka State. The rating also factors in the steady improvement in scale of operations, favorable consumer mix, yearly revision of tariffs by KERC, and regular support from GOK for the capex requirements. Further, it has healthy billing and collection efficiency and lower AT&C losses, which stood at 8.9% in FY2023 against 9.02% in FY2022. The financial risk profile is healthy, marked by a healthy net worth, moderate gearing levels, and debt coverage indicators. However, the rating is constrained by the moderately intensive working capital management and regulated nature of the operations.

About the Company

Mangalore Electricity Supply Company Limited (MESCOM), incorporated in 2002. The company is engaged in the distribution of Power. The present directors of the company are Ms. Padmavati Husanappa Dhanvantari, Mr. Adivappa Pavate Aparna, Mr. Gurumurthy Sheela, Mr. Rajaputrapalya Hanumantharayappa Lakshmipathy, Mr. Shivanna, Mr. Krishnappa Venkatappa, Mr. Huthri Govindaiah Ramesh, Mr. Reju Murickummoodu Thankachan and Mr. Pankaj Kumar Pandey. The registered office of the company is in Karnataka.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has taken the standalone view on the business and financial risk profile of Mangalore Electricity Supply Company Limited (MESCOM). Acuite has also factored in benefits emanating from the ownership by Government of Karnataka. GOK's financial support to MESCOM is in the form of its 100 per cent ownership.

Strengths

Strategic importance to Government of Karnataka (GOK)

Mangalore Electricity Supply Company Limited (MESCOM) is a wholly owned entity of GOK and holds strategic importance to GOK. MESCOM is one of the five distribution companies in Karnataka. MESCOM caters to electricity distribution for four districts in Karnataka, namely Dakshin Karnataka, Udupi, Chickmangaluru, and Shimoga, comprising a 24,049 sq km area with a population of 58 lakhs. MESCOM has long-term and short-term power purchase agreements (PPAs) with various hydel, thermal, atomic, and renewable power generators and supplies power as per tariffs regulated by the Karnataka State Electricity Regulatory Commission (KERC). By virtue of its strategic importance, the Government of Karnataka (GOK) has been providing funding support to the entity in the form of an annual equity infusion.

Acuite believes that MESCOM, being a 100 percent undertaking of GOK, shall continue to benefit from the financial, operational, and management support from GOK. Any change in ownership pattern or any event that impinges on GOK's overall credit profile shall remain a key rating sensitivity.

Favourable consumer mix and billing efficiency

MESCOM has a favorable consumption mix, with domestic, commercial, and industrial industries accounting for almost 62 percent of total revenue in FY24. Since commercial and industrial consumption commands a higher tariff, this correlates well with the company's revenue. Further, the company has healthy collection efficiency, which is evident by 100 percent bill collections from commercial, industrial, and institutional customers in FY23 and FY22. In addition, it also has 99 percent billing efficiency with respect to residential customers. Overall, billing efficiency is healthy at 83 percent in FY23 and FY22. Acuite believes that the company will continue to draw benefits from its favorable consumer mix and healthy billing and collection efficiency.

Improving scale of operations

MESCOM's has reported revenue of Rs.4682.18 Cr. in FY23 as against Rs.4000.03 Cr. in FY22, i.e. the growth rate of 17 percent over previous year. Further, the company has reported revenue of Rs. 5743.45 Cr. up to February 2024 (Prov). The major source of revenue is from agriculture sector contributing nearly 32 percent to the total revenue followed by domestic and industrial sectors. Improvement in revenue is backed by increase in number of connections and tariff rates. However, the operating margins of the company declined in FY23 to 14.99 percent from 17.22 percent in FY22 due increase in power procurement cost from trading activity in FY23. However, the profit after tax (PAT) margins improved slightly to 1.11 percent in FY23 from 0.82 percent in FY22.

Healthy financial risk profile

The financial risk profile of the company is marked healthy by healthy net worth, moderate gearing ratio and debt protection metrics. Company's net worth improved and stood at Rs.1052.78 Cr. as on March 31, 2023 as against Rs.921.09 Cr. as on 31 March 2022 and Rs.876.24 Cr. as on March 31st 2021 on account of accretion of profits to the reserves. The gearing of the company stood at 1.33 times as on March 31st 2023 as against 1.90 times as on March 31st 2022 and 1.83 times as on March 31st 2021. Further, the total outside liabilities to tangible net worth (TOL/TNW) stood at 4.90 times as on March 31st 2023 as against 5.80 times as on March 31st 2022 and 6.35 times as on March 31st 2021. The net cash accrual to total debt (NCA/TD) stood at 0.21 in FY2023 as against 0.14 times in FY2022 and 0.09 times in FY2021. Debt protection of interest coverage ratio (ICR) stood at 3.27 times for FY2023 as against 2.84 times for FY2022 and 2.06 times for FY2021, DSCR stood at 1.13 times in FY2023 as well as in FY2022 and 2.06 times in FY2021.

Acuite believes that financial risk profile of the company is expected to remain healthy in medium term on account expected improvement in the distribution infrastructure, resulting into reduction in AT&C losses.

Weaknesses

Moderately intensive working capital management

The operations of the company are working capital intensive as reflected by its Gross current account (GCA) days of 193 days in FY2023 as against 254 days in FY2022 and 313 days in FY2021. GCA days are majorly dominated by debtor days. Debtor days of the company improved slightly and stood at 70 days in FY2023 as against 80 days in FY2022 and 75 days in FY2021. Inventory days of the company stood at 5 days in FY2023 as against 6 days in FY22 and 3 days in FY21. To support the working capital requirements company stretched its creditor days to 42 days in FY2023 as against 60 days in FY2022 and 100 days in FY2021. Further, the reliance on working capital limits remained moderate at ~55% for the last 12 months ending February 2024. Acuite believes that company's ability to manage working capital efficiently will remain key rating sensitivity going forward.

Regulated nature of operations

The regulatory framework governing the power sector influences the revenues. State electricity regulatory commissions determine revenues of players such as MESCOM. The Karnataka Electricity Regulatory Commission (KERC) takes into account key parameters such as the cost structure and expected return on capital employed to arrive at distribution tariffs. Any significant changes in the regulatory environment will impinge on the credit profile of the company.

Rating Sensitivities

- Credit profile of Government of Karnataka
- Significant improvement in scale of operations while maintaining profitability
- Timely completion of capex
- Efficient working capital management
- Dynamics in the regulatory environment
- Any deterioration in financial risk profile leading to stretch in liquidity

Liquidity Position: Adequate

MESCOM's liquidity position is adequate marked by sufficient cash accruals generation to its debt repayment obligations. It reported cash accruals of Rs.290.77 Cr. in FY2023, against repayment obligation of Rs.212.80 Cr. during the same period. Going ahead, the cash accruals are expected to be in the range of Rs 600 Cr. to Rs. 917 Cr. in FY2024-25 against its repayment obligations of Rs.305-319 Cr. during the same period. The current ratio of the company stood at 0.84 times and cash and bank balances stood at Rs.50.28 Cr. as on March 31, 2023. The working capital operations of the company are moderately intensive in nature marked by GCA days of 193 days in FY2023, however, the reliance on working capital limits remained moderate at 55% for the last 12 months ending February 2024. Company's GCA days are around 193 days this makes company dependent. The unencumbered cash and bank balances stood at Rs.50.28 Cr. as on March 31, 2023.

Going ahead, Acuite believes that the liquidity of the company will remain adequate over the medium term on account of healthy cash accruals generation and moderate reliance on working capital limits.

Outlook: Stable

Acuité believes that the MESCOM will maintain 'Stable' outlook over the medium term on account of its strategic importance to the GOK, its experienced management, strong parentage, healthy billing and collection efficiency.. The outlook may be revised to 'Positive' if the company is successfully able to ramp up its scale of operations while improving its profitability, further reduction in AT&C losses and improvement in debt service coverage indicators. Conversely, the outlook may be revised to 'Negative' in case of lower-than expected support from the GOK, significant rise in AT&C losses or if the company's 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	4682.18	4000.03
PAT	Rs. Cr.	51.85	32.70
PAT Margin	(%)	1.11	0.82
Total Debt/Tangible Net Worth	Times	1.33	1.90
PBDIT/Interest	Times	3.27	2.84

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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. Acuité'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 :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	200.00	ACUITE A1 Assigned
Not Applicable	Not avl. / Not appl.	Proposed Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	75.00	ACUITE A1 Assigned
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	70.92	ACUITE A Stable Assigned
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	200.00	ACUITE A1 Assigned
Union Bank of India	Not avl. / Not appl.	Term Loan	30 Jun 2017	Not avl. / Not appl.	31 May 2024	Simple	3.57	ACUITE A Stable Assigned
Union Bank of India	Not avl. / Not appl.	Term Loan	31 Aug 2016	Not avl. / Not appl.	31 Jul 2024	Simple	2.60	ACUITE A Stable Assigned
Union Bank of India	Not avl. / Not appl.	Term Loan	31 Dec 2019	Not avl. / Not appl.	30 Nov 2028	Simple	79.17	ACUITE A Stable Assigned
Punjab and Sind Bank	Not avl. / Not appl.	Term Loan	28 Sep 2017	Not avl. / Not appl.	31 Aug 2024	Simple	7.12	ACUITE A Stable Assigned
Canara Bank	Not avl. / Not appl.	Term Loan	21 Oct 2017	Not avl. / Not appl.	31 Aug 2024	Simple	3.80	ACUITE A Stable Assigned
Canara Bank	Not avl. / Not appl.	Term Loan	01 Dec 2018	Not avl. / Not appl.	31 Oct 2027	Simple	101.86	ACUITE A Stable Assigned
Canara Bank	Not avl. / Not appl.	Term Loan	31 Mar 2021	Not avl. / Not appl.	31 Mar 2030	Simple	100.00	ACUITE A Stable Assigned
Bank of Baroda	Not avl. / Not appl.	Term Loan	31 Jul 2019	Not avl. / Not appl.	31 May 2028	Simple	72.22	ACUITE A Stable Assigned
Bank of India	Not avl. / Not appl.	Term Loan	31 Mar 2021	Not avl. / Not appl.	31 Mar 2030	Simple	173.35	ACUITE A Stable Assigned

Bank of India	Not avl. / Not appl.	Term Loan	30 Jun 2022	Not avl. / Not appl.	30 Jun 2031	Simple	228.09	ACUITE A Stable Assigned
Indian Bank	Not avl. / Not appl.	Term Loan	18 Apr 2023	Not avl. / Not appl.	31 Mar 2031	Simple	195.55	ACUITE A Stable Assigned
State Bank of India	Not avl. / Not appl.	Term Loan	28 Feb 2024	Not avl. / Not appl.	31 Mar 2034	Simple	300.00	ACUITE A Stable Assigned
Rural Electrification Corporation Ltd.	Not avl. / Not appl.	Term Loan	13 Jan 2021	Not avl. / Not appl.	31 May 2031	Simple	47.52	ACUITE A Stable Assigned
Rural Electrification Corporation Ltd.	Not avl. / Not appl.	Term Loan	31 Oct 2022	Not avl. / Not appl.	28 Feb 2032	Simple	100.83	ACUITE A Stable Assigned
Rural Electrification Corporation Ltd.	Not avl. / Not appl.	Term Loan	28 Feb 2022	Not avl. / Not appl.	28 Feb 2032	Simple	38.40	ACUITE A Stable Assigned
Union Bank of India	Not avl. / Not appl.	Working Capital Demand Loan (WC DL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	265.00	ACUITE A Stable Assigned
Canara Bank	Not avl. / Not appl.	Working Capital Demand Loan (WC DL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	100.00	ACUITE A Stable Assigned
State Bank of India	Not avl. / Not appl.	Working Capital Demand Loan (WC DL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	135.00	ACUITE A Stable Assigned

Contacts

Analytical	Rating Desk
Varsha Bist Associate Vice President-Rating Operations Tel: 022-49294011 rating.desk@acuite.in	Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.