



Press Release
MANGALORE ELECTRICITY SUPPLY COMPANY LIMITED
May 21, 2025
Rating Assigned and Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|--------------------------------|------------------------|
| Bank Loan Ratings | 260.00 | ACUITE A Stable Assigned | - |
| Bank Loan Ratings | 2025.00 | ACUITE A Stable Reaffirmed | - |
| Bank Loan Ratings | 40.00 | - | ACUITE A1 Assigned |
| Bank Loan Ratings | 475.00 | - | ACUITE A1 Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 2800.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has as reaffirmed the long term rating of '**ACUITE A**' (read as **ACUITE A**) and the short term rating of '**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**'. Further, Acuite has assigned the long term rating of '**ACUITE A**' (read as **ACUITE Aa**) and the short term rating of '**ACUITE A1**' (read as **ACUITE A one**) on the Rs.300.00 Crore bank facilities of Mangalore Electricity Supply Company Limited (MESCOM). The outlook is '**Stable**'.

Rationale for Rating

The rating draws comfort 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 favourable consumer mix, yearly revision of tariffs by Karnataka State Electricity Regulatory Commission (KERC), and regular support from GOK for the capex requirements. Further, it has healthy billing and collection efficiency at 91.37% and 100.54% respectively in FY2024. Additionally, AT&C losses stood low at 8.14% in FY2024 against 9.14% in FY2023. Moreover, the financial risk profile is moderate, marked by gearing level at 1.77 times in FY2024. The rating also takes into account the net loss reported by the company in FY2024 which stood at Rs.(-203.78 Cr.), decline in operating and profitability margins and stretched liquidity position reflected by insufficient net cash accruals against debt obligation wherein the shortfall is met by working capital management. Further, the rating remains constrained by intensive working capital operations of the company. Acuite notes the regulated nature of the operations and any significant changes in the regulatory environment will impinge on the credit profile of the company.

About the Company

Mangalore Electricity Supply Company Limited was incorporated in 2002. The company engaged in the distribution of power in four revenue districts of Karnataka, viz. Dakshina Kannada, Udupi, Shivamogga and Chikmagalur. The present directors are Mr. Shivanna, Mr. Rajee Jayakumar, Ms. Snehal Sudhakar Lokhande, Mr. Balaram Krishanappa, Mr. Mahadevaswamy Prasanna Koluthur Mahadevayya, Mr. Sagadageri Beeranna Prashantkumar, Mr. Shimoga Achyuthamurthy Pushpa, Mr. Reju Murickummoodu Thankachan, Mr. Dalavayee Kodandapani and Mr. Pankaj Kumar Pandey. The registered office is in Mangalore, Karnataka.

Unsupported Rating
ACUTE BB+/Stable

Analytical Approach

Acuité has taken the standalone view on the business and financial risk profile of Mangalore Electricity Supply Company Limited (MESCOM). Acuité has also factored in benefits emanating from the 100% ownership of Government of Karnataka along with GoK's financial support in form of annual equity infusion and subsidies to

Key Rating Drivers

Strengths

Strategic importance to Government of Karnataka (GOK)

MESCOM is a wholly owned entity of GOK and holds strategic importance to GOK. MESCOM is one of the five distribution companies in Karnataka and caters to electricity distribution for four districts in Karnataka, namely Dakshin Karnataka, Udupi, Chickmangaluru, Shimoga and 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 GOK has been providing funding support to the entity in the form of an annual equity infusion and subsidies. Acuite believes that MESCOM, being a 100 percent undertaking of GOK, shall continue to benefit from the financial, operational, and management support from GOK. However, 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 Healthy Collection & Billing Efficiency

MESCOM has a favorable consumption mix, with domestic, commercial, and industrial industries accounting for almost 54 percent of total revenue in FY2024. Since commercial and industrial consumption commands a higher tariff, this correlates well with the company's revenue. The revenue of the company is backed by increase in number of connections as reflected by 27,04,301 consumers in FY2024 as against 26,35,088 in FY2023. Likewise in FY2025, the number of consumers increased and stood at 27,34,519 as on October, 2024. Further, the company has healthy collection efficiency, which is evident by 100 percent bill collections from commercial, industrial, and institutional customers in FY2024. In addition, the billing efficiency is healthy at 91.37 percent in FY2024. Moreover, the Distribution and Aggregate Technical and Commercial (AT&C) losses of the company stood at 8.63 percent and 8.14 percent respectively in FY2024 as against 8.42 and 9.14 percent in FY2023. Acuite believes that the company will continue to draw benefits from its favorable consumer mix, improved AT&C losses along with healthy billing and collection efficiency.

Weaknesses

Decline in profitability albeit increase in revenue from operations

The operational income of MESCOM improved and stood at Rs.6217.75 Cr. in FY2024 as against Rs.4682.28 Cr. in FY2023. This increase is backed by the increase in sales of energy in FY2024 as compared to the previous year along with increase in number of connections. However, the EBITDA margin was negative and stood at (7.65)% in FY 2024 as against 15.00% in FY2023. Likewise, the PAT margin stood at (3.28)% in FY 2024 as against 1.11% in FY2023. The decrease in margins is on an account of lower absorption of costs due to significant increase in power purchase costs wherein average power purchase cost increased to Rs.6.87 per unit in FY2024 as against Rs.4.82 per unit in FY2023 along with increase in employee and administrative costs. Further, the revenue is estimated to be Rs.4050.07 Cr. in 9MFY2025. Acuite believes that ability of the company to sustain its scale of operations while maintaining its profitability will remain a key monitorable factor.

Intensive Working capital operations

The working capital operations of the company are intensive marked by GCA days of 213 days as on 31st March 2024 as compared to 194 days as on 31st March 2023. Further, the debtor days stood at 94 days as on 31st March 2024 as compared to 108 days as 31st March 2023. On the other hand, the creditor days stood at 93 days as on 31st March 2024 as compared to 47 days in the previous year. The inventory days of the company stood at 3 days as on 31st March 2024 as compared to 5 days as on 31st March 2023. The other current assets of the company stood at Rs.1966.00 Cr. in FY2024 which mostly included RE Subsidy dues to be written off in future years, amount recoverable from generators, receivables from other ESCOMs towards energy balancing dues. The working capital limits stood at an average of 75.48% for fund- based limits and 79.45% for non-fund based limits for the last twelve months ended February, 2025. Acuite expects that the working capital operations are likely to remain intensive in near to medium term due to nature of operation.

Moderate Financial Risk Profile

The financial risk profile of the company is moderated, marked by the net worth of Rs.919.54 Crores in FY2024 as against Rs.1051.78 Crores in FY2023. The decline in net worth is due to decrease in reserves on an account of losses booked by company in FY2024. Further, the total debt of the company stood at Rs.1623.30 Crore as on 31st March 2024 as against Rs.1400.98 Crore as on 31st March 2023. The capital structure of the company is marked by gearing ratio which stood at 1.77 times as on 31st March 2024 as against 1.33 times as on 31st March 2023. Further, the coverage indicators of the company are reflected by interest coverage ratio and debt service coverage ratio which stood at 1.43 times and 0.53 times respectively as on 31st March 2024 as against 3.27 times and 1.23 times respectively as on 31st March 2023. The TOL/TNW ratio of the company stood at 7.07 times as on 31st March 2024 as against 4.90 times as on 31st March 2023 and DEBT-EBITDA of the company stood at 8.36 times as on 31st March 2024 as against 3.34 times as on 31st March 2023. Acuite expects that going forward the

financial risk profile of the company will remain in similar range in near to medium term on account of continuous debt laden capex plans.

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.

Assessment of Adequacy of Credit Enhancement under various scenarios including stress scenarios (applicable for ratings factoring specified support considerations with or without the “CE” suffix)

Acuite takes into consideration the benefit derived by MESCOM from the 100% ownership of Government of Karnataka.

Stress Case Scenario

While the rating has been derived on the standalone credit risk profile and cash flows of MESCOM, Acuite believes given the 100% holding of Government of Karnataka, in case of any stress case scenario, the required support would come from the state of Karnataka.

Rating Sensitivities

- Credit profile of Government of Karnataka
- Dynamics in the regulatory environment
- Sustenance of scale of operations while maintaining profitability
- Movement in financial risk profile leading to further stretch in liquidity

Liquidity Position Stretched

The liquidity profile of the company is stretched with net cash accruals of Rs.58.54 Cr. as on 31st March 2024 against the debt repayment obligation of Rs.231.79 Crore over the same period. The shortfall were met by managing working capital cycle to meet debt repayments timely. Going forward, the company is expected to generate net cash accruals under the range of Rs.200.00 Crore to Rs.350.00 Crore against the debt repayment obligations up to Rs.385.29 Crore over the same period. In addition, the cash and bank balance available with the company stood at Rs.73.11 Crore as on 31st March 2024. The current ratio of the company stood at 0.96 times as on 31st March 2024. Further, the working capital limits stood at an average of 75.48% for fund- based limits and 79.45% for non-fund based limits for the last twelve months ended February, 2025. Acuite believes that going forward the liquidity position of the company is expected to remain stretched in near to medium term and will remain a key monitorable factor.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 24 (Actual) | FY 23 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 6217.75 | 4682.28 |
| PAT | Rs. Cr. | (203.78) | 51.85 |
| PAT Margin | (%) | (3.28) | 1.11 |
| Total Debt/Tangible Net Worth | Times | 1.77 | 1.33 |
| PBDIT/Interest | Times | 1.43 | 3.27 |

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

Not Applicable

Interaction with Audit Committee anytime in the last 12 months (applicable for rated-listed / proposed to be listed debt securities being reviewed by Acuite)

Not applicable

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>
- Public Finance - State Government Ratings: <https://www.acuite.in/view-rating-criteria-26.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.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

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|------------------------------------|------------|-----------------|------------------------------|
| 18 Jun 2024 | Term Loan | Long Term | 173.35 | ACUITE A Stable (Assigned) |
| | Term Loan | Long Term | 228.09 | ACUITE A Stable (Assigned) |
| | Term Loan | Long Term | 195.55 | ACUITE A Stable (Assigned) |
| | Term Loan | Long Term | 300.00 | ACUITE A Stable (Assigned) |
| | Term Loan | Long Term | 47.52 | ACUITE A Stable (Assigned) |
| | Term Loan | Long Term | 100.83 | ACUITE A Stable (Assigned) |
| | Term Loan | Long Term | 38.40 | ACUITE A Stable (Assigned) |
| | Working Capital Demand Loan (WCDL) | Long Term | 265.00 | ACUITE A Stable (Assigned) |
| | Working Capital Demand Loan (WCDL) | Long Term | 100.00 | ACUITE A Stable (Assigned) |
| | Working Capital Demand Loan (WCDL) | Long Term | 135.00 | ACUITE A Stable (Assigned) |
| | Proposed Long Term Bank Facility | Long Term | 70.92 | ACUITE A Stable (Assigned) |
| | Term Loan | Long Term | 3.57 | ACUITE A Stable (Assigned) |
| | Term Loan | Long Term | 2.60 | ACUITE A Stable (Assigned) |
| | Term Loan | Long Term | 79.17 | ACUITE A Stable (Assigned) |
| | Term Loan | Long Term | 7.12 | ACUITE A Stable (Assigned) |
| | Term Loan | Long Term | 3.80 | ACUITE A Stable (Assigned) |
| | Term Loan | Long Term | 101.86 | ACUITE A Stable (Assigned) |
| | Term Loan | Long Term | 100.00 | ACUITE A Stable (Assigned) |
| | Term Loan | Long Term | 72.22 | ACUITE A Stable (Assigned) |
| | Letter of Credit | Short Term | 200.00 | ACUITE A1 (Assigned) |
| | Proposed Short Term Bank Facility | Short Term | 200.00 | ACUITE A1 (Assigned) |
| | Proposed Letter of Credit | Short Term | 75.00 | ACUITE A1 (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Complexity Level | Rating |
|----------------------------------------|----------------------|----------------------------------|----------------------|----------------------|----------------------|-------------------|------------------|--------------------------------|
| Union Bank of India | Not avl. / Not appl. | Letter of Credit | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | 200.00 | Simple | ACUITE A1 Reaffirmed |
| State Bank of India | Not avl. / Not appl. | Letter of Credit | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | 75.00 | Simple | ACUITE A1 Reaffirmed |
| Not Applicable | Not avl. / Not appl. | Proposed Long Term Bank Facility | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | 70.92 | Simple | ACUITE A Stable Reaffirmed |
| Not Applicable | Not avl. / Not appl. | Proposed Long Term Bank Facility | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | 126.05 | Simple | ACUITE A Stable Assigned |
| State Bank of India | Not avl. / Not appl. | Short-term Loan | 16 Dec 2024 | Not avl. / Not appl. | 16 Oct 2027 | 100.00 | Simple | ACUITE A1 Reaffirmed |
| State Bank of India | Not avl. / Not appl. | Short-term Loan | 25 Mar 2024 | Not avl. / Not appl. | 25 Jan 2027 | 100.00 | Simple | ACUITE A1 Reaffirmed |
| State Bank of India | Not avl. / Not appl. | Short-term Loan | 25 Mar 2024 | Not avl. / Not appl. | 25 Jan 2027 | 40.00 | Simple | ACUITE A1 Assigned |
| State Bank of India | Not avl. / Not appl. | Term Loan | 16 Dec 2024 | Not avl. / Not appl. | 16 Dec 2035 | 206.05 | Simple | ACUITE A Stable Reaffirmed |
| Union Bank of India | Not avl. / Not appl. | Term Loan | 31 Dec 2019 | Not avl. / Not appl. | 30 Nov 2028 | 62.50 | Simple | ACUITE A Stable Reaffirmed |
| Canara Bank | Not avl. / Not appl. | Term Loan | 01 Dec 2018 | Not avl. / Not appl. | 31 Oct 2027 | 74.08 | Simple | ACUITE A Stable Reaffirmed |
| Canara Bank | Not avl. / Not appl. | Term Loan | 31 Mar 2021 | Not avl. / Not appl. | 31 Mar 2030 | 83.33 | Simple | ACUITE A Stable Reaffirmed |
| Bank of Baroda | Not avl. / Not appl. | Term Loan | 31 Jul 2019 | Not avl. / Not appl. | 31 May 2028 | 55.56 | Simple | ACUITE A Stable Reaffirmed |
| Bank of India | Not avl. / Not appl. | Term Loan | 31 Mar 2021 | Not avl. / Not appl. | 31 Mar 2030 | 144.46 | Simple | ACUITE A Stable Reaffirmed |
| Bank of India | Not avl. / Not appl. | Term Loan | 30 Jun 2022 | Not avl. / Not appl. | 30 Jun 2031 | 196.98 | Simple | ACUITE A Stable Reaffirmed |
| Indian Bank | Not avl. / Not appl. | Term Loan | 18 Apr 2023 | Not avl. / Not appl. | 31 Mar 2031 | 171.09 | Simple | ACUITE A Stable Reaffirmed |
| State Bank of India | Not avl. / Not appl. | Term Loan | 28 Feb 2024 | Not avl. / Not appl. | 31 Mar 2034 | 297.25 | Simple | ACUITE A Stable Reaffirmed |
| Rural Electrification Corporation Ltd. | Not avl. / Not appl. | Term Loan | 13 Jan 2021 | Not avl. / Not appl. | 31 May 2031 | 40.96 | Simple | ACUITE A Stable Reaffirmed |
| Rural Electrification Corporation Ltd. | Not avl. / Not appl. | Term Loan | 31 Oct 2022 | Not avl. / Not appl. | 28 Feb 2032 | 88.22 | Simple | ACUITE A Stable Reaffirmed |
| Rural Electrification Corporation Ltd. | Not avl. / Not appl. | Term Loan | 28 Feb 2022 | Not avl. / Not appl. | 28 Feb 2032 | 33.60 | Simple | ACUITE A Stable Reaffirmed |

| | | | | | | | | |
|---------------------|-------------------------|------------------------------------------|-------------------------|-------------------------|-------------------------|--------|--------|------------------------------------|
| State Bank of India | Not avl. / Not appl. | Term Loan | 16 Dec 2024 | Not avl. / Not appl. | 16 Dec 2035 | 133.95 | Simple | ACUITE A Stable Assigned |
| Union Bank of India | Not avl. / Not appl. | Working Capital Demand Loan (WCDL) | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | 265.00 | Simple | ACUITE A Stable Reaffirmed |
| Canara Bank | Not avl. / Not appl. | Working Capital Demand Loan (WCDL) | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | 100.00 | Simple | ACUITE A Stable Reaffirmed |
| State Bank of India | Not avl. / Not appl. | Working Capital Demand Loan (WCDL) | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | 135.00 | Simple | ACUITE A Stable Reaffirmed |

***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

| Sr No | Company Name |
|----------|----------------------------------------------|
| 1 | Mangalore Electricity Supply Company Limited |
| 2 | Government of Karnataka |

Contacts

| | |
|-------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
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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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