Press Release

Kota Electricity Distribution Limited

March 27, 2018

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Facilities- Term Loan	75	IVR BBB + / Stable Outlook (IVR Triple B Plus with Stable Outlook)	Assigned
Long Term Non Fund Based Facilities- Bank Guarantee	133	IVR BBB + / Stable Outlook (IVR Triple B Plus with Stable Outlook)	Assigned
Short Term Fund Based Facilities- Overdraft	100	IVR A2 (IVR A Two)	Assigned
Total	**308**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Kota Electricity Distribution Limited (KEDL) derive comfort from the strong operational support of its parent company, CESC Ltd. (CESC), long track record of CESC in the power sector, KEDL"s belongingness to the reputed RP- Sanjiv Goenka group and highly experienced & qualified management team. The ratings are further underpinned by the exclusive long term power distribution agreement with Jaipur Vidyut Vitran Nigam Ltd (JVVNL) for supply of power in the Kota city of Rajasthan, insularity of margin from increase in power purchase price and strong demand potential for power. However, the ratings are tempered by the nascent stage of KEDL"s operation, high distribution loss though improving, prevalence of retail customers limiting the demand growth, high receivables and operating loss with low debt coverage parameters. Continuing support from the parent, reduction in distribution loss and improvement in profitability & gearing level are the key rating sensitivities.

List of Key Rating Drivers

- Strong operational support of the parent company.
- Long track record of the parent company, CESC, in the power sector.
- Belongingness to the reputed RP-Sanjiv Goenka group.
- Highly experienced & qualified management team.

- Exclusive long term power distribution agreement.
- Insularity of margin from increase in power purchase price.
- Strong demand potential for power.
- Nascent stage of operation.
- High distribution loss, though improving.
- Prevalence of retail customers limiting the demand growth
- High receivables.
- Operating loss with low debt coverage parameters

Detailed Description of Key Rating Drivers

Strong parent support

KEDL is a wholly owned subsidiary of CESC, an established & well performing power utility based out of Kolkata. CESC has strong financial risk profile with adequate liquidity. CESC reported total income of Rs.7367 crore in FY17 (refer to the period from April 1 to March 31) with an EBIDTA and PAT of Rs.1933 crore and Rs.863 crore respectively. Further, CESC generated gross cash accruals of Rs.1233 crore in FY17. Moreover, CESC had free cash and investments of Rs.1,339 crore in mutual funds and bank FDs as on December 31, 2017. CESC has infused ~Rs.264 crore in KEDL till 9MFY18 (refers to the period from April 1 to December 31). Further, KEDL is expected to receive continuous support from its parent as and when required.

Long track record of the parent company, CESC, in the power sector

CESC is having a long track record of operation. It is a vertically integrated power utility engaged in the business of generation, transmission and distribution of electricity to the consumers in its licensed area covering Kolkata and Howrah in West Bengal. CESC and its subsidiaries are in renewable & thermal power generation, organised retail, business process management and other infrastructure sectors.

With an objective to simplify the corporate structure and bring in greater focus, CESC, in May, 2017, announced plans to demerge with effect from October 01, 2017 its multiple businesses currently operating under CESC Ltd. and its various step-down subsidiaries into four separate listed entities specialising in: a) power distribution (through CESC Limited), b) power generation (through CESC Genco Ltd), c) organised retail (through RP-SG Retail

Limited), and d) business process management, real estate and FMCG (through RP-SG Business Process Services Limited). The demerger, being under the process of approval of the competent authority, is likely to have a positive effect on the cash accruals of CESC Ltd. as the company will not be under obligation to support its other loss making subsidiaries.

Belongingness to the reputed RP-Sanjiv Goenka group

Kolkata based The RP-Sanjiv Goenka group is one of the leading industrial houses of the country with interest in power generation & distribution, coal, carbon black, retailing, entertainment and BPO business with CESC Ltd. being the flagship company. Other major companies of the group are Philps Carbon Black Ltd., CESC Infrastructure Ltd., Firstsource Solutions Ltd., Haldia Energy Ltd, Noida Power, Saregama India Ltd. and Spencer Retail Ltd. In FY17 (FY refers to the period from April 1 to March 31), the group had a combined turnover of about ~Rs.200 bn.

Highly experienced & qualified management team

KEDL is managed by highly qualified and experienced employee pool transferred from CESC having strong experience in their related fields. In terms of operation, KEDL has lots of synergy with CESC.

Exclusive long term power distribution agreement

JVVNL has a distribution license under the provisions of Electricity Act, 2003 to supply electricity in the eastern part of Rajasthan. For distribution of power in its designated areas, JVVNL undertook competitive bidding process to select its distribution franchises. For Kota city area, JVVNL selected CESC Ltd from the bidding process. CESC designated, KEDL, as a special purpose vehicle (SPV) in order to discharge its obligations as a distribution franchise. In this regard, the Distribution Franchise Agreement (DFA) was signed in June, 2016 with a validity of 20 years. KEDL has the exclusive right to distribute power in Kota city of Rajasthan.

Insularity of margin from increase in power purchase price

The power purchase price of the company is fixed as per the DFA for the next 20 from the date of the DFA. Any revision in the cost structure of JVVNL will not have any impact on the fixed purchase price for KEDL. As per the agreement, power purchase cost per unit is proportionately linked to any revision in per unit power tariff revision by the Rajasthan

Electricity Regulatory Commission and hence, it is a *pass through*. Therefore, the margin of KEDL is insulated from fluctuation in power purchase price.

Strong demand potential for power

The domestic power sector appears to have considerable growth potential, given the fact that the country is likely to be power deficient in many pockets particularly during the peak period due to mismatch between robust power demand and creation of supply facilities. Kota is 47th most populated city of India and 3rd most populated city in Rajasthan. Kota has growth potential driven by its locational advantage and direct link to nearby major cities. However, availability of supply is an issue, given the capacity constraint at the generation company level due to various reasons, majorly being fuel linkage and capital intensity. However, KEDL feels that it will be able to meet the increasing demand through outside purchase (including from grid); but with a permission from JVVNL.

Nascent stage of operation

The KEDL is in its nascent stage of operation as it started operation in September, 2016. Consequently, the company is yet to stabilize its operation.

High distribution loss, though improving

KEDL witnessed a T&D loss of ~27% in 9MFY18 as against a normative T&D loss as approved by RERC for JVVNL of 18.5% in FY18. The distribution loss has perennially been higher than the approved levels, mainly due to age-old distribution infrastructure resulting in slow meter reading, absence of full metering, inefficient billing systems, etc. Kota has a history of having high T&D loss and witnessed a T&D loss of 29.71% in FY15. However, under KEDL, T&D loss witnessed an improving trend exhibiting CESC"s competence in managing T&D loss. Further, while KEDL is endeavoring to improve the distribution infrastructure gradually, CESC group has recently introduced "Smart Grid" model in its command areas in the state of Rajasthan, in association with Silver Spring group of USA, under which the distributing company can monitor the power usage on remote control basis.
CESC is one of the most experienced and efficient players in power sector in India. Over the years, the company has been making substantial investments for network maintenance and up-gradation. Currently, it has about 21,900 circuit kilometer of distribution network (340 circuit kilometre set up in FY17) which operates through 6 KV, 11 KV and 33 KV lines,

supplemented by 132 KV and 220 KV lines. With its efforts, CESC has maintained a consistent decline in its Transmission & Distribution (T&D) Loss over the past three years (FY15-17). T&D loss declined from ~11.8% in FY14 to ~11% in FY17 which is much lower than the normative levels (14.3% as per West Bengal Electricity Regulatory Commission). CESC wants to replicate its expertise in managing T&D losses in KEDL to maximise latter"s profits.

Prevalence of retail customers limiting the demand growth

With a large urban/ semi urban profile of the license area, KEDL has higher proportion of retail customers in its consumer mix. Higher proportion of retail customers limits the growth potential to an extent due to lower possibility of extensive growth in power consumption in near term.

High receivables

KEDL has more than six months receivables of about Rs.26.7 crore as on December 31, 2017 indicating an elongated collection cycle, impacting liquidity. KEDL is operating with a collection efficiency of about 94% in 9MFY18 (improved from 89.7% in FY17) with above 90% metered supply in its command area and computerised billing procedure. The company has however, indicated that the collection efficiency has improved significantly after KEDL"s entry into distribution segment in Kota.

Operating loss with low debt coverage parameters

Power distribution business requires time to stabilize and to turn profitable due to its initial teething problems. Further, the power distribution in Kota city was earlier controlled by government controlled power distribution utility and had history of high T&D loss due to operational inefficiencies, age old machineries and faulty billing systems. KEDL is incurring operational loss due to stabilization issues and initial teething problems. Hence, the debt coverage parameters were weak in FY17 and 9MFY18. However, the company is receiving support from CESC to fund the losses and the debt servicing requirements and is expected to receive so in the future.

Analytical Approach & **Applicable Criteria:**

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

Kota Electricity Distribution Limited (KEDL - erstwhile Sheesam Commercial Pvt Ltd), incorporated in May 03, 2012, is a wholly owned subsidiary of CESC Ltd (CESC) belonging to Kolkata-based RP-Sanjiv Goenka group. The RP - Sanjiv Goenka group is one of the leading industrial houses of the country with interest in power generation & distribution, coal, carbon black, retailing, entertainment and BPO business with CESC Ltd. JVVNL has a distribution license under the provisions of Electricity Act, 2003 to supply electricity in the Eastern part of Rajasthan. JVVNL undertook competitive bidding process to select its distribution franchises. For Kota city area, JVVNL selected CESC Ltd from the bidding process. CESC designated, KEDL, as a special purpose vehicle (SPV), in order to discharge its obligations as a distribution franchise. In this regard, the Distribution Franchise Agreement (DFA) was signed in June, 2016. KEDL is engaged in electricity distribution operation in Kota city from September 1, 2016 as a distribution franchisee of JVVNL. KEDL is sourcing power from JVVNL as per the stated rates in DFA and selling the power to customers under its command area as per tariff order issued by RERC.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2017
	Audited
Total Operating Income	334.35
EBITDA	-27.61
PAT	-35.43
Total Debt	97.77
Tangible Net worth^	10.65
EBITDA Margin (%)	-8.26
PAT Margin (%)	-10.58
Overall Gearing Ratio (x)	9.18

*Classification as per Infomeric's standards. ^Receipt from consumers for capital jobs amounting to Rs.6.40 crore treated as part of net worth.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument/	Current Rating (Year 2017-18)	Rating History for the past 3 years

	Facilities	Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long Term Facilities-Term Loan	Long Term	75	IVR BBB+/ Stable outlook			
2.	Long Term Non Fund Based Facilities-Bank Guarantee	Long Term	133	IVR BBB+/ Stable outlook	--	--	--
3.	Short Term Fund Based Facilities-Overdraft	Short Term	100	IVR A2			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Facilities- Term Loan	-	-	Dec, 2022	75	IVR BBB+/ Stable outlook
Long Term Non Fund Based Facilities- Bank Guarantee	--	--	--	133	IVR BBB+/ Stable outlook
Short Term Fund Based Facilities- Overdraft	--	--	--	100	IVR A2

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