

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Bikaner Electricity Supply Ltd

July 5, 2019

Rating

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Non-Fund Based Facilities- Bank Guarantee	130 (enhanced from 102)	IVR BBB + / Stable Outlook (IVR Triple B Plus with Stable Outlook)	Reaffirmed
Short Term Fund Based Facilities- Overdraft	100	IVR A2 (IVR A Two)	Reaffirmed
Total	230		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Bikaner Electricity Supply Ltd (BESL) continues to derive comfort from the strong operational support of its parent company, CESC Ltd. (CESC), long track record of CESC in the power sector, BESL'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 Jodhpur Vidyut Vitran Nigam Ltd (JDVVNL) for supply of power in Bikaner city of Rajasthan, insularity of margin from increase in power purchase price and improvement in operational performance strong demand potential for power. However, the ratings are tempered by the short track record of BESL's operation, high distribution loss though improved in FY19, prevalence of retail customers limiting the demand growth, loss from operation with low debt coverage indicators and high receivables. Continuing support from the parent, reduction in distribution loss with improvement in profitability & gearing level are the key rating sensitivities.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Strong parent support

BESL is a wholly owned subsidiary of CESC, an established & well performing power utility based out of Kolkata. CESC has a strong financial risk profile with adequate liquidity. BESL, being a wholly owned subsidiary of CESC, is expected to receive continuous support from its parent. CESC has infused ~Rs.120 crore in BESL till FY19.

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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.

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 Philips Carbon Black Ltd., CESC Infrastructure Ltd., Firstsource Solutions Ltd., Haldia Energy Ltd, Noida Power and Saregama India Ltd.

Highly experienced & qualified management team

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

Exclusive long term power distribution agreement

JDVVNL has a distribution license under the provisions of Electricity Act, 2003 to supply electricity in the western and north-western part of Rajasthan. For distribution of power in its designated areas, JDVVNL undertook competitive bidding process to select its distribution franchises. For Bikaner city area, JDVVNL selected CESC Ltd from the bidding process. CESC designated, BESL, 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. BESL has the exclusive right to distribute power in Bikaner area 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 JDVVNL will not have any impact on

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the fixed purchase price for BESL. 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 BESL is insulated from fluctuation in power purchase price.

Improvement in operational performance

The total operating income witnessed a y-o-y growth of ~24% in FY19, aided by higher net saleable power. Though the company still continues to post losses due to T&D loss and other operational stabilization issues, in FY19 it has shown a marked improvement in its operational performance mainly by bringing down T&D losses. Accordingly the margins of the company (EBITDA and PAT) though negative, improved from the previous year. Further, collection efficiency has also improved from ~97.2% in FY18 to ~98.8% in FY19.

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. The Bikaner city has high growth potential driven by its locational advantage 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, BESL feels that it will be able to meet the increasing demand through outside purchase (including from grid); but with permission from JDVVNL.

Key Rating Weaknesses

Short track record of operation

BESL started its operation in May, 2017. Accordingly, it has a short track record of operation.

High distribution loss, though improving

BESL witnessed a T&D loss of ~18.10% in FY19 (21.05% in FY18) as against a normative T&D loss as approved by Rajasthan Electricity Regulatory Commission for JDVVNL of 15%. The distribution loss has perennially been higher than the approved levels, mainly due

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to age-old distribution infrastructure resulting in slow meter reading, absence of full metering, inefficient billing systems, etc. Bikaner has a history of having high T&D loss and witnessed a T&D loss of 24.43% in FY16. However, under BESL, T&D loss witnessed an improving trend exhibiting CESC's competence in managing T&D loss.

Prevalence of retail customers limiting the demand growth

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

High receivables

BESL has more than six months receivables of about ~Rs.28 crore (around 38% of its net worth of Rs.74.42) as on December 31, 2017 indicating an elongated collection cycle, impacting liquidity.

Loss from operation with low debt coverage parameters

Power distribution business requires time to stabilize and turn profitable due to its initial teething problems. Further, the power distribution in Bikaner city was earlier controlled by government controlled power distribution utility and had a history of high T&D loss due to operational inefficiencies, age old machineries and faulty billing systems. BESL is still incurring operational loss (though reduced in FY19) due to stabilization issues and initial teething problems. Hence, the debt coverage parameters continued to remain weak marked by ICR of -0.57x in FY19 (improved from -2.46x in FY18).

Analytical Approach: Standalone.

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

The liquidity of the company is expected to remain adequate backed by the support from the parent, CESC Ltd having highly comfortable liquidity position with high cash balances and liquid investments.

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About the Company

Bikaner Electricity Supply Limited (BESL - erstwhile Water Hyacinth Commosale Private Limited), incorporated in May 05, 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. JDVVNL has a distribution license under the provisions of Electricity Act, 2003 to supply electricity in the western and north-western part of Rajasthan. JDVVNL undertook competitive bidding process to select its distribution franchises. For Bikaner city area, JDVVNL selected CESC Ltd from the bidding process. CESC designated, BESL, 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. BESL is engaged in electricity distribution operation in Bikaner city from May, 2017 as a distribution franchisee of JDVVNL. BESL is sourcing power from JDVVNL 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	31-03-2018	31-03-2019	
	Audited	Audited	
Total Operating Income	397.59	491.74	
EBITDA	-22.61	-4.84	
PAT	-31.63	-13.80	
Total Debt	66.93	62.65	
Tangible Net worth	10.22	74.42	
EBITDA Margin (%)	-5.69	-0.98	
PAT Margin (%)	-7.95	-2.81	
Overall Gearing Ratio (x)	6.55	0.84	

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17

Infomerics Valuation And Rating Pvt. Ltd.

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Non Fund Based Facilities-Bank Guarantee	Long Term	130.00	IVR BBB+/ Stable Outlook	-	IVR BBB+/ Stable Outlook (March 27, 2018)	-
2.	Short Term Fund Based Facilities-Overdraft	Short Term	100.00	IVR A2	-	IVR A2 (March 27, 2018)	

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.

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Infomerics Valuation And Rating Pvt. Ltd.

of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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 Non Fund Based Facilities- Bank Guarantee	--	--	--	130	IVR BBB+/ Stable
Short Term Fund Based Facilities- Overdraft	--	--	--	100	IVR A2