



## Press Release

### Kota Electricity Distribution Limited

February 10, 2023

#### Ratings

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Bank Facilities	289.06	IVR BBB+/Stable (IVR Triple B plus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	125.00	IVR A2 (IVR A Two)	Reaffirmed	Simple
<b>Total</b>	<b>414.06</b> <b>(Rupee Four hundred fourteen crore and six lakh only)</b>			

**Details of Facilities are in Annexure 1**

#### Detailed Rationale

The reaffirmation of aforesaid ratings assigned to the bank facilities of Kota Electricity Distribution Ltd (KEDL) continues to derive comfort from 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 Kota city of Rajasthan, insularity of margin from increase in power purchase price and strong demand potential for power. However, these rating strengths are tempered by high distribution loss, prevalence of retail customers limiting the demand growth and loss from operation with low debt coverage indicators along with high receivables.



## Press Release

### **Key Rating Sensitivities:**

#### **Upward factors**

- Significant improvement in operating performance, debt protection metrics and capital structure

#### **Downward factors**

- Deterioration in operating performance impacting the liquidity and debt coverage indicators on sustained basis
- More than expected debt funded capex leading to deterioration in capital structure
- Weakening of support from the parent company and/or moderation in the credit profile of the parent, CESC Limited

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

- **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.

- **Belongingness to the reputed RP-Sanjiv Goenka group and strong parent support**

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. KEDL 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. KEDL, being a wholly owned subsidiary of CESC, is expected to receive continuous support from its parent. CESC has infused ~Rs.394 crore in KEDL till FY22. Infomerics expects that CESC will continue to infuse funds as and when required for KEDL's operations.

- **Highly experienced & qualified management team**



## Press Release

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 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 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 (RERC) 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 city has high growth potential driven by its locational advantage and direct link to nearby major cities.



## Press Release

### Key Rating Weaknesses

- **High distribution loss**

KEDL witnessed a T&D loss of 19.18% in FY22 (21.83% in FY21, 20.44% in FY20, 22.79% in FY19 and 27.35% in FY18) as against a normative T&D loss as approved by Rajasthan Electricity Regulatory Commission for JVVNL of 15%. 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.

- **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.133 crore as on September 30, 2022 indicating an elongated collection cycle, impacting liquidity. KEDL is operating with a billing efficiency of 80.82% and collection efficiency of 99.27% in FY22.

- **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 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, power theft and faulty billing systems. KEDL is still incurring operational loss (though reduced in FY22) due to stabilization issues and high T&D losses. Hence, the debt coverage parameters continued to remain weak. Besides, the profitability is expected to be affected in FY23 on account of reduction in average billing rate. However, the company is getting funding support from CESC to fund the losses and the debt servicing requirements. Moreover, the management is adopting



## Press Release

more stringent measures and focusing on modern technology that could improve efficiency of operations and reduce the losses going forward.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Rating Methodology for Infrastructure Companies](#)

[Financial Ratios & Interpretation \(Non-financial Sector\)](#)

[Criteria of assigning Rating Outlook](#)

### **Liquidity – Adequate**

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

### **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. 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	31-03-2021	31-03-2022
	Audited	Audited





## Press Release

For the year ended* / As On	31-03-2021	31-03-2022
Total Operating Income	723.60	801.83
EBITDA	-19.10	-9.71
PAT	-48.82	-40.98
Total Debt	152.57	209.09
Tangible Net worth	90.32	84.66
EBITDA Margin (%)	-2.64	-1.21
PAT Margin (%)	-6.74	-5.11
Overall Gearing Ratio (x)	1.69	2.47

\*Classification as per Infomerics' Standard

**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 Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Bank Guarantee	Long term	225.00	IVR BBB+/Stable	IVR BBB+/Stable (Nov 13, 2021)	IVR BBB+/Stable (Aug 14, 2020)	IVR BBB+/Stable (Jul 5, 2019)
2.	Term Loan*	Long term	64.06	IVR BBB+/Stable	IVR BBB+/Stable (Nov 13, 2021)	IVR BBB+/Stable (Aug 14, 2020)	IVR BBB+/Stable (Jul 5, 2019)
3.	Overdraft	Short term	125.00	IVR A2	IVR A2 (Nov 13, 2021)	IVR A2 (Aug 14, 2020)	IVR A2 (Jul 5, 2019)

\*Outstanding as on January 31, 2023

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### About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange



## Press Release

Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit [www.infomerics.com](http://www.infomerics.com)

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength 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
Bank Guarantee	-	-	-	225.00	IVR BBB+/Stable
Term Loan	-	-	February 2027	64.06	IVR BBB+/Stable
Overdraft	-	-	-	125.00	IVR A2

**Annexure 2: List of companies considered for consolidated analysis: Not Applicable**

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/Len-Kota-Electricity-feb23.pdf>



## Press Release

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable**

**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](http://www.infomerics.com).

