

# Infomerics Valuation And Rating Pvt. Ltd.

Press Release

## Bharatpur Electricity Services Ltd

July 5, 2019

### Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Non-Fund Based Facilities- Bank Guarantee	47.50 (enhanced from 42.50)	IVR BBB + / Stable Outlook (IVR Triple B Plus with Stable Outlook)	Reaffirmed
Short Term Fund Based Facilities- Overdraft	40.00	IVR A2 (IVR A Two)	Reaffirmed
<b>Total</b>	<b>87.50</b>		

Details of Facilities are in Annexure 1

### Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Bharatpur Electricity Services Limited (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 Jaipur Vidyut Vitran Nigam Ltd (JVVNL) for supply of power in Bharatpur city of Rajasthan, insularity of margin from increase in power purchase price, financial turnaround on account of increase in operational efficiencies and strong demand potential for power. However, the ratings are tempered by the short track record of BESL's operation, high distribution loss though improving, prevalence of retail customers limiting the demand growth 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.20 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*

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 Bharatpur area, JVVNL 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 Bharatpur 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

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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.

### *Financial turnaround on account of increase in operational efficiencies*

The total operating income witnessed a robust ~257% y-o-y growth in FY18, being its first full year of operation, aided by higher net saleable power. However, the company witnessed a muted y-o-y growth of ~3% in FY19. Power distribution business requires time to stabilize and turn profitable due to its initial teething problems. Further, the power distribution in Bharatpur 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. However, under the guidance of CESC group, BESL's operations turned profitable in FY19 aided by lower T&D losses which improved gradually from 21.29% in FY17 to 19.39% in FY18 to 16.78% in FY19. Subsequently the company posted a positive EBITDA of Rs.6.40 crore in FY19. Accordingly, debt coverage indicators marked by ICR stood at 1.89x in FY19 (improved from -0.90x in FY18). Further, BESL is operating with a collection efficiency of about 98.94% in FY19 (improved from ~87% in FY17) with almost 100% metered supply in its command area and computerised billing procedure.

### *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. Bharatpur has high growth potential driven by its locational advantage and tourist attractions. Further, Bharatpur has 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 JVVNL.

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### Key Rating Weaknesses

#### *Short track record of operation*

BESL started its operation in December 1, 2016. The company is in the process of stabilizing its operations, however, despite the same, its operations turned profitable aided by lower T&D losses in FY19.

#### *High distribution loss, though improving*

BESL witnessed a T&D loss of 16.78% in FY19 (19.39% in FY18 and 21.29% in FY17) 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. Bharatpur has a history of having high T&D loss and witnessed a T&D loss of ~27% in FY15. 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 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*

BESL has more than six months receivables of about Rs.6 crore (~47% of its net worth of Rs.12.84 crore) as on March 31, 2019 indicating an elongated collection cycle, impacting liquidity.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

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### Liquidity

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

### About the Company

Bharatpur Electricity Services Limited (BESL - erstwhile Wigeon Commotrade Pvt Ltd), incorporated in May, 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 Bharatpur area, JVVNL 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 Bharatpur city from December 1, 2016 as a distribution franchisee of JVVNL. BESL 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):**

<b>For the year ended* / As On</b>	<b>(Rs. crore)</b>	
	<b>31-03-2018</b>	<b>31-03-2019</b>
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	169.58	174.83
EBITDA	-2.63	6.40
PAT	-4.05	1.56
Total Debt	25.50	30.35
Tangible Net worth	11.29	12.84
EBITDA Margin (%)	-1.55	3.66
PAT Margin (%)	-2.36	0.89
Overall Gearing Ratio (x)	2.26	2.36

\*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA: Nil**

**Any other information: Nil**

**Rating History for last three years:**

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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	47.50	IVR BBB+/ Stable Outlook	-	IVR BBB+/ Stable Outlook (March 27, 2018)	-
2.	Short Term Fund Based Facilities- Overdraft	Short Term	40.00	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](http://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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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
Long Term Non-Fund Based Facilities- Bank Guarantee	--	--	--	47.50	IVR BBB+/ Stable
Short Term Fund Based Facilities- Overdraft	--	--	--	40	IVR A2