



Press Release

West Bengal State Electricity Distribution Company Ltd

June 11, 2021

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Secured Redeemable Bond Issue – Series I Tranche I	250.00	IVR BBB- / Stable (IVR Triple B minus with Stable outlook)	Assigned
2	Secured Redeemable Bond Issue – Series I Tranche II	250.00	IVR BBB- / Stable (IVR Triple B minus with Stable outlook)	Assigned
3	Secured Redeemable Bond Issue – Series II	500.00	IVR BBB- / Stable (IVR Triple B minus with Stable outlook)	Assigned
	Total	1000.00 (Rupee One thousand crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the Non-Convertible Redeemable Bonds of West Bengal State Electricity Distribution Company Ltd (WBSEDCL) derives strength from being a wholly-owned entity of Government of West Bengal (GoWB), which provides it financial flexibility. The rating also positively notes WBSEDCL's regulated nature of operations wherein tariffs are based on cost-plus principles, presence of monthly variable cost adjustment (MVCA) for pass-on of higher power purchase cost, close to 100% collection efficiency and high metering of supply. The rating also takes into account WBSEDCL's strong foothold in power distribution in West Bengal coupled with its favourable consumer mix. However, these rating strengths remain constrained due to high T&D loss levels compared with normative levels leading to under-recoveries in power purchase costs. The rating also considers large accumulated regulatory assets owing to delay in release of tariff and true-up orders. Going forward, Infomerics believes that timely release of regulatory assets and adequate tariff revision by the regulator would be critical and are key rating monitorable.



Press Release

Infomerics has noted that the principal repayment of 8.50% Pension Trust Bond 2016 has been discontinued by WBSEDCL since June 2018. These bonds were issued by WBSEDCL to WBSEDCL Employees Pension Fund amounting to Rs. 1530 crore during FY2007-08 with a 10 year moratorium from the date of issue. WBSEDCL has made principal repayment of these bond to the tune of Rs. 357 Crore till May 2018 and continues with timely servicing of interest @8.50%. The decision to suspend further redemption had been taken in view of delay in tariff revision and lack of timely financial assistance from the GoWB, the parent and the guarantor of these bonds. Moreover, the decision to defer the principal obligations on these bonds had been duly informed to the relevant stakeholders i.e. appropriate authorities of GoWB as well as the trustees of the Pension Fund. Infomerics believes principal repayment delay of these bonds is a conscious decision with implicit consent of all the stakeholders.

Key Rating Sensitivities

Upward Factors:

- Significant improvement in operating income and profitability leading to sufficient cash accruals to meet its debt repayment obligations on a sustained basis
- Improvement in liquidity profile by way of liquidation of regulatory assets

Downward Factors:

- Delay in approval of tariff and truing up of orders by the regulator leading to further deterioration in debt protection metrics and liquidity position
- Continued cash losses incurred by the company

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Wholly-owned entity of Government of West Bengal**

WBSEDCL is wholly owned by the GoWB. The GoWB provides fund support to the entity (interest free short-term loan) and also helps in raising debt through extending guarantee. Besides, WBSEDCL enjoys healthy financial flexibility with banks through regular availability of credit. Its cash credit limit has also increased from Rs. 6500 crore in FY20 to Rs. 7200 crore in September 2020.

- **Strong foothold in power distribution in West Bengal**



Press Release

The company has strong foothold in power distribution in the state of West Bengal with consumer strength of over two crore as on March 31, 2020 (1.91 crore as on March 31, 2019). The licensed area of the company covers almost the entire State of West Bengal, barring the licensed area catered by other licensees (CESC Limited, DVC etc).

- **Pass-on mechanism for higher power cost**

The presence of monthly variable cost adjustment (MVCA) mechanism allows the company to pass on the increase in power-purchase costs to the consumer on a monthly basis. The power purchase cost is a major cost component for a power distribution company, accounting for 75-80% of the total cost. Thus, an existence of MVCA mechanism augers well for WBSEDCL.

- **High Collection efficiency and metering of supply**

WBSEDCL has nearly 100% metered supply for domestic, industrial customer segments and for agricultural segments. The company's billing procedure is fully computerized thereby leading to efficient collection mechanism. The collection efficiency remained satisfactory at 98.12% in FY20.

- **Regulated operations under cost-plus tariff scheme**

Under the WBERC Tariff Regulations, 2011, WBSEDCL files with WBERC an application indicating the Annual Revenue Requirement (ARR) depending on the expected cost of distribution and return on equity (16.5%). In case of higher fuel & power purchase cost incurred (than allowed in tariff determination), the company submits petition for Fuel and Power Purchase Cost Adjustment (FPPCA) to be allowed in the future tariff. Moreover, increase in other uncontrollable expenses is also allowed in future tariff.

- **Favourable consumer mix**

WBSEDCL's consumer mix (as per units sold) remains favourable with a large presence of domestic consumers (~39%), industrial (~33%) and commercial consumers (~15%), Others account for only 13%, including irrigation (~4%).

Key Rating Weakness:

- **High level of regulatory assets**

WBSEDCL has large accumulated regulatory assets owing to delay in release of tariff and true-up orders. WBSEDCL has already submitted petition for FPPCA and APR from FY14 to FY18 before WBERC, however truing up orders for the same are awaited. Moreover,



Press Release

WBERC's approval is pending for tariff order FY19 and FY20 while power purchase costs are rising steadily leading to huge pile-up of regulatory assets. Regulatory assets stood high at Rs.16971.85 crore as on September 30, 2020, a significant increase from Rs. 15519.14 crore as on March 31, 2020 and Rs. 13140.72 crore as on March 31, 2019.

- **High distribution losses**

Notwithstanding an improvement in FY20, WBSEDCL's distribution loss continues to remain higher than the normative level of 17.5%, leading to under-recoveries in power purchase costs and sub-optimal returns. In FY20, distribution loss came down to 18.48% from 22.97% in FY19 and 26.66% in FY18.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Stretched

WBSEDCL's liquidity position is expected to remain constrained as its gross cash accruals are likely to be inadequate against the debt repayment obligations in the near term. However, deficit can be funded by undrawn working capital bank lines, consumer security deposits, stretching payments to creditors and state government funding support.

About the Company

Incorporated in 2007, West Bengal State Electricity Distribution Company Limited (WBSEDCL), wholly owned by the Government of West Bengal, is primarily engaged in the power distribution business in the State of West Bengal. The company has been formed as a part of the unbundling of West Bengal State Electricity Board (WBSEB) which had its operations spanning across complete value chain of generation, transmission and distribution of power. WBSEDCL has the power distribution licensee for nearly the entire state of West Bengal (with consumer strength of around two crore) except for certain areas which are catered by the private distribution licensees.



Press Release

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	22787.75	25953.10
EBITDA	2297.51	2757.98
PAT	-45.22	567.37
Total Debt	12646.38	14060.10
Adjusted Net worth	18560.22	20586.23
EBITDA Margin (%)	10.08	10.63
PAT Margin (%)	-0.20	2.16
Overall Gearing Ratio (x)	0.68	0.68

*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 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	9.34% Secured Non Convertible Redeemable Bond	Long Term	250.00	IVR BBB- / Stable	-	-	-
2.	9.34% Secured Non Convertible Redeemable Bond	Long Term	250.00	IVR BBB- / Stable	-	-	-
3.	10.85% Secured Non Convertible Redeemable Bond	Long Term	500.00	IVR BBB- / Stable	-	-	-

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:



Press Release

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.

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, suspend 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 / Outlook
9.34% Secured Non-Convertible Redeemable Bond	Aug 17, 2010	9.34%	Aug 16, 2025	250.00	IVR BBB-/ Stable
9.34% Secured Non-Convertible Redeemable Bond	Oct 26, 2010	9.34%	Oct 25, 2025	250.00	IVR BBB-/ Stable
10.85% Secured Non-Convertible Redeemable Bond	Aug 5, 2011	10.85%	Aug 4, 2026	500.00	IVR BBB-/ Stable
Total	-	-	-	1000.00	

West Bengal State Electricity Distribution Company Limited

July 19, 2021

Rating

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Secured Redeemable Bond Issue – Series I Tranche I	-	-	Reaffirmed at CARE B; Stable (Single B; Outlook: Stable) and withdrawn
Secured Redeemable Bond Issue – Series I Tranche II	-	-	Reaffirmed at CARE B; Stable (Single B; Outlook: Stable) and withdrawn
Secured Redeemable Bond Issue – Series II	-	-	Reaffirmed at CARE B; Stable (Single B; Outlook: Stable) and withdrawn
Total Long-Term Instruments	-		

Details of instrument in Annexure-1; for classification of instruments/facilities please refer to Annexure-3
Detailed Rationale, Key Rating Drivers and Detailed description of the key rating drivers

CARE has withdrawn the outstanding ratings of 'CARE B; Stable' [Single B; Outlook: Stable] assigned to the Non-Convertible Debenture of West Bengal State Electricity Distribution Company Limited (WBSEDCL) with immediate effect. The above action has been taken at the request of WBSEDCL. It may be noted that CARE has rated the above-mentioned instruments continuously for 50% of the tenure of the instruments. Further, WBSEDCL has given an undertaking to CARE that a rating is available on the aforementioned instruments.

Analytical approach: Not Applicable

Applicable Criteria
[Policy on Withdrawal of ratings](#)
About the Company

Incorporated in 2007, WBSEDCL, wholly owned by the GoWB, is engaged in the power distribution and trading business in the State of West Bengal. The company has been formed as a part of the unbundling of West Bengal State Electricity Board (WBSEB). WBSEDCL is dedicated towards the distribution business while the power generation business is carried by West Bengal Power Development Corporation Limited (WBPDC) and transmission activity vests with West Bengal State Electricity Transmission Company Limited (WBSETCL; rated CARE BBB+; Stable/CARE A2).

WBSEDCL has the power distribution licensee for nearly the entire state of West Bengal except for certain areas which are catered by the private distribution licensees. Besides power distribution, WBSEDCL also has hydel power generation capacity of 176.55 MW of erstwhile WBSEB and 50MW solar power plant.

As per WBERC's tariff order dated July 04, 2018 the average tariff for FY18 is Rs.6.89/unit (no change from Rs.6.89/unit for FY17). The company is charging MVCA of 23p/unit since July 2016. Tariff orders from FY19 onwards have not yet been received.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)	FY21 (U/A)
Total Operating Income	22737	25883	22938
PBILDT	2258	2378	2467
PAT	-45.22	589.76	-208.58
Overall gearing (times)	4.94	5.36	6.70
Interest coverage (times)	1.56	1.86	1.55

A: Audited; U/A: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure 3

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Secured Redeemable Bonds	INE411L07031	August 05, 2011	10.85%	04-Aug-2026	0.00	Withdrawn
Bonds-Secured Redeemable Bonds	INE411L07023	October 26, 2010	9.34%	25-Oct-2025	0.00	Withdrawn
Bonds-Secured Redeemable Bonds	INE411L07015	August 17, 2010	9.34%	16-Aug-2025	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Bonds-Secured Redeemable Bonds	LT	-	-	-	1)CARE B; Stable (02-Mar-21)	1)CARE B; Stable (20-Mar-20) 2)CARE BBB-; Negative (16-Jul-19) 3)CARE BBB+; Negative (05-Apr-19)	1)CARE BBB+; Stable (07-Apr-18)
2.	Bonds-Secured Redeemable Bonds	LT	-	-	-	1)CARE B; Stable (02-Mar-21)	1)CARE B; Stable (20-Mar-20) 2)CARE BBB-; Negative (16-Jul-19) 3)CARE BBB+; Negative (05-Apr-19)	1)CARE BBB+; Stable (07-Apr-18)
3.	Bonds-Secured Redeemable Bonds	LT	-	-	-	1)CARE B; Stable (02-Mar-21)	1)CARE B; Stable (20-Mar-20) 2)CARE BBB-; Negative (16-Jul-19) 3)CARE BBB+; Negative (05-Apr-19)	1)CARE BBB+; Stable (07-Apr-18)
4.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (20-Sep-18) 2)CARE BBB+; Stable; ISSUER NOT COOPERATING* (07-Apr-18)
5.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (20-Sep-18) 2)CARE A2; ISSUER NOT COOPERATING* (07-Apr-18)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds-Secured Redeemable Bonds	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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