

Karnataka Power Transmission Corporation Limited

December 29, 2023

Facilities/Instruments	Amount (₹ crore)	Ratings ¹	Rating Action
Long-term bank facilities	13,000.00 (Enhanced from 10,347.39)	CARE A; Stable	Reaffirmed
Short-term bank facilities	3,775.00 (Enhanced from 1,650.82)	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Karnataka Power Transmission Corporation Limited (KPTCL) continue to draw strength from its 100% ownership by Government of Karnataka (GoK) and its position of being the sole transmission utility in the state of Karnataka. The ratings also draw comfort from KPTCL's wide transmission network with high system availability, assured revenue visibility ensuring regulated returns, and presence of structured payment mechanism for payment obligations from the electricity supply companies (ESCOs). The ratings also positively factor the conducive regulatory environment in the state with timely tariff orders being passed by the Karnataka Electricity Regulatory Commission (KERC). The ratings take note of the improvement in collection efficiency from ESCOMs during FY23 albeit moderate collections during 6MFY24 leading to higher reliance on short-term borrowings.

The aforementioned rating strengths, however, continue to be tempered by the risks associated with the implementation of the ongoing projects, high gearing levels with continuous debt-funded capex undertaken by the corporation and inherent regulatory risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the credit profile of ESCOMs while maintaining healthy collection efficiency of above 99% on a sustained basis.
- Maintaining overall gearing level below 0.5x.

Negative factors

- Deterioration in the credit profile of GoK or ESCOMs thus adversely impacting collection efficiency.
- Weakening of capital structure with overall gearing surpassing 2x.
- Increase in the receivable period beyond 135 days on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook on long-term rating reflects CARE Ratings Limited's (CARE Ratings') expectation that KPTCL will continue to benefit due to its regulated tariff structure, assured revenue visibility, and high system availability.

Detailed description of the key rating drivers:

Key strengths

Ownership of GoK

KPTCL is a 100% GoK (bonds guaranteed by GoK for Karnataka State Financial Corporation are rated 'CARE AA-; Negative') owned entity. It has been in operation as an independent unbundled entity since July 1999. It is a professionally-managed corporation with 12 Board of Directors. GoK had regularly infused equity into KPTCL till FY18. However, no equity was infused from F19-FY21. GoK has infused equity of around ₹36 crore in KPTCL in FY22 and ₹24 crore in FY23.

Sole power transmission entity in the state with wide transmission network

KPTCL is currently handling transmission of power in the entire state of Karnataka. It operates under a license issued by the KERC. As on March 31, 2023, KPTCL owns and operates 41,913 circuit kilometres (ckm) of transmission lines along with 1,339 substations as on March 31, 2023 (March 31, 2022: 40,304 ckm and 1,299, respectively) having different voltage grades starting from 400 kV to 66 kV. The total energy input to KPTCL's transmission system during FY23 was 80,646 MUs and the energy transmitted was 78,242 MUs.

High system availability of about 99% and low transmission losses

As per the KERC norms, KPTCL was required to maintain system availability at 98% and transmission losses below 2.99% for FY23. The company has been maintaining system availability over 98% for the past many years, thereby surpassing the norms. System availability remained largely stable at 98.69% in FY23 (99.19% in FY22). The transmission losses remained unchanged

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

at 2.98% in FY23 and FY22. Under the multi-year tariff (MYT) regulations, transmission companies can retain part of their earnings (as approved by the regulator) as incentive, if they perform better than the targeted system availability levels. Consequently, KPTCL received incentive of ₹24.77 crore during FY24 on account of achieving better system availability of 99.19% in FY22.

Assured revenue visibility under the MYT model

CARE Ratings notes that KPTCL's transmission charges are governed by the tariff norms determined by the KERC which ensures a fixed return on equity (RoE), recovery of operation and maintenance (O&M) expenses, interest cost and depreciation. The mechanism ensures full recovery on achieving the normative system availability parameters and incentives on exceeding the performance. Irrespective of the electricity drawn by a beneficiary in a particular month, the ESCOMs would be required to pay the fixed tariff to KPTCL. During FY23, in its true-up petition based on FY22 financials, the KERC has largely allowed the revenue gap to KPTCL except some of the inherently disallowed expenses like deferred tax. Over the years, it has been observed that KERC has been passing the orders on a timely basis for fixation of tariff of the financial year by the month of May.

Improvement in collection efficiency during FY23 to 90%, the same is expected to remain at 85-90% for FY24

KPTCL has entered into an agreement with ESCOMs, whereby a specified escrow account has been maintained for the purpose of payment obligation towards transmission charges to KPTCL. The collection efficiency of KPTCL improved from 80.93% in FY22 to 90.09% in FY23 mainly due to improved collections from Bangalore Electricity Supply Company Limited (BESCOM; rated 'CARE BBB+; Stable / CARE A3+') (through which KPTCL derives more than 50% of its revenues). GoK had made adjustment of the transmission charges payable by the ESCOMs to KPTCL against subsidy payable by GoK to the ESCOMs of Karnataka in FY23. This translated into improved collection efficiency in FY23 when compared with FY22 when similar adjustments were not undertaken. However, the collection efficiency of KPTCL has decreased to 78% during 6MFY24 basis similar adjustment not made by GoK during the aforementioned period. As articulated by management, KPTCL expects balance receivables to be realised during the current fiscal post GoK budget allocation through subsidy, resulting in collection efficiency at around 85-90% for FY24.

KPTCL avails short-term borrowings to meet the shortfall in collections and fund its operations. Except for BESCOM and Mangalore Electricity Supply Company Limited (MESCOM), none have issued letter of credit (LC) as a payment security mechanism in favour of KPTCL. As the payment is regular from the other ESCOMs, no advance payment has been demanded by KPTCL in the absence of such LCs.

Key weaknesses

Project implementation risk

KPTCL has a number of transmission projects that are at various stages of implementation. The projects either involve installation of various substations or setting-up of transmission lines. KPTCL is planning to incur capex of ₹4,000 crore, ₹3,524 crore and ₹3,524 crore in FY24, FY25 and FY26, respectively. Out of total capex, 70% is funded through debt and remaining through internal accruals. Against KPTCL's planned capex the KERC has allowed a yearly capex of ₹2,500 for FY23-FY25. Out of the total planned capex of ₹4,000 crore in FY24, KPTCL has incurred capex of ₹1,848 crore as on November 30, 2023.

Relatively high gearing levels

The company has been allowed to undertake capex with a debt-to-equity ratio of 70:30 and had overall gearing of 1.59x as on March 31, 2023 (1.53x as on March 31, 2022). The company incurs capex on a continuous basis for the augmentation of the transmission network and other infrastructure.

Liquidity: Adequate

The company's liquidity remained adequate with ₹98.51 crore of free cash as on September 30, 2023. KPTCL's liquidity is also supported by timely tariff orders received by it from the KERC to adjust higher expenses incurred by it in the subsequent years.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Infrastructure Sector Ratings](#)

[Power transmission](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Utilities	Power	Power	Power - Transmission

KPTCL, incorporated on July 28, 1999, is wholly owned by GoK. KPTCL was formed by carving out the transmission and distribution functions of the erstwhile Karnataka Electricity Board (KEB). In the second round of unbundling in 2002, KPTCL retained the transmission and bulk power purchase functions, while the distribution function was handed over to five newly formed ESCOMS. Subsequently, as per the provisions of the Electricity Act, 2003, KPTCL was divested of its bulk-supply business with effect from June 09, 2005 as the act bars the transmission licensee from trading of electricity. All the power purchase agreements (PPAs) entered into with KPTCL by the central power utilities, state utilities, and private generators, were transferred to the five independent ESCOMS, namely, BESCO, Chamundeshwari Electricity Supply Corporation Limited (CESCOM), Gulbarga Electricity Supply Company Limited (GESCOM), Hubli Electricity Supply Company Limited (HESCO), and MESCOM. These companies are in charge of distribution of power within their jurisdiction. KPTCL is now vested with the responsibility of transmitting power all over the state, construction and maintenance of stations and lines of 66 kV and above and being a state load dispatch centre (SLDC) in Karnataka.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	4,110	4,932
PBILDT	2,362	2,693
PAT	665	723
Overall gearing (times)	1.53	1.59
Interest coverage (times)	4.55	4.18

A: Audited; UA: Unaudited; The above financials have been adjusted as per CARE Ratings' criteria.

Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments/facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument/Bank Facilities	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - ST-Term loan	-	-	-	-	3,775.00	CARE A2+
Term loan-Long term	-	-	-	March 2036	13,000.00	CARE A; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1.	Term loan-Long term	LT*	13,000.00	CARE A; Stable	-	1)CARE A; Stable (28-Mar-23) 2)CARE A; Stable (28-Mar-23)	1)CARE A; Stable (17-Mar-22)	1)CARE A; Stable (19-Mar-21)
2.	Fund-based - ST-Term loan	ST*	3,775.00	CARE A2+	-	1)CARE A2+ (28-Mar-23) 2)CARE A2+ (28-Mar-23)	1)CARE A2+ (17-Mar-22)	1)CARE A2+ (19-Mar-21)

*LT: Long-term / ST: Short-term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments/facilities rated

Sr. No.	Name of the Instrument/Bank Facilities	Complexity Level
1.	Fund-based - ST-Term loan	Simple
2.	Term loan-Long term	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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