

## Maharashtra State Electricity Transmission Company Limited

March 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	3,989.00 (Reduced from 7,277.00)	CARE A+; Stable	Revised from CARE A; Stable
Short-term bank facilities	600.00 (Reduced from 900.00)	CARE A1+	Revised from CARE A1

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Revision in ratings of bank facilities of Maharashtra State Electricity Transmission Company Limited (MSETCL) favourably factor in significant increase in the company's revenue in 9MFY24 (refers to April 01 to December 31). The company's gross cash accrual (GCA) is projected to improve, leading to improved coverage metrics, considering higher Aggregate Revenue Requirement (ARR) assessment for FY24 (refers to April 01 to March 31) and FY25 by Maharashtra Electricity Regulatory Commission (MERC) and manageable overheads. The revision also factors in improving net debt level from accumulation of sizable cash buffer and timely collection from the beneficiaries in 9MFY24.

Ratings continue to derive comfort from long-term revenue visibility and operation in a cost-plus return on equity (RoE) regulatory model that assures stable cash flows. MSETCL's wide transmission network, operated at sustained high-system availability and with a potential to generate incentive income, provides strength to the ratings. The healthy financial risk profile characterised by comfortable leverage and satisfactory debt coverage indicators continues to remain a credit positive. Ratings take cognisance of Government of Maharashtra's (GoM's) complete ownership in MSETCL through a holding company and its strategic importance for the state in terms of power transmission.

However, ratings' strengths continue to be tempered by counterparty risk, characterised by high concentration and moderate credit profile of MSETCL's prime beneficiary namely Maharashtra State Electricity Distribution Company Limited (MSEDCL), and elevated average collection period. Ratings takes note of the highly capital-intensive business operations.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Improving credit profile of counterparties and improving average collection period.

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Operating parameters being materially lower-than-normative level, leading to weaker cash accruals.
- Unfavourable regulatory change, impacting cash flows.
- Deteriorating credit profile of counterparties, leading to stretch in receivables and adversely impacting MSETCL's liquidity.

### Analytical approach: Standalone

#### Outlook: Stable

MSETCL is likely to benefit due to its regulated tariff structure, assured revenue visibility and high system availability in the medium term. Its outlook is also characterized by its financial risk profile, which is expected to remain comfortable, characterised by healthy cash flows and moderate level of debt.

### Detailed description of key rating drivers

#### Key rating strengths

##### Improved cash flow from tariff revision and timely collection

MERC, vide its order dated March 31, 2023, had assessed ARR of ₹6,480 crore in FY24 and ₹6,483 crore in FY25. This has led to Increased revenue recognition for the company in 9MFY24. The company's profitability is expected to improve going forward. Moreover, dues collection from beneficiaries also improved in 9MFY24 against that in FY22 and FY23. This led to improved liquidity buffer of the company. Net debt level has significantly reduced since the last review.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications.

**Large geographical presence**

MSETCL owns and operates Maharashtra's state power transmission system. As on October 12, 2023, the company owned and operated a transmission network of 50,862 circuit km of electrical transmission lines and 735 extra high voltage (EHV) substations with 136,973 megavolt amperes (MVA) transformation capacities.

**Regulated power transmission business with long-term revenue visibility**

The company operates under MERC framework, which approves revenue to be earned by the company. MSETCL has assured revenue under the multi-year tariff (MYT) model. Under MYT regulations, MSETCL files application with MERC, indicating ARR depending on expected cost of transmission and a required pre-tax RoE of 16.96%.

Under the MYT framework, returns, individual costs trajectory and revenue elements of the utility are determined in advance for five years (currently for fourth control period, FY21 [refers to April 01 to March 31] to FY25), enabling the utility to plan its business for the control period.

**Continued stable operational performance**

For its high voltage alternating current (HVAC) lines, MSETCL maintained system availability at above 99% (higher than the normative level of 98%) in FY23. For its high-voltage direct current (HVDC) lines also, the system availability remained above the normative level of 95% in FY23. Transmission losses stood at 3.17% in FY23, superior to the normative level. According to the management, MSETCL is also eligible to earn incentives due to lower operations and maintenance (O&M) cost and lower interest in FY23.

**Comfortable financial risk profile of the company**

The company's financial risk profile is characterised by its improved overall gearing in FY23, which stood at 0.34x (PY: 0.38x), considering debt repayment in the year. The total debt (TD)/profit before interest, lease rentals, depreciation, and taxation (PBILD) and interest cover continue to be comfortable at 1.91x (PY: 1.73x) and 6.54x (PY: 6.97x), respectively. MSETCL will be incurring a sizeable debt-funded capex going forward, while most of the equity contribution is envisaged to be from internal accruals. The projected debt service coverage ratio is expected to remain comfortable.

**Ownership of the GoM**

MSETCL is wholly owned by Maharashtra State Electricity Holding Company Limited (MSEB Holding Company Limited), which is a GoM-owned entity. MSETCL has been operating as an independent unbundled entity for 18 years since June 2005. It is a professionally managed corporation with board representation from directors appointed by the holding entity.

**Key rating weaknesses****Counterparty risk**

MSETCL continues to derive around 84% of the total revenue from Maharashtra State Power Distribution Company Limited (MSEDCL) and the balance from other distribution companies. With revenue concentration, the company continues to be exposed to high counterparty risk. The operational risk profile of MSEDCL (characterised by aggregate technical and commercial losses and ACS-ARR gap) has particularly deteriorated since the COVID-19 outbreak, impacting its financial risk profile. Average collection period for MSETCL stood elevated at 258 days in FY23 (PY: 229 days). However, the company reported a collection efficiency of 113% in 9MFY24 (refers to April 01 to December 31) as compared to 74% in 9MFY23.

**Highly capital-intensive business operations**

The company will have to incur regular operational capex to maintain operational efficiencies. As a result, term borrowings may impact its overall financial risk profile.

**Liquidity: Adequate**

There is adequate headroom in the projected GCA less internal accruals for capex against repayment obligation for FY24 and FY25. The free cash and cash equivalents stood at ₹2,371 crore as on January 31, 2024. Utilisation of MSETCL's fund-based working capital lines remained largely un-utilised in the past 12 months, providing additional comfort.

## Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Infrastructure Sector Ratings](#)

[Short Term Instruments](#)

[Power- Transmission](#)

## About the company and industry

### Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power - transmission

MSETCL was incorporated in June 2005 after unbundling the erstwhile Maharashtra State Electricity Board. The transfer scheme was approved by the Maharashtra Government on March 31, 2016. The company is notified as the state transmission utility (STU) under the Electricity Act, 2003. It is primarily engaged in planning, implementing, and O&M of intra-state transmission systems (ISTS). MSETCL is one of the leading power transmission companies in India.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	4,878.91	4,918.70	NA
PBILDT	2,919.75	2,529.67	NA
PAT	955.36	1,036.68	NA
Overall gearing (times)	0.38	0.34	NA
Interest coverage (times)	6.97	6.54	NA

A: Audited; UA: Unaudited; NA: Not available. Note: 'these are latest available financial results'

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

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

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	December 2026	3989.00	CARE A+; Stable
Fund-based - ST-Bank Overdraft		-	-	-	600.00	CARE A1+

\*Long term/Short term.

**Annexure-2: Rating history for 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	Fund-based - LT-Term Loan	LT	3989.00	CARE A+; Stable	-	1)CARE A; Stable (20-Dec-22)	1)CARE A; Stable (05-Oct-21) 2)CARE A; Stable (29-Jul-21)	1)CARE A; Stable (26-Mar-21) 2)CARE A; Stable (23-Oct-20)
2	Fund-based - ST-Bank Overdraft	ST	600.00	CARE A1+	-	1)CARE A1 (20-Dec-22)	1)CARE A1 (05-Oct-21) 2)CARE A1 (29-Jul-21)	1)CARE A1 (26-Mar-21) 2)CARE A1 (23-Oct-20)

\*Long term/Short term.

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

Not applicable

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Bank Overdraft	Simple

**Annexure-5: Lender details**

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

**Annexure-6: List of all the entities consolidated**

Not applicable

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

## Contact us

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