

Bangalore Electricity Supply Company Limited

July 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	10,585.14 (Enhanced from 10,085.14)	CARE BBB; Negative	Revised from CARE BBB+; Stable
Long Term / Short Term Bank Facilities	1,500.00	CARE BBB; Negative / CARE A3	Revised from CARE BBB+; Stable / CARE A3+
Short Term Bank Facilities	4,400.00 (Reduced from 4,900.00)	CARE A3	Revised from CARE A3+
Issuer rating	-	CARE BBB; Negative	Revised from CARE BBB+; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings of Bangalore Electricity Supply Company Limited (BESCOM) factor in stretch in receivables in the review period, aggravating the company's liquidity profile as evidenced from higher-than-envisaged level of creditor. Lower collection efficiency in FY24 (refers to April 01 to March 31) has also resulted in higher aggregate technical and commercial (AT&C) loss. The lower-than-expected tariff hike for the control period FY25 is expected to have a negative bearing on the company's profitability and leverage metrics.

However, ratings continue to derive strength from its status as monopoly for distribution of power in the licensed territories of Karnataka and cost-plus nature of its business. Ratings continue to favourably factor in BESCOM's regulatory compliance in terms of timely filing of tariff petition and receipt of tariff order with regular true up of actual parameters. Ratings continue to draw strength from BESCOM's dominant scale of operation and spread in the state of Karnataka, thus making it strategically important for the Government of Karnataka (GoK) along with the financial support provided by GoK to BESCOM in the past. The company's long operational track in gradual reduction in AT&C loss since FY06 with healthy collection through digital modes provides comfort to the ratings.

Ratings are constrained by high power purchase cost as per books of account with partial acknowledgement by the regulator, i.e., Karnataka Electricity Regulatory Commission (KERC), sizable variance in the pleaded Aggregate Revenue Requirement against the quantum approved in the past, leading to weaker profitability in the past. Ratings are sensitive to weak financial risk profile characterised by elevated receivables subdued collection from various departments of the government, low subsidy collection and increasing level of creditor and debt. The rating strengths are also tempered by increasing cross subsidy load over s leading to gradual reduction of high-tariff consumers.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant reduction in creditor and debt level, thus improving the liquidity profile.

Negative factors

- Stretch in total receivables beyond ₹ 13,500 cr, adversely impacting liquidity position.
- Adverse changes in regulatory environment, impacting the profitability of BESCOM.
- Total fund-based debt exceeding ₹20,000 crore as on March 31, 2025.

Analytical approach: CARE Ratings Limited (CARE Ratings) has considered the standalone business and financial profile of the company to arrive at the ratings. Additionally, ratings also factor in the systemic importance of BESCOM for the power sector of Karnataka and its operational and financial linkages with GoK (i.e the parent holding entire shares in BESCOM) due to which ratings have been notched up.

Outlook: Negative

The negative outlook reflects the pressure on profitability margins in the near term and stretched liquidity characterised by elevated level of receivables and creditor level. CARE Ratings also anticipates that the leverage and coverage position is also likely to remain weak in the medium term. The outlook shall be revised to Stable in case there is gradual improvement in the company's leverage and liquidity profile.

Detailed description of key rating drivers

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

Key strengths**Regulated monopoly**

BESCOM is one of the five distribution companies (discoms) of Karnataka. It is also the largest discom in Karnataka with over 13.90 million consumers. Being the sole power distributing licensee in its territory, BESCOM operates in a cost-plus tariff regime. It has opportunity to recover cost incurred (subject to approval from KERC), return on equity and generate additional income from incentive by posting better operating efficiencies.

Satisfactory operational performance and regulatory discipline in past

BESCOM has demonstrated significant reduction in AT&C loss in the last 15 years. Its AT&C loss profile had been among the better ones in the country. Due to favourable demographic profile of its consumers, BESCOM has increased collection through digital mode over the years through different initiatives. The transmission and distribution (T&D) loss for FY23 was lower than normative, leading to incentive income for the company.

In the past, BESCOM has been fairly compliant with the timeline for tariff petition filing. In terms of receipt of tariff order, there has not been significant delay. Moreover, true-up process of actual parameters has been regular.

Strategic importance for GoK with financial support in the past

The company is 100% held by Government of Karnataka (GoK). BESCOM has a dominant position in power distribution in the state of Karnataka. Almost 45% of the total energy purchased by Karnataka state discoms is attributable to BESCOM. In terms of sales of energy to the consumer, BESCOM's share in Karnataka continues to be almost same. Given the strategic importance of the distribution utility, the Government has been providing funding support to the utility through equity infusion, tariff subsidy, loan and guarantee for external loan. Continued and timely support from GoK would remain important for the discom to manage its requirements.

Key weaknesses**Weak collection during FY24**

The company's collection efficiency continued to remain lower than 98% in FY23 and FY24. There has been delay in receipt of dues from state government entities and tariff subsidy component in FY24.

Restricted tariff hike in the past

Except for the control period of FY18 and FY19, the annual tariff hike has been less than 8% in the control period of FY14 to FY23. During this period, the hike pleaded by BESCOM had been higher.

On February 28, 2024, KERC rolled out tariff order for FY25 reducing tariff for BESCOM as against the hike in tariff pleaded by the BESCOM. Reduction in tariff is due to lower acknowledgment of power purchase cost by KERC. However, the management expects that the under-recovery of power purchase cost will be largely controlled due to the recently-introduced Fuel and Power Purchase Cost Adjustment (FPPCA) provision.

High power purchase cost while partial recognition of the same by the regulator

BESCOM's average power purchase cost continued to remain high considering higher allocation of costlier thermal plants as compared to other discoms of Karnataka and lower allocation of cheaper hydro power. Higher purchase of renewable power resulted in higher back-down of thermal plants, while the higher capacity charge of these plants adversely impacts per unit power purchase. The management has cited that implementation of fuel cost adjustment charges (FAC) and its regular revision has curbed losses to some extent.

Limited tariff hike, flight of high tariff consumers to open access mode and sale of surplus power to other discoms of Karnataka at lower price has led to lower average unit tariff realisation in the past. The company is not eligible to receive return on equity (ROE) component due to its negative net worth. Hence, profitability has been significantly impacted.

High level of receivables contributed by dues from government department, subsidy receivables and regulatory assets

BESCOM receivable position is elongated characterised by delayed payment from various government departments, slower realisation of tariff subsidy in the past, high level of dues pending from other discoms of Karnataka considering energy balancing charges and finally due to regulatory receivables. Adjusted average collection period for BESCOM in FY22 and FY23 stood high at 230 days and 179 days, respectively. It is estimated to be at similar stretched level in FY24.

Elevated level of creditors and debt

BESCOM's cash flow from operations has been weak in the past considering significant under-recovery of power purchase cost, high interest burden and increasing receivables from GoK//rural/urban local bodies. Moreover, it has incurred sizable capex in the past to upgrade its network infrastructure. Hence, it has relied significantly on stretched creditor and debt for funding it. While the company's net worth was negative, its total debt is projected to increase in the medium term considering losses, continuous high receivables, liquidation of creditors and capex to be incurred.

Liquidity: Stretched

Due to weak operating profit and increasing receivables, cash flow from operations has been weak for BESCOM. This had resulted in stretch in creditors in the past, characterised by payable days. Average fund-based working capital utilisation in 12-months ended April 2024 was high at 88.66%. The company had nominal cash balance as on March 31, 2024. Due to its parentage, BESCOM is expected to enjoy financial flexibility in terms of access to bank loans. Rate of interest and margin required for its short-term loans/ overdraft facilities have been competitive. Projected gross cash accrual for FY25 against gross repayment is marginal. Hence, BESCOM is expected to rely heavily on equity, capital grants and consumer contributions and term loans for meeting its capex requirement.

Applicable criteria

[Definition of Default](#)
[Factoring Linkages Government Support](#)
[Financial Ratios – Non financial Sector](#)
[Issuer Rating](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Short Term Instruments](#)
[Withdrawal Policy](#)
[Infrastructure Sector Ratings](#)
[Power Distribution](#)

About the company and industry

Industry classification

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

Incorporated on April 30, 2022, BESCOM is engaged in the distribution of power in the eight districts of Karnataka (Bangalore Urban, Bangalore Rural, Chikkaballapura, Kolar, Davanagere, Tumkur, Chitradurga and Ramanagara). During unbundling in June 2022, the distribution business of Karnataka Power Transmission corporation Limited was divided to four new distribution companies including BESCOM. BESCOM has four operating zones – Bangalore Metropolitan Area Zone (North), Bangalore Metropolitan Area Zone (South), Bangalore Rural Area Zone and Chitradurga Zone. In terms of coverage, it is spread across an area of 41,092 sq. km with a population of over 20.7 million and consumer base of over 13.90 million. BESCOM holds distribution license valid for a period of 25 years from June 10, 2004.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	21,714.79	26,338.55	NA
PBILDT	-881.03	447.51	NA
PAT	-2,919.53	-1,767.49	NA
Overall gearing (times)	NM	NM	NA
Interest coverage (times)	-0.74	0.34	NA

A: Audited; NM: Not meaningful; 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: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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	-	-	-	March 2036	5053.59	CARE BBB; Negative
Fund-based - LT-Working capital Term Loan	-	-	-	December 2036	5531.55	CARE BBB; Negative
Fund-based - ST-Bank Overdraft	-	-	-	-	1140.00	CARE A3
Fund-based - ST-Working Capital Limits	-	-	-	-	3260.00	CARE A3
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE BBB; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1500.00	CARE BBB; Negative / CARE A3

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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	5053.59	CARE BBB; Negative	-	1)CARE BBB+; Stable (08-Jun-23)	-	-
2	Issuer Rating-Issuer Ratings	LT	0.00	CARE BBB; Negative	-	1)CARE BBB+; Stable (08-Jun-23)	-	-
3	Fund-based - LT-Working capital Term Loan	LT	5531.55	CARE BBB; Negative	-	1)CARE BBB+; Stable (08-Jun-23)	-	-
4	Fund-based - ST-Working Capital Limits	ST	3260.00	CARE A3	-	1)CARE A3+ (08-Jun-23)	-	-
5	Fund-based - ST-Bank Overdraft	ST	1140.00	CARE A3	-	1)CARE A3+ (08-Jun-23)	-	-
6	Non-fund-based - LT/ ST-BG/LC	LT/ST	1500.00	CARE BBB; Negative / CARE A3	-	1)CARE BBB+; Stable / CARE A3+ (08-Jun-23)	-	-

LT: Long term; ST: Short term; LT/ST: 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 - LT-Working capital Term Loan	Simple
3	Fund-based - ST-Bank Overdraft	Simple
4	Fund-based - ST-Working Capital Limits	Simple
5	Issuer Rating-Issuer Ratings	Simple
6	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

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

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.

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About us:

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