

## Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited

December 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	1,266.00	CARE C; Stable	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to the bank facilities of Madhya Pradesh Poorv Kshetra Vidyut Vitaran Nigam Limited (MPPoKVCL) are constrained by the delay in debt servicing to certain financial institutions (facilities not rated by CARE) reported by the statutory auditor, weak financial risk profile with negative net worth on account of losses in the past, limited tariff hikes, poor operational performance and a challenging regulatory environment.

However, ratings continue to favourably factor in the strategic importance of MPPoKVCL to the state's power sector, its monopoly in power distribution across sixteen districts of Madhya Pradesh and support extended by Government of Madhya Pradesh (GoMP) in form of subsidies, loans and grants in the past.

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

#### Positive factors

- Significant reduction in AT&C losses
- Significant improvement in the capital structure/debt reduction
- Significant improvement in the ACS-ARR gap

#### Negative factors

- Continued losses with further increase in receivables deteriorating the cash flow position.
- Continued stretching of payable days on a sustained basis.
- Diminution or delay in support from the state government.

**Analytical approach:** CARE Ratings Limited (CARE Ratings) has analysed MPPoKVCL's credit profile by considering financials and business risk profile along with support from the MPPMCL which is the holding company of the Discom and is responsible for power purchase at a consolidated level with high cash flow fungibility. CARE Ratings has also factored operational and financial linkages with GoMP.

### Outlook: Stable

Stable outlook reflects that the company is expected to maintain steady AT&C loss along with elevated leverage in the medium term.

### Detailed description of key rating drivers:

#### Key Weaknesses

##### Default in the loans servicing

In the auditor's report for FY24, it was highlighted that the company is defaulting on loan repayments to certain financial institutions. Of the 13 instances of default, 12 are with the Government of Madhya Pradesh, and one is with other financial institutions. The company has stated that these loans are pertaining to bifurcation of MP State Electricity Board in 2004-05 and they do not have records for the same and hence the payments are not made on these accounts. As per feedback from three other lenders, the debt servicing on loans is timely including the limits rated by CARE.

##### Weakened operational and financial performance

AT&C losses in Madhya Pradesh's distribution network have remained persistently high. The company's aggregate technical and commercial (AT&C) loss has sharply increased from 22.16% in FY23 (FY refers to April 01 to March 31) to 28.20% in FY24. This is on the back of low billing efficiency of the company, partially offset by improving collection efficiency.

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

The company's net worth has eroded due to net losses reported in the past. Operational loss and elevated debt levels have also resulted in weak debt coverage ratios.

### **Stretched collection and creditor period**

The average collection period for the discom, although declined from 127 days in FY23 to 113 days in FY23, remains at an elevated level. The company depends on subsidy from GoMP due to power supply at subsidised rates to certain consumer categories. Creditor days has also remained high, ranging from 250 to 265 days over the past three years, primarily due to outstanding payments to Madhya Pradesh Power Management Company Limited (MPPMCL)

### **Weak power regulatory framework**

MPPoKVVCL faces significant regulatory risks associated with limited tariff hikes. Given the inadequate tariff revenue and tariff hikes, there is a revenue shortfall due to subsidised rates of agricultural and residential supply, which is funded through subsidy from GoMP.

To address the financial strain, the company proposed a 3.86% tariff hike for FY 24-25. However, MPERC approved only a marginal increase of 0.07%, which has not sufficiently alleviated the company's financial difficulties, further impacting its profitability.

### **Dependency on tariff subsidy from state government**

The company heavily relies on government subsidies as the tariffs are not reflective of cost of power and consumers in the residential and agriculture sectors benefit from cross-subsidies funded by other consumer segments. In FY 23 and FY 24, the company received subsidies of approximately Rs 7,152 crore and Rs 7,388 crore, respectively, accounting for 40-45% of revenue highlighting its dependence on such financial support.

### **Key strengths**

#### **Strategic importance and financial support from state government**

MPPoKVVCL is fully owned by Madhya Pradesh Power Management Company Limited which is GoMP undertaking. MPPoKVVCL is a critical entity in the state's power sector, vital for ensuring the stability and growth of the electricity supply system. By the strategic importance of the distribution utility, the government has been providing funding support to it through equity infusion, tariff subsidy, and grants.

#### **Regulated monopoly business**

MPPoKVVCL is one of the largest distribution company in covering 16 districts. As the only power distribution company in the eastern region of Madhya Pradesh, MPPoKVVCL maintains monopoly in this region. MPPoKVVCL operates in a cost-plus tariff regime having a regulatory framework of filing of ARR and tariff petition with the MPERC. It has the opportunity of recovering the cost incurred (subject to approval from MPERC) and RoE.

### **Liquidity: Stretched**

The company's liquidity is strained, with a current ratio below 1 and negative NWC as of 31/03/2024. High current liabilities, driven by the current maturity of term loans for CAPEX, result in a current ratio of 0.47 (FY24), 0.42 (FY23), and 0.39 (FY22), which is expected to remain stable in the coming years. Most long-term debt is from GoMP, along with loans from Power Finance Corporation Ltd(PFC), State Bank of India (SBI), and Rural Electrification Corporation (REC). Despite ongoing losses, the company meets its term and interest obligations through monthly requisitions from its parent, MPPMCL. As of 31/10/2024, the company holds Rs 320 crores in cash and cash equivalents.

### **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](#)

[Power Distribution](#)

[Factoring Linkages Parent Sub JV Group](#)

## About the company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Power	Power	Power Distribution

MPPoKVVCL was established on 31st May 2002 as an offshoot of the Madhya Pradesh State Electricity Board (MPSEB), which was subsequently unbundled into separate entities: one for generation, one for transmission, and three for distribution. These distribution companies, known as DISCOMs, serve the Central, Western, and Eastern regions of Madhya Pradesh. MPPoKVVCL is a state-owned electricity distribution company responsible for supplying power to the eastern region of Madhya Pradesh. It serves areas such as Jabalpur, Sagar, and Narmada Valley, ensuring reliable electricity distribution to urban, rural, and industrial consumers.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	13,730.75	14,247.87
PBILDT	194.49	-909.00
PAT	-1,120.21	-2,161.21
Overall gearing (times)	-0.68	-0.65
Interest coverage (times)	0.18	-0.69

A: Audited UA: Unaudited; 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

**Detailed explanation of 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based-Long Term		-	-	-	1266.00	CARE C; Stable

### 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-Long Term	LT	1266.00	CARE C; Stable				

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-Long Term	Simple

**Annexure-5: Lender details**

To view the 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](mailto:care@careedge.in) for clarifications.

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