CESC Limited

February 06, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	2,116.37 (enhanced from 1,780.12)	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	250.00	**CARE A1+ (A One Plus)**	Reaffirmed
Total	**2,366.37 (Rupees Two Thousand Three Hundred Sixty Six crore and Thirty Seven lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of CESC Limited (CESC) continue to derive strength from the established track record of CESC, long experience of the promoters having presence across diverse businesses, professional and highly qualified management team, superior operational efficiency, strong Transmission & Distribution (T&D) network, full metered supply with almost 100% collection efficiency, cost-plus based tariff supported by pass-through of increase in fuel and power purchase cost through monthly variable cost adjustment (MVCA), healthy financial risk profile with significant cash accruals and high level of cash surplus in FY 17 (refers to the period from April 01 to March 31) and H1FY18 (refers to the period from April 01 to Sep 30) (parked in fixed deposits and mutual funds). The ratings are constrained by CESC's substantial exposure in subsidiaries for funding losses and exposure to regulatory risks. The ratings also factor in the ongoing scheme of arrangement being undertaken by the group, wherein CESC and its various step-down subsidiaries are proposed to be demerged into four entities focusing on power distribution, power generation, retail, and BPO & property, with appointed date of October, 01, 2017, as CARE believes that the scheme is not likely to have any material impact on the credit risk profile of the entities.

The ability of the company to maintain profitability, satisfactory capital structure and a comfortable liquidity profile, steady revenue generation from the projects commercialized in subsidiaries are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of company and qualified management

CESC is an integrated power utility engaged in the business of generation, transmission and distribution of electricity to the consumers in its licensed area, covering Kolkata and Howrah. CESC has a highly qualified and experienced management having large experience.

Established group with presence across diverse business verticals

CESC is a part of RP-Sanjiv Goenka Group. The group has interests across diverse business segments such as power and natural resources, infrastructure, carbon black, retail, education, BPO, and media & entertainment.

Strong T&D network and full metered supply with almost 100% collection efficiency

CESC has a strong T&D network with continuous investment in infrastructure development. This has resulted in consistent improvement in T&D loss over the last few years with T & D loss of 11.0% in FY17 (much lower than the normative level of 14.3% set by WBERC). The company has almost 100% metered supply in its command area with over 99.5% collection efficiency in FY17.

Superior operational efficiency

CESC's plants exhibit higher than normative PAF, saving in oil consumption and better than normative Station Heat Rate (SHR), reflecting superior operating efficiency. Superior performance helps in earning additional revenue as incentive. The PLF of Budge Budge unit was almost 99.8% in H1FY18. However, the PLF of Southern unit reduced from 84% in FY15

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

to 35% in FY17 and further to 31% in H1FY18. Furthermore, Titagarh unit (34 years old plant) is also operating only to meet the peak demand of CESC and the PLF was low at 11% in FY17 (80% in FY15). Low PLF is mainly to avoid under recovery of coal cost under reverse bidding when power at lower tariff is available from Haldia Energy Ltd (HEL).

Low business risk due to regulated operations with 'cost-plus' based tariff fixation

The current tariff fixation formula ensures complete recovery of costs when operating targets are met and additional incentives for surpassing such targets. As such, CESC is insulated from the coal availability and price volatility risk in view of assured supply of coal from its coal mine and fuel supply arrangement with Coal India Ltd & "pass on" mechanism embedded in the tariff fixation formula of WBERC.

The average tariff rate increased marginally from Rs.6.98/unit in FY16 to Rs.7.02/unit in FY17. CESC is also allowed to pass on the hike in fuel cost through MVCA mechanism, by which CESC's tariff is adjusted on monthly basis. Regular tariff revision and MVCA mechanism ensures regular pass-on of input price hike and avoids interim cashflow mismatches. Accordingly, CESC is charging MVCA of Re.0.29/unit from January 2017.

High cash accruals with highly comfortable liquidity position

CESC has been consistently surpassing its targets in terms of PAF, usage of coal and oil, SHR, etc., which has resulted in steady improvement in sales and healthy cash accruals over the years along with comfortable operating margin. Moreover, the company continues to deploy the cash generated from operations to meet the shortfalls in its subsidiaries. CESC has ample liquid investment of Rs.1,339 crore in mutual funds and cash & bank as on December 31, 2017. However, total debt/GCA deteriorated as on March 31, 2017 vis-à-vis March 31, 2016 in view of increase in debt level. Furthermore, return on networth is impacted due to fair valuation of property plant and equipment under IND AS which resulted in increase in networth as on April 01, 2015. Consequently, overall gearing ratio also witnessed significant improvement as on the last two account closing dates.

Key Rating Weaknesses

Substantial exposure in group companies, started to yield benefit

As on March 31, 2017, CESC had 39 subsidiary companies. CESC's exposure to the subsidiary/associate companies as on March 31, 2017 was Rs.6,276 crore (48% of net worth as on that date) vis-à-vis Rs.5,376 crore as on March 31, 2016 (39% of net worth as on that date). Furthermore, in 9MFY18, CESC extended additional Rs.264 crore to support the fund requirement of distribution franchise in Rajasthan (Kota, Bikaner and Bharatpur) and Rs.237 crore towards expansion/acquisition plans of Spencer Retail Ltd (SRL).

CARE expects that CESC shall continue to support its distribution franchisee subsidiaries in the medium term.

Exposure to regulatory risk

Power utilities are exposed to regulatory risk associated with delay in receipt of tariff order and non-allowance of certain expenses by the Commission. In December 2014, CESC paid a levy of Rs.997 crore for coal extracted from Sarisatoli Coal Mine, for which the company claimed Rs.897 crore to be allowed in future tariff. The recoverable amount has been written down to Rs.116 crore as on April 01, 2015 and has been completely written off as on September 30, 2017 as per accounting treatment prescribed under IND AS, pending approval of the claim from WBERC.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology – Infrastructure Sector Ratings
Rating Methodology – Private Power Producers Ratings

About the Company

CESC, belonging to RP-Sanjiv Goenka (RP-SG) group, is a vertically integrated power utility engaged in generation, transmission and distribution of electricity to the consumers in its licensed area, covering Kolkata and Howrah. As on June 30, 2017, the company has three thermal (coal based) power stations with total generating capacity of 1,125 MW serving over 3.1 mn consumers in its 567 sq km licensed area. The combined installed capacity (thermal) of the RP-SG group has doubled to 2,365 MW with commissioning of power plants under the subsidiaries in Haldia, WB (600 MW) and Chandrapura, Maharashtra (600 MW). The group also operates wind mills of 86 MW in Rajasthan, Gujarat and MP and solar power plant of 15 MW in Tamil Nadu. CESC has also received the power distribution franchisee for Kota, Bharatpur and Bikaner in Rajasthan from Jaipur Vidyut Viataran Nigam Limited through three wholly owned subsidiaries. The peak load, so far, handled by CESC is 2,059 MW. In FY17, In FY17, CESC catered to 52% (60% in FY16) of its power requirement out of own generation, 34% from HEL and balance out of purchase from other utilities.

However, post implementation of the scheme of arrangement, the power generation business of CESC (aggregating 1125 MW), including investments in the power generation in subsidiaries shall be demerged to Haldia Energy Limited (HEL), and CESC shall have only power distribution business. The distribution companies in Noida, Ranchi and Rajasthan shall remain the subsidiaries of CESC.

Brief Financials (Rs. Crore)	FY17 (A)	FY16 (A)
Adjusted Total Operating Income	7,321	6,841
PBILDT	1,767	2,064
PAT	824	812
Overall gearing (times)	0.55	0.51
Interest coverage (times)	3.17	3.72

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Available

Rating History (Last three years): Please refer Annexure-2

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.*

Analyst Contact
Name: Ms. Richa Bagaria
Tel: 033-4018 1653
Cell: +91 99034 70650
Email: richa.jain@careratings.com

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	1300.00	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	250.00	CARE A1+
Term Loan – Long term	-	-	December 2027	816.37	CARE AA; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	1300.00	CARE AA; Stable	1)CARE AA; Stable (09-Oct-17) 2)CARE AA; Stable (13-Jul-17)	1)CARE AA; Stable (17-Jan-17) 2)CARE AA (27-Oct-16)	1)CARE AA (06-Oct-15)	1)CARE AA (03-Dec-14) 2)CARE AA (13-Oct-14)
2.	Term Loan-Long Term	LT	816.37	CARE AA; Stable	1)CARE AA; Stable (09-Oct-17) 2)CARE AA; Stable (13-Jul-17)	1)CARE AA; Stable (17-Jan-17) 2)CARE AA (27-Oct-16)	1)CARE AA (06-Oct-15)	1)CARE AA (03-Dec-14) 2)CARE AA (13-Oct-14)
3.	Non-fund-based - ST-BG/LC	ST	250.00	CARE A1+	1)CARE A1+ (09-Oct-17) 2)CARE A1+ (13-Jul-17)	1)CARE A1+ (17-Jan-17) 2)CARE A1+ (27-Oct-16)	1)CARE A1+ (06-Oct-15)	1)CARE A1+ (03-Dec-14) 2)CARE A1+ (13-Oct-14)
4.	Commercial Paper	ST	1300.00	CARE A1+	1)CARE A1+ (09-Oct-17) 2)CARE A1+ (13-Jul-17)	1)CARE A1+ (27-Oct-16) 2)CARE A1+ (12-May-16)	1)CARE A1+ (06-Oct-15)	1)CARE A1+ (03-Dec-14) 2)CARE A1+ (13-Oct-14)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91-0172-490-4000 / 01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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