CESC Limited

October 09, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	1,780.12	**CARE AA; Stable (Double A; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	250.00	**CARE A1+ (A One Plus)**	Reaffirmed
Total Bank Facilities	**2,030.12 (Rupees Two Thousand Thirty Crore and Twelve Lakh Only)**		
Commercial Paper (CP) Issue*	1,300 (Rupees One Thousand and Three Hundred crore only)	**CARE A1+ (A One Plus)**	Reaffirmed

*The aggregate amount of CP and other working capital borrowings should be within the sanctioned working capital limits of the company.

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 (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

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

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. However, the PLF of Southern unit reduced from 84% in FY15 to 35% in FY17. 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.1,273 crore in mutual funds and cash & bank as on June 30, 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). Exposure to group companies increased mainly to support debt repayment obligation in Dhariwal Infrastructure Limited and Spencer's Retail Limited. CARE expects that CESC shall continue to support the subsidiaries in the medium term, in addition to the fund support available from the plants of HEL, which commissioned in Q4FY15.

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 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)
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: Nil

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.*

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capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Term Loan-Long Term	-	-	June, 2018	480.12	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	250.00	CARE A1+
Commercial Paper	-	-	-	900.00	CARE A1+
Commercial Paper	August 4, 2017	6.28%	November 2, 2017	200.00	CARE A1+
Commercial Paper	August 14, 2017	6.19%	November 13, 2017	200.00	CARE A1+

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 (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	480.12	CARE AA; Stable	1)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+ (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	1,300.00	CARE A1+	1)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)

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