CESC Ltd

July 13, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	1,780.12 (reduced from 1,882.62)	**'CARE AA'; Stable (Double A; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	250.00	**CARE A1+ (A One plus)**	Reaffirmed
Total Facilities	**2,030.12 (Rupees Two Thousand Thirty Crore and Twelve Lakh only)**		
Instrument			
Commercial Paper (CP) Issue*	**1,300.00 (Rupees One Thousand and Three Hundred crore only)**	**CARE A1+ (A One Plus)**	Reaffirmed

**CESC maintains that the aggregate outstanding under CP and cash credit shall be within the fund based limit*

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of CESC Ltd (CESC) continue to derive strength from the established track record of CESC, long experience of the promoters, professional and highly qualified management team, high operational efficiency, strong Transmission & Distribution (T&D) network, full metered supply with almost 100% collection efficiency, healthy financial risk profile with significant cash accruals, moderate overall gearing ratio and high level of cash surplus (parked in fixed deposits and mutual funds). The ratings are also constrained by CESC's substantial exposure in subsidiaries for implementation of power projects & 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, generation, retail, 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, also stability and steady revenue generation from the projects commercialized in subsidiaries are the key rating sensitivities.

Detailed description of the key rating drivers

Key Strengths

Long track record of the company

CESC is an integrated power utility engaged in the business of generation, transmission and distribution of electricity to the consumers in its licensed area. CESC has a highly qualified and experienced employee pool having large experience in their related field. CESC's improvement in operational efficiency over the years can be attributed to its sound management team.

Established group with presence across diverse business verticals

CESC is a part of RP-Sanjiv Goenka Group. The group has interest across diverse business sectors such as power & natural resources, infrastructure, carbon black, BPO, education, real estate, retail and media & entertainment. CESC is an integrated power utility engaged in the business of generation, transmission and distribution of electricity to the consumers in its licensed area.

Strong T&D network with T&D loss below normative levels, fetching higher returns

CESC has a strong T&D network with continuous investment in infrastructure development. Currently, it has around 21,531 ckt km of distribution network, of which around 566 ckt km has been set up in FY16. This has resulted in consistent decline in T&D loss over the last few years with T & D loss of 11.5% in FY16 (much lower than the normative levels). The company's PAF remained well above the normative levels, ensuring full recovery of capacity charge under the availability based tariff regime. The company has almost 100% metered supply in its command area with over 99.5% collection efficiency in FY16.

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

Coal is the major input for the company, which has witnessed significant price volatility, coupled with supply shortage over the past few years. However, the company is insulated from the same in view of assured supply of coal & "pass on"

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

mechanism embedded in the tariff fixation formula of WBERC. CESC is allowed to pass on the hike in fuel cost through Monthly Variable Cost Adjustment (MVCA) mechanism, by which CESC's tariff is adjusted on monthly basis. CESC is charging MVCA of Re.0.29/unit from January 2017 to pass-on the increase in fuel cost and related cess.

Full metered supply with high collection efficiency

CESC is a vertically integrated power utility engaged in the business of generation, transmission and distribution of electricity to the consumers in its licensed area, covering Kolkata, Howrah and adjoining areas. The company has almost 100% metered supply in its command area and customers are billed based on meter readings.

High operational efficiency despite decline in PLF

The company's PAF remained well above the normative levels, ensuring full recovery of capacity charge under the availability based tariff regime. The PLF of Titagarh unit (240 MW), which is over three decades old, declined to 31% in FY16 from 80% in FY15 as CESC plans to operate it mainly to meet peak demand. This apart, the combined PLF for CESC's generation stations declined to 71% in FY16 from 87% in FY15 due to purchase of power at competitive tariff from HEL under the long-term PPA. The PLF was well above the national average thermal-PLF of 62% during FY16 in view of steady fuel availability coupled with efficient operations of CESC.

High cash accruals with highly comfortable liquidity position

The financials of CESC continues to remain healthy with operating income of of Rs.6,367 crore and a PAT of Rs.863 crore in FY17 as against an operating income of Rs.6,924 crore and a PAT of Rs.845 crore in FY16.

Key Weaknesses

Substantial exposure in group companies, partly stabilised

CESC's exposure to the subsidiary/associate companies as on March 31, 2016 was was Rs.5,255 crore largely for the setting up of thermal power generating stations aggregating 1200 MW at Chandrapur, Maharashtra (through DIL) and Haldia, WB (through HEL).

Exposure to regulatory risk

Power utilities are exposed to regulatory risk associated with delay in receipt of tariff order and non-allowance of expenses by the Commission.

Analytical approach: Standalone

Applicable Criteria

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

Company Background

CESC, belonging to RP-Sanjiv Goenka 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, 2016, the company has three thermal (coal based) power stations with total generating capacity of 1,125 MW serving 3 mn consumers in its 567 sq km licensed area. The combined installed capacity (thermal) of the 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 and Bharatpur from Jaipur Vidyut Vitaran Nigam Ltd through two wholly owned subsidiaries. The peak load, so far, handled by CESC is 2,035 MW. In FY16, CESC catered to 60% of its power requirement out of own generation, 30% 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 Ltd (HEL), and CESC shall have only power distribution business. The distribution companies in Noida, Ranchi and Rajasthan shall remain the subsidiaries of CESC.

CESC has a highly qualified and experienced employee pool having large experience in their related field. Most of the key professionals have long association with the group.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	6,924	7,367
PBILDT	1,872	1,958
PAT	845	863
Overall gearing (times)	0.53	0.57
Interest coverage (times)	4.11	4.37

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
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.*

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

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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 O/S	-	-	-	800.00	CARE A1+
Commercial Paper	May 23, 2017	6.49	Aug, 14, 2017	500.00	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.	Commercial Paper	ST	500.00	CARE A1+	-	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)
2.	Fund-based - LT-Cash Credit	LT	1300.00	CARE AA; Stable	-	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.	Term Loan-Long Term	LT	480.12	CARE AA; Stable	-	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)
4.	Non-fund-based - ST-BG/LC	ST	250.00	CARE A1+	-	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)
6.	Commercial Paper O/S	ST	800.00	CARE A1+	-	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

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

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@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 99888 05650
Tel: +91-172-5171 100 / 09
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

CIN - L67190MH1993PLC071691