CESC Limited

February 07, 2020

Rating

Instrument	Amount (Rs. Crore)	Rating[1]	Rating Action
Long term – Proposed Non-Convertible Debenture Issue Series A	**120.00 (Rupees One Hundred Twenty crore Only)**	**CARE AA; Stable (Double A; Outlook: Stable)**	**Assigned**
Long term – Proposed Non-Convertible Debenture Issue Series B	**110.00 (Rupees One Hundred Ten crore Only)**	**CARE AA; Stable (Double A; Outlook: Stable)**	**Assigned**
Long term – Proposed Non-Convertible Debenture Issue Series C	**120.00 (Rupees One Hundred Twenty crore Only)**	**CARE AA; Stable (Double A; Outlook: Stable)**	**Assigned**

Details of instrument in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the long term instruments of CESC Limited (CESC) derives strength from the established track record, long experience of the promoters having presence across diverse businesses, professional and highly qualified management team, high operational efficiency reflected in better than normative Plant Availability Factor (PAF) and Station Heat Rate (SHR), 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), satisfactory financial performance in FY19 (refers to the period from April 01 to March 31) and H1FY20 and adequate liquidity position (parked in fixed deposits and mutual funds). The ratings are however, constrained by CESC's moderate capital structure and debt protection metrics, exposure to regulatory risks and high exposure in group companies.

The performance of Haldia Energy Limited (HEL; rated CARE AA-; Stable/ CARE A1+) also adds comfort to the credit risk profile of CESC. Further, improvement in the financial performance of Dhariwal Infrastructure Limited (DIL; rated CARE BBB; Stable/CARE A3) also led to improvement in financial performance at consolidated level in FY19.

Rating Sensitivities

Positive Factors

- The operating parameters remaining much above the normative parameters on a sustained basis.
- Improvement in profitability margins (above 14% on a consolidated level) with the consolidated return on networth being above 15.5% on a sustained basis.
- Improvement in consolidated overall gearing ratio below unity and consolidated debt protection metrics with TDGCA going below 3x.

Negative Factors

- Deterioration in capital structure with consolidated overall gearing ratio going above 1.55x.
- Any concern on liquidity on account of approval of tariff, truing-up orders and fuel cost escalation pass through by WBERC.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record

Incorporated in 1899, 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.

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, infrastructure, carbon black, retail, education, BPO, and media & entertainment.

Professional and highly qualified management team

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.

Strong T&D network with T&D loss below normative levels

CESC has a strong T&D network with continuous investment in infrastructure development. This has resulted in consistent reduction in T&D loss over the last few years. T&D loss continues to remain at a comfortable level of around 9% in FY19 (much lower than the normative levels of 14.3%).

High operational efficiency reflected in better than normative PAF and SHR

CESC's plants exhibit higher than normative PAF, saving in oil consumption and better than normative SHR, reflecting superior operating efficiency. Superior performance helps in earning additional revenue as incentive.

The combined PLF for CESC's generation stations improved from 64% in FY18 to 65% in FY19. The PLF was slightly higher than the national average PLF of 61% during FY19 in view of steady fuel availability coupled with efficient operations of CESC. While the PLF for Budge Budge unit (750 MW) was 92% which is well above the normative level of 80%, the same for Southern unit was low at 24% as the company is purchasing power from HEL at competitive tariff Moreover, in FY18 and FY19, the company did not operate its Titagarh unit (240 MW) as the company was able to meet its peak demand without running the three decades old plant, which used to operate mainly to meet the peak demand of CESC, post commissioning of HEL's units.

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. The company's billing procedure is fully computerised and its collection efficiency was over 99.5% in FY19.

Satisfactory financial performance in FY19 and H1FY20

On a consolidated level, the financials of the group continues to remain healthy with operating income of Rs.10,819 crore and a PAT of Rs.1,198 crore in FY19 as against an operating income of Rs.10,387 crore and a PAT of Rs.890 crore in FY18. The PBILDT margin of the group, however, witnessed a decline from 30.05% in FY18 to 28.29% in FY19 on account of increase in coal cost. The pass through of increase in coal cost is pending due to pending approval of tariff order for the year FY18-19. The current tariff fixation formula ensures complete recovery of costs when operating targets are met and additional incentives for surpassing such targets. CESC has been consistently surpassing its targets in terms of PLF, usage of coal and oil, Station Heat Rate, etc., which has resulted in steady improvement in sales and cash accruals over the years along with comfortable operating margins. The interest coverage ratio remained satisfactory at 2.14x in FY19 (2.21x in FY18).

In H1FY20, the company (on a consolidated level) earned a PAT of Rs.597 crore (Rs.540 crore in H1FY19) on a total operating income of Rs.6,237 crore in H1FY20 (Rs.5,941 crore in H1FY19). The PBILDT margin declined from 28.78% in H1FY19 to 25.54% in H1FY20 on account of increase in fuel cost. The company earned a GCA of Rs.890 crore against a debt repayment obligation of Rs.870 crore in H1FY20.

On a standalone level, the total operating income of the company remained stable in FY19 with a decline in PBILDT from Rs.1,772 crore in FY18 to Rs.1,521 crore in FY19 on account of increase in coal cost. The pass through of increase in coal cost is pending due to pending approval of tariff order for the year FY18-19. The interest coverage ratio of the company though declined marginally, continues to remain stable at 2.65x in FY19 (2.99x in FY18).

In H1FY20, the company (on a standalone level) earned a PAT of Rs.492 crore (Rs.455 crore in H1FY19) on a total turnover of Rs.4,605 crore in H1FY20 (Rs.4,365 crore in H1FY19). The PBILDT margin witnessed a decline from 23.05% in H1FY19 to 19.65% in H1FY20 on account of increase in coal cost. The pass through of increase in coal cost is pending due to approval of tariff order.

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

Power is a highly regulated sector. CESC's tariff is determined by West Bengal Electricity Regulatory Commission (WBERC) on cost-plus basis. CESC's tariff including exports presently stands at Rs.7.27/unit. The company submits its Annual Performance Review (APR) on a yearly basis. The last approved APR for CESC was for FY13 and the tariff order has been approved for FY18.

Coal is the major input for the company, which has witnessed significant price volatility in the past. However, the company is insulated from the same in view of assured supply of coal & "pass on" mechanism embedded in the tariff fixation formula of WBERC. While such pass through by the regulatory authority enables the company to maintain the profitability, there is a likelihood of company facing short term liquidity mismatch in view of time taken in passing orders. To address this issue, 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 which increased from Jan 2017 to Re.0.29/unit (July 2016 – Dec 2016: Re.0.22/unit) to pass-on the increase in coal cost and other cess.

Key Rating Weaknesses

Moderate capital structure and debt protection metrics

On a consolidated level, the overall gearing ratio of the group improved from 1.52x as on March 31, 2019 to 1.41x as on September 30, 2019 due to accretion of profits to reserves. TDGCA which deteriorated and stood at 11.38x as on March 31, 2019 (9.62x as on March 31, 2018) improved to 8.80x as on September 30, 2019 on account of increase in GCA.

On a standalone level, the overall gearing ratio of the company improved slightly to 0.65x as on September 30, 2019 compared to 0.68x as on March 31, 2019. TDGCA which deteriorated and stood at 9.43x as on March 31, 2019 (6.11x as on March 31, 2018) improved to 6.11x as on September 30, 2019 on account of increase in GCA.

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. CESC's tariff needs to be approved by WBERC on a periodic basis. The Company has applied to WBERC for recovery of additional levy of Rs.897 crore (pertaining to coal extracted from Sarisatoli Coal Mine), the permission of which is pending. The last APR of CESC was approved for FY13 by WBERC. As articulated by the management, CESC has submitted APR between FY14 and FY18. Approval of APR is critical for the company.

High exposure in Group companies
On a standalone basis, CESC's exposure in group companies has increased from Rs.4,193 crore as on March 31, 2018 to Rs.4,430 crore as on March 31, 2019. The increase was on account of support extended to DIL (Rs.160 crore) and Bikaner Electricity Supply Limited (Rs.78 crore). The exposure to group companies as a % of networth has also increased from 39.6% of networth as on March 31, 2018 to 40.3% as on March 31, 2019.
Further, HEL has exposure of Rs.1,282 crore as on March 31, 2019 in CESC in the form of advances out of which majority has been utilised to provide fund support to DIL in the past.
On a consolidated level, exposure to group companies is Rs.179.55 crore as on March 31, 2019 mainly in Integrated Coal Mining Limited, carrying mining activities for CESC.
With the surplus cashflow from HEL and reduced losses in DIL, the support to DIL is expected to be low going forward.

Adequate Liquidity Position
CESC's free cash and liquid investments stood at Rs.1,300 crore as on November 30, 2019 vis-à-vis Rs.1,131 crore as on March 31, 2019. CESC earned GCA of Rs.798 crore in FY19 vis-à-vis its debt repayment obligation of Rs.987 crore in FY19. The shortfall in repayment in FY19 was primarily met out of the cash and liquid investments which was available with the company. The repayment obligation for FY20 is Rs.1,200 crore which shall be met out of GCA. The company has already repaid Rs.365 crore out of GCA of Rs.612 crore in H1FY20. The average working capital utilization for the last 12 months ending November 2019 stood at 81.22%.

Analytical approach: Consolidated. Post corporate restructuring, the retail and IT divisions have been demerged and the consolidated accounts of CESC comprises of only the power division companies of the group. CARE has taken a consolidated view of the following entities owned by CESC:

Sl. No.	Name of Subsidiaries & Associates	% of ownership interest as at March 31, 2019	% of ownership interest as at March 31, 2018
1	Haldia Energy Limited	100.00	100.00
2	Dhariwal Infrastructure Limited	100.00	100.00
3	Surya Vidyut Limited	100.00	100.00
4	Malegaon Power Supply Ltd (formerly Nalanda Power Company Limited)*	100.00	100.00
5	CESC Projects Limited*	100.00	100.00
6	Bantal Singapore Pte Limited	100.00	100.00
7	Pachi Hydropower Projects Limited*	100.00	100.00
8	Papu Hydropower Projects Limited*	100.00	100.00
9	Ranchi Power Distribution Company Limited*	100.00	100.00
10	Crescent Power Limited	67.83	67.83
11	Kota Electricity Distribution Limited	100.00	100.00
12	Bikaner Electricity Supply Limited	100.00	100.00
13	Bharatpur Electricity Services Limited	100.00	100.00
14	CESC Green Power Limited*	100.00	100.00
15	Noida Power Company Limited (NPCL) (49.5% Associate)	49.55	49.55
16	Noida Solar Energy Private Limited (100% subsidiary of NPCL)	49.55	49.55
17	Jharkhand Electric Company Limited*@	100.00	-
18	Jarong Hydro-Electric Power Company Limited*@	100.00	-
19	Au Bon Pain Café India Limited	93.10	93.10
20	Mahuagarhi Coal Company Pvt Ltd (50% Joint Venture)	50.00	50.00
21	Spencer's Retail Limited (merged on Oct.01, 2017) #	-	100.00
22	Music World Retail Limited (merged on Oct.01, 2017) #	-	100.00
23	RP-SG Retail Limited (subsequently renamed as Spencers' Retail Ltd) (SRL) #	-	100.00
24	Omnipresent Retail India Private Limited (100% subsidiary of SRL)#	-	100.00

Sl. No.	Name of Subsidiaries & Associates	% of ownership interest as at March 31, 2019	% of ownership interest as at March 31, 2018
25	CESC Ventures Limited (formerly RP-SG Business Process Limited) (CVL) #	-	100.00
26	Guiltfree Industries Limited (GIL) (100% subsidiary of CVL) #	-	100.00
27	Quest Properties India Limited (QPIL) #	-	100.00
28	Metromark Green Commodities Private Limited (100% subsidiary of QPIL) #	-	100.00
29	CESC Infrastructure Limited (merged on Oct.01, 2017) #	-	100.00
30	Spen Liq Private Limited (merged on Oct.01, 2017) #	-	100.00
31	Firstsource Solutions Limited (FSL) #	-	54.47
32	Firstsource Group USA Inc (FG US) (100% subsidiary of FSL) #	-	54.47
33	Firstsource BPO Ireland Limited (100% subsidiary of FSL) #	-	54.47
34	Firstsource Solutions UK Limited (FS UK) (100% subsidiary of FSL) #	-	54.47
35	Firstsource Process Management Services Limited (100% subsidiary of FSL) #	-	54.47
36	Firstsource Dialog Solutions Pvt Ltd (74% subsidiary of FSL) #	-	40.31
37	Firstsource Business Process Services, LLC (FBPS) (100% subsidiary of FG US) #	-	54.47
38	Firstsource Solutions USA LLC (100% subsidiary of MH Inc.) #	-	54.47
39	Firstsource Advantage LLC (100% subsidiary of FBPS) #	-	54.47
40	Firstsource Transaction Services LLC (100% subsidiary of FS SA) #	-	54.47
41	Firstsource Solutions S.A. (FS SA) (99.98% subsidiary of FS UK) #	-	54.46
42	Medassit Holding LLC (MH Inc) (100% subsidiary of FG US) #	-	54.47
43	One Advantage LLC (100% subsidiary of FBPS) #	-	54.47
44	ISGN Solutions Inc (100% subsidiary of FG US) #	-	54.47
45	ISGN Fulfillment Services, Inc. (100% subsidiary of ISGN Solutions Inc.) #	-	54.47
46	ISGN Fulfillment Agency, LLC (100% subsidiary of ISGN Fulfillment Services, Inc) #	-	54.47
47	Nanobi Data and Analytics Private Limited (21.79% associate of FSL) #	-	11.87
48	New Rising Promoters Private Limited (merged with CPL on Oct.01, 2017) (100% subsidiary of CPL) #	-	67.83
49	Bowlopedia Restaurants India Limited (100% subsidiary of CVL) #	-	100.00
50	Apricot Foods Private Limited (70% subsidiary of GIL) #	-	70.00

* Yet to commence their commercial operations
@ Subsidiary from October 01, 2018
# Post Demerger effective from September 30, 2018, these entities are no longer the subsidiary/associates

Applicable Criteria
[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings]
[CARE's Policy of Default Recognition]
[Financial ratios – Non-Financial Sector]
[Rating Methodology – Private Power Producers Ratings]
[Rating Methodology: Factoring Linkages in Ratings]

About the Company
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 March 31, 2019, the company has three thermal (coal based) power stations with total generating capacity of 1,125 MW (Operating capacity: 885 MW) serving 3.2 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) under HEL, Chandrapura, Maharashtra (600 MW) under DIL and 40MW in Asansol, WB under Crescent Power Ltd (CPL). The group also operates wind mills of 156 MW in Rajasthan, Gujarat and Madhya Pradesh under Surya Vidyut Ltd (SVL) and solar power plant of 15 MW in Tamil Nadu under CPL and 9MW in Gujarat under Integrated Coal Mining Limited (ICML). The peak load, so far, handled by CESC is 2,262 MW. In FY19, CESC catered to 51% (51% in FY18) of its power requirement out of own generation, 37% from HEL (36% in FY18) and balance out of purchase from other utilities.
The retail and IT division of the group has been demerged under the scheme of corporate restructuring from the appointed date of October 01, 2017. However, the generation division (1125 MW of coal based) that was proposed to be demerged to HEL has been kept in abeyance, pending approval of PPA from WBERC between the new entities.

Brief Financials - Consolidated (Rs. Crore)	FY18 (A)	FY19 (A)
Total Operating Income	10,387	10,819
PBILDT	3,121	3,061
PAT	890	1,198
Overall gearing (times)	1.63	1.52
Interest coverage (times)	2.21	2.14

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Available

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

Annexure-1: Details of Instruments

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Proposed Debentures-Non Convertible Debentures	-	-	-	120.00	CARE AA; Stable
Proposed Debentures-Non Convertible Debentures	-	-	-	110.00	CARE AA; Stable
Proposed Debentures-Non Convertible Debentures	-	-	-	120.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper	ST	500.00	CARE A1+	1)CARE A1+ (05-Jul-19) 2)CARE A1+ (09-Apr-19)	-	1)CARE A1+ (09-Oct-17) 2)CARE A1+ (13-Jul-17)	1)CARE A1+ (27-Oct-16) 2)CARE A1+ (12-May-16)
2.	Fund-based - LT-Cash Credit	LT	1300.00	CARE AA; Stable	1)CARE AA; Stable (03-Oct-19) 2)CARE AA; Stable (05-Jul-19) 3)CARE AA; Stable (09-Apr-19)	1)CARE AA; Stable (14-May-18)	1)CARE AA; Stable (20-Mar-18) 2)CARE AA; Stable (06-Feb-18) 3)CARE AA; Stable (09-Oct-17) 4)CARE AA; Stable (13-Jul-17)	1)CARE AA; Stable (17-Jan-17) 2)CARE AA (27-Oct-16)
3.	Term Loan-Long Term	LT	62.50	CARE AA; Stable	1)CARE AA; Stable (03-Oct-19) 2)CARE AA; Stable (05-Jul-19) 3)CARE AA; Stable (09-Apr-19)	1)CARE AA; Stable (14-May-18)	1)CARE AA; Stable (20-Mar-18) 2)CARE AA; Stable (06-Feb-18) 3)CARE AA; Stable (09-Oct-17)	1)CARE AA; Stable (17-Jan-17) 2)CARE AA (27-Oct-16)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
							4)CARE AA; Stable (13-Jul-17)	
4.	Non-fund-based - ST-BG/LC	ST	250.00	CARE A1+	1)CARE A1+ (03-Oct-19) 2)CARE A1+ (05-Jul-19) 3)CARE A1+ (09-Apr-19)	1)CARE A1+ (14-May-18)	1)CARE A1+ (20-Mar-18) 2)CARE A1+ (06-Feb-18) 3)CARE A1+ (09-Oct-17) 4)CARE A1+ (13-Jul-17)	1)CARE A1+ (17-Jan-17) 2)CARE A1+ (27-Oct-16)
5.	Fund-based - LT-Term Loan	LT	1640.02	CARE AA; Stable	1)CARE AA; Stable (03-Oct-19) 2)CARE AA; Stable (05-Jul-19) 3)CARE AA; Stable (09-Apr-19)	1)CARE AA; Stable (14-May-18)	1)CARE AA; Stable (20-Mar-18) 2)CARE AA; Stable (06-Feb-18) 3)CARE AA; Stable (09-Oct-17) 4)CARE AA; Stable (13-Jul-17)	1)CARE AA; Stable (17-Jan-17) 2)CARE AA (27-Oct-16)
6.	Commercial Paper	ST	800.00	CARE A1+	1)CARE A1+ (05-Jul-19) 2)CARE A1+ (09-Apr-19)	-	1)CARE A1+ (09-Oct-17) 2)CARE A1+ (13-Jul-17)	1)CARE A1+ (27-Oct-16) 2)CARE A1+ (12-May-16)
7.	Commercial Paper	ST	300.00	CARE A1+	1)CARE A1+ (05-Jul-19) 2)CARE A1+ (09-Apr-19)	-	-	-
8.	Proposed Debentures-Non Convertible Debentures	LT	120.00	CARE AA; Stable	-	-	-	-
9.	Proposed Debentures-Non Convertible Debentures	LT	110.00	CARE AA; Stable	-	-	-	-
10.	Proposed Debentures-Non Convertible Debentures	LT	120.00	CARE AA; Stable	-	-	-	-

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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