West Bengal State Electricity Transmission Company Limited

July 16, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	70.11 (reduced from 87.20)	**CARE BBB+; Stable (Triple B Plus, Outlook: Stable)**	**Revised from CARE A; Stable (Single A; Outlook: Stable)**
Long/Short-term Bank Facilities	325.00	**CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable/A Two)**	**Revised from CARE A; Stable/CARE A1 (Single A; Outlook: Stable/A One)**
Total	**395.11 (Rupees Three Hundred Ninety Five crore and Eleven lakh only)**		
Long-term Secured Redeemable Bonds Series I – Tranche I	18.30 (reduced from 36.60) (Rupees Eighteen crore and Thirty lakh only)	**CARE BBB+; Stable (Triple B Plus, Outlook: Stable)**	**Revised from CARE A; Stable (Single A; Outlook: Stable)**
Long-term Secured Redeemable Bonds Series II	250.0 (Rupees Two Hundred Fifty crore only)		
Issuer Rating	-	**'CARE BBB+ (Is)'; Stable (Triple B Plus (Issuer Rating), Outlook: Stable)**	**Revised from CARE A (Is); Stable (Single A (Issuer Rating); Outlook: Stable)**

Details of instruments/facilities in Annexure-1

The issuer rating is subject to the company maintaining overall gearing ratio not exceeding 1x

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities/instruments of West Bengal State Electricity Transmission Company Limited (WBSETCL) is on account of weakening of the credit profile of its main counterparty, viz. West Bengal State Electricity Distribution Company Limited (WBSEDCL; rated CARE BBB-; Negative) from whom the company derives more than 90% of its revenue.

The ratings continue to draw strength from the 100% ownership by the Government of West Bengal (GoWB), monopoly status in the power transmission in West Bengal with wide transmission network, strong operational efficiency as indicated by high system availability and low transmission loss, regulated nature of operations based on cost-plus based tariff, satisfactory collection efficiency, stable financial performance in FY19 (Provisional), moderate leverage ratios, comfortable liquidity position and sufficient financial flexibility for executing debt-laden capex. The ratings, however, continue to remain constrained by customer concentration risk, exposure to regulatory risk given non-receipt of true-up order post FY13, risk associated with execution and implementation of on-going projects accentuated by possible delays in land acquisition and right of way.

Any deviation from the funding pattern of the project leading to significant change in WBSETCL's capital structure (overall gearing exceeding 1x) and its ability to continue maintaining high system availability, further deterioration in performance of its sole customer (WBSEDCL) and timely collection of receivables shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Wholly owned undertaking of GoWB

Incorporated on February 16, 2007 as a wholly owned subsidiary of GoWB via spin-off of West Bengal State Electricity Board (WBSEB), the company is involved in carrying out the power transmission activity of WBSEB as a separate dedicated company.

Sole transmission utility in the state of West Bengal

The area of operation of WBSETCL covers the entire State of West Bengal, except for those areas that are covered by other licensees like CESC Limited, Damodar Valley Corporation, Durgapur Power Ltd. and India Power Corporation Limited. WBSEDCL is the sole long-term user of the transmission network of WBSETCL since power purchased from all the State &

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

Central sector generating stations and private power companies is transmitted through the transmission network of WBSETCL.

High operational efficiency exemplified by high system availability and low transmission loss
The company is continuously increasing its transmission network every year and having a transmission network of 13,613 circuit kilometre (Ckm) having transmission capacity of about 29,570 MVA spread across the entire State of West Bengal. Over the past seven years till FY18, transmission loss for WBSETCL has been around 3% which is better than the WBERC norms. The company has also maintained system availability of over 99% during the last four years with the availability being 99.85% in FY18.

Assured revenue at 'cost plus' basis
Transmission charges is billed and accounted for on the basis of tariff orders which stipulates the Annual Revenue Requirement (ARR) under 'cost plus' mechanism. All reasonable expenses (including duties, taxes, etc) are pass-through in tariff with 15.5% return on equity. Any incremental uncontrollable expense is also allowed to be passed through in tariff through APR process.

Stable financial performance
The total operating income of the company witnessed a growth of 4.75% y-o-y in FY19. PBILDT margin improved from 69.71% in FY18 to 73.04% in FY19 due to improved operating efficiency. However, the PAT margin remained stable on account of increase in capital charges. GCA of the company improved and stood at Rs.654 crore in FY19 vis-à-vis debt repayment obligation of Rs.270 crore. Interest coverage ratio remained stable at 3.76x in FY19 (3.80x in FY18).

Moderate leverage ratios
Overall gearing ratio improved to 0.75x as on March 31, 2019 vis-à-vis 0.82x as on March 31, 2018 on account of accretion of profits to reserves. The TD/GCA also improved slightly from 5.85x in FY18 to 5.11x in FY19.

Sufficient financial flexibility for executing debt-laden capex
With a view to match the anticipated growth in the energy demand in West Bengal and the expected generation capacity addition during the XIII Plan period (FY18-FY22), WBSETCL has undertaken various expansion projects towards development of transmission infrastructure. As per the tariff petition filed for FY17-FY18, the company had outlined an investment plan of Rs.6,850 crore in FY18-FY22 out of which the company has incurred Rs.994 crore in FY18 and Rs.1,075 crore in FY19. To support the projected investments, the company has to largely rely on the loans from financial institutions and private placement of bonds (as WBERC norms provide for the project to be financed at a debt-equity ratio of 2.33:1). Considering the overall gearing ratio of 0.75x as on March 31, 2019, the company has sufficient financial flexibility for executing debt-laden capex.

Key Rating Weaknesses
Customer concentration risk
WBSEDCL is the sole long term user of the transmission network of WBSETCL and accounts for more than 90% of its total revenue earned. WBSEDCL has a track record of timely payment (within 60 days) of transmission charges to WBSETCL till date and has ~100% collection efficiency. Given that the majority of revenue is derived from WBSEDCL, the fortunes of WBSETCL is closely linked to the credit profile of WBSEDCL.

Weakening of credit profile of its major customer
The credit profile of WBSEDCL, major customer of WBSETCL has weakened substantially over the period mainly due to build-up of huge regulatory asset as a result of non-revision of tariff since October 2016, non-approval of APR from FY14 onwards and increasing gap between the average cost of supply and approved tariff. This has led to huge debt level burden on WBSEDCL. Recovery of accumulated regulatory assets which has reached Rs.12,685 crore as on March 31, 2019 (mainly financed through short-term loans / GoWB loans) is critical to WBSEDCL's deleveraging. In order to avoid tariff shock, GoWB was considering a proposal to take over 75% of the outstanding regulatory asset balance. However, no clarity on the timeline of the same is visible.

Regulatory risk
Revenue from transmission charges is collected based on the tariff fixed by WBERC, which stipulates the ARR to be recovered from the consumers during the year under consideration. Any delay in issuing orders any change in the terms and conditions of tariff determination as well as disallowance of any of the ARR components may have a significant impact on the profitability of WBSETCL. WBSETCL has submitted APR petition for FY14-FY18 with aggregate claim of Rs.240 crore. However, the order in respect of the same is pending, exposing WBSETCL to regulatory risk. Also, WBERC has issued tariff order for FY18 on July 04, 2018.

Project execution risk
High population density and relatively high percentage of population being dependent on agriculture has led to reduced availability of land and right of way (ROW) posing major risk for the expansion of transmission network that the company is undertaking.

Liquidity position - Adequate
The company has an adequate liquidity position with cash and liquid investments of Rs.455 crore as on March 31, 2019. Further in FY19, the company earned a GCA of Rs.654 crore against a debt repayment obligation of Rs.270 crore. The company has a debt repayment obligation of Rs.309 crore in FY20 which it expects to meet out of its cash accruals for FY20. The average fund based working capital utilisation of the company remained at around 40% as maintained by the bankers during the last 12 months indicating undrawn line of credit amounting to Rs.200 crore as on June 30, 2019 providing liquidity buffer.

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 Service Sector
Criteria for Issuer Rating

About the Company
Incorporated in 2007, as a part of the restructuring initiative of West Bengal State Electricity Board (WBSEB), which had its operations spanning across complete value chain of generation, distribution and transmission of power, WBSETCL has been established as a separate dedicated company, wholly owned by the GoWB, for carrying out the power transmission activity. Presently, power generation activity vests with West Bengal Power Development Corporation Limited (WBPDCL) and distribution activity vests with WBSEDCL.
As on March 31, 2018 the company owns and operates a transmission network of 13,613 circuit kilometre (Ckm) Extra High Voltage (EHV) transmission lines and 124 EHV sub-stations having transmission capacity of about 29,570 MVA spread across the entire State of West Bengal. It handled energy flow of 49,560 million units (MU) in FY18 (46,801 MU in FY17) with average transmission loss of 2.77% and availability factor of over 99.85%.
WBERC had issued tariff order in July 2018 for the year 2017-18. Tariff petition for 2018-19 & 2019-20 is expected to be filed shortly. The Annual Performance Review (APR) from FY14 to FY18, are also pending with WBERC.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (P)
Total Operating Income	1335.14	1398.59
PBILDT	930.78	1021.50
PAT	367.74	400.55
Overall gearing (times)	0.85	0.75
Interest coverage (times)	3.80	3.76

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: NA

Any other information: Not Available

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

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-Term Loan	-	-	June 2022	70.11	CARE BBB+; Stable
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	325.00	CARE BBB+; Stable / CARE A2
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE BBB+ (Is); Stable
Bonds-Secured Reedemable Bonds	July 2011	10.29%	July 26, 2021	250.00	CARE BBB+; Stable
Bonds-Secured Reedemable Bonds	October 2010	9.75%	October 16, 2019	18.30	CARE BBB+; 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.	Fund-based - LT-Term Loan	LT	70.11	CARE BBB+; Stable	1)CARE A; Stable (05-Apr-19)	1)CARE A; Stable (05-Apr-18)	1)CARE A; Stable (28-Apr-17)	-
2.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE BBB+ (Is); Stable	1)CARE A (Is); Stable (05-Apr-19)	1)CARE A (Is); Stable (05-Apr-18)	1)CARE A (Is); Stable (28-Apr-17)	-
3.	Bonds-Secured Reedemable Bonds	LT	250.00	CARE BBB+; Stable	1)CARE A; Stable (05-Apr-19)	1)CARE A; Stable (05-Apr-18)	1)CARE A; Stable (28-Apr-17)	-
4.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (28-Apr-17)	-
5.	Bonds-Secured Reedemable Bonds	LT	18.30	CARE BBB+; Stable	1)CARE A; Stable (05-Apr-19)	1)CARE A; Stable (05-Apr-18)	1)CARE A; Stable (28-Apr-17)	-
6.	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST	325.00	CARE BBB+; Stable / CARE A2	1)CARE A; Stable / CARE A1 (05-Apr-19)	1)CARE A; Stable / CARE A1 (05-Apr-18)	1)CARE A; Stable / CARE A1 (28-Apr-17)	-

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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