CESC Limited

Instrument	Rated Amount	Rating Action
	In Rs Crore	As in December 2016
Commercial Paper/ Short Term Debt	160.00	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus)[1] assigned to the Rs 160 crore[2] Commercial Paper/Short-Term Debt programme of CESC Limited (CESC).

The rating reaffirmation reflects CESC's low business risk profile in its core licensee operations, the cost plus nature of the tariff-setting process, and the company's ability to outperform regulatory targets set by the West Bengal Electricity Regulatory Commission (WBERC), leading to healthy returns and stable cash flows. The rating also takes into account CESC's integrated nature of operations, with its presence across the generation and distribution verticals, and the regulatory clarity, as reflected by periodic tariff revisions, in turn leading to prompt pass-on of higher fuel costs. ICRA notes that the final tariff order for FY2017 had been released by WBERC in October 2016, in which an average tariff of Rs 7.02 per unit has been allowed, which is at a marginally higher level than Rs 6.98 per unit allowed in FY2016. Moreover, the rating derives comfort from the company's ability to recover fuel and power purchase cost escalations on a monthly basis through an operational monthly variable cost adjustment (MVCA) mechanism, which has benefited the company in terms of cash flows.

The rating also factors in the company's high level of billing/collection efficiency, and its favorable consumer mix, as indicated by a relatively lower level of cross-subsidisation, thereby implying lower vulnerability to migration of HT[3] consumers. The rating continues to derive strength from CESC's favorable operational indicators, with actual performance variables (such as station heat rate, plant availability, oil consumption norms, auxiliary energy, transmission and distribution loss levels etc.) remaining superior than regulatory targets. ICRA observes that CESC has continued to heavily invest in strengthening its power distribution infrastructure, resulting in significant reduction in transmission and distribution (T&D) losses from 22.8% in FY2001 to 11.6% in FY2016, which is considerably lower than the normative benchmark of 14.3% set by WBERC. Moreover, CESC's generation stations have consistently outperformed normative targets associated with station heat rates, auxiliary energy and fuel oil consumption, which has aided the company in earning superior returns. The rating also incorporates the company's limited fuel availability risks, with ~43% of its coal requirement being met from captive coal mine at Sarisatolli, and the rest from the fuel supply agreements (FSA) with Coal India Limited, thereby leading to a competitive cost of generation. However, the rating also factors in the negative bidding made by CESC to win back the Sarisatolli coal block, which is adversely impacting the company's profitability. Moreover, ICRA notes that CESC had paid Rs 1,044.87 crore towards additional levy for the Sarisatolli coal block, out of which the company expects to recover Rs 997.76 from consumers, which is pending approval from WBERC, thereby exposing the company to regulatory risks in the interim period. However, ICRA continues to derive comfort from CESC's favorable financial risk profile, as indicated by its healthy profitability, comfortable interest coverage, and a moderate capital structure. Moreover, the liquidity position of CESC continues to remain comfortable, characterised by stable cash flows, and a large cash and liquid investment balance of around Rs 1,336 crore as on March 31, 2016.

The rating derives strength from the stabilisation of operations of the Group's newly commissioned 600 MW coal-based thermal power plant at Haldia [under a wholly-owned step down subsidiary, named Haldia Energy Limited (HEL)], which is supplying its entire power generation to CESC through long term power purchase agreement (PPA) under the cost-plus tariff regime, and has FSA with Mahanadi Coalfield Limited, thereby largely mitigating off-take and fuel availability risks. ICRA notes that HEL has been generating healthy cash accruals from operations, and is materially contributing to the Group's profitability at the consolidated level. The rating also incorporates the company's exposure to significant debt funded capital expenditure towards setting up another 600 MW coal based thermal power plant at Chandrapur [under a wholly-owned step down subsidiary, named Dhariwal Infrastructure Limited (DIL)], wherein the said plant has not been able to operate at

[1] For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications
[2] 100 lakh = 1 crore = 10 million
[3] High Tension

adequate plant load factor (PLF) thus far because of an absence of coal linkage, inadequate long term PPAs, and bottlenecks in transmission corridor. However, ICRA notes that DIL has been able to secure fuel supply from South Eastern Coalfields Limited (SECL) in February 2016, and has also firmed-up long term PPAs accumulating to 270 MW, which would allow it to run one unit at full load from FY2018 onwards subject to adequate transmission corridor availability. This is expected to strengthen its operating profile and reduce its group dependence for bridging cash flow mismatches.

The RP-SG Group's organized retail venture through Spencer's Retail Limited (SRL) has been able to steadily reduce its losses in the last few years, supported by store rationalisation and cost-optimisation initiatives. The average store level EBITDA has improved to Rs 108/sq. ft./month in Q2FY2017, from Rs 83/sq. ft./month in Q2FY2016, and Rs 85/sq. ft. in Q4FY2016. ICRA believes that with the gradual improvement in SRL's performance, incremental funding support from CESC is likely to reduce in the near to medium term. Going forward, given CESC's large liquid investments and stable cash flows from the power distribution business, its liquidity position is likely to remain comfortable, which would support its debt servicing ability.

Company Profile

CESC, a part of the RP-SG Group, was incorporated in 1978 and is engaged in the generation and distribution of electricity. It has a license to supply electricity in Kolkata and Howrah. The licensee area is of 567 sq. km and caters to about over 3.0 million consumers at present. It has a generation capacity of 1125 MW (all coal based) at present.

Recent Results

On a standalone basis, CESC has reported a profit after tax (PAT) of Rs. 399.00 crore on an operating income (OI) of Rs. 3,906.00 crore in H1FY2017, against a PAT of Rs. 394.00 crore on an OI of Rs. 3,621.00 crore in H1FY2016.

In FY2016, CESC reported a PAT of Rs 707.01 crore on an operating income of Rs 6,493.07 crore, against a PAT of Rs 697.72 crore on an operating income of Rs 6,200.10 crore during FY2015.

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