

July 31, 2025

Gulbarga Electricity Supply Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term –Fund based -Term loan	940.00	797.16	[ICRA]BBB- (Stable); reaffirmed
Long term –Fund based -Overdraft	100.00	100.00	[ICRA]BBB- (Stable); reaffirmed
Short term –Non-fund based - Letter of credit	261.00	-	-
Long term –Fund based - Capex loan	-	300.00	[ICRA]BBB- (Stable); reaffirmed
Long term/Short term - Unallocated	-	103.84	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed
Total	1,301.00	1,301.00	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of the ratings for Gulbarga Electricity Supply Company Limited (GESCOM/company) continues to favourably factor in its 100% ownership by the Government of Karnataka (GoK), the strategic importance of the company to the state power sector and the monopolistic nature of the business supported by cost-plus tariff-based principles. The ratings are also supported by an established regulatory process in the state, evident from the presence of a multi-year tariff (MYT) regime, a timely issuance of tariff orders and the annual true-up of the actual performance of the distribution companies (discoms). ICRA notes that the MYT tariff order for FY2026-FY2028 was released in March 2025 with a tariff hike of ~4% for GESCOM for FY2026.

Further, the ratings derive comfort from the cash inflows of GESCOM from consumer contribution and the capital grants towards capital assets, equity infusion from the GoK and security deposits from consumers. ICRA also considers the company's satisfactory operational efficiency as the distribution loss level has reduced over the years to ~10.4% in FY2025 from 16.5% in FY2018 with the utility taking various steps to strengthen the system.

The ratings remain constrained by the vulnerability of GESCOM's power purchase cost (PPC) to its power procurement mix, particularly the availability of power from the hydel stations of Karnataka Power Corporation Limited (KPCL), as any shortfall would lead to dependence on high-cost power, as seen in the past. Also, the increasing share of renewables in the power purchase mix of GESCOM in recent years has led to the backing down of long-term thermal stations, wherein the discoms would continue to pay fixed charges. The PPC of GESCOM declined to Rs. 5.92 per unit in FY2025 (provisional numbers) from Rs. 6.67 per unit in FY2024. The PPC was within the approved cost for FY2025, while it was higher than the approved level in FY2024. A higher-than-approved PPC is accentuated by the company's inability to pass it on to consumers under the fuel cost adjustment (FCA) framework approved by the Karnataka Electricity Regulatory Commission (KERC).

The ratings are further tempered by the relatively high dependence (~49% of revenues in FY2025) on the state government's subsidy due to the large share (~43% in FY2025) of agriculture consumers in the overall energy sales volume mix. In addition, the ratings factor in the company's modest financial risk profile, characterised by a weak capital structure, below-average debt coverage metrics and its increasing dependence on debt to clear the outstanding dues to power generators. The cost coverage ratio for the company has been lower than 1.0x over FY2023-FY2025, primarily due to the under-recovery of approved subsidy and collections from various government departments and the PPC being higher than the approved level.

Further, ICRA takes note of GESCOM's high cross-subsidisation requirement, with higher tariffs charged from commercial and industrial (C&I) consumers to compensate for the lower rates for domestic and agriculture users. This could result in a loss of industrial consumers for GESCOM, as seen in FY2025 and the past. The ratings also factor in the capital expenditure plans by GESCOM for system improvements that are to be funded through a mix of long-term debt, capital receipts and equity from the GoK.

The Stable outlook on the long-term rating for the bank facilities of GESCOM reflects ICRA's opinion that the entity will continue to be supported by the GoK, given its strategic importance as one of the state power distribution utilities. GESCOM's ability to improve its profitability metrics through growth in volume sales and tariff revisions in tandem with its cost structure, while achieving timely collections, will remain crucial from a credit perspective.

Key rating drivers and their description

Credit strengths

State-owned power distribution company with cost-plus tariff - GESCOM is a GoK-owned power distribution utility that supplies electricity to consumers in seven districts of Karnataka. The utility receives regular support from the GoK in the form of equity and capital grants. The monopolistic nature of the business with cost-plus tariff principles allows the utility to pass on the variations in cost structure to the consumers.

Established regulatory processes in Karnataka - The operations of GESCOM are supported by well-established regulatory processes in Karnataka, with the presence of MYT regulations along with regular and timely issuance of tariff orders by the KERC, including annual true-up in the past years. The MYT tariff order for FY2026-FY2028 was issued in March 2025.

Demonstrated support from GoK - The utility has received continued support from the GoK in the form of equity infusion to meet its capex requirements and through an interest-free loan of Rs. 1,000 crore in March 2020 to meet its cash flow gap. In addition, GESCOM has raised loans backed by state government guarantees in the recent past, including FY2025, to clear the dues to power generating companies. Around 50% of the total debt outstanding as on March 31, 2025, was guaranteed by the Government of Karnataka

Satisfactory operating efficiency - GESCOM has been able to lower its distribution loss level to ~10.4% in FY2025 from 16.5% in FY2018 with the utility taking various projects to strengthen the system. However, the distribution loss level was slightly higher than the KERC's approved upper limit of 10.25% for FY2025.

Financial profile supported by cash inflows in the form of grants, equity and consumer contribution - The financial profile of GESCOM is supported by considerable cash inflows from consumer contribution and subsidy grants towards capital assets, security deposits from consumers and equity infusion from the GoK.

Credit challenges

Financial risk profile constrained by inadequate tariffs in relation to cost of supply and moderately high receivable position - Inadequate tariffs in relation to the cost of supply and a moderately high receivable position constrain the financial profile of GESCOM, resulting in accumulated losses and a high payable position. In FY2025, the company reported losses and the cost coverage ratio was below 1.0x due to inadequate tariff realisations compared to the cost of supply and an increase in receivables for the sale of power from government departments. However, the losses in FY2025 were lower compared to FY2024 primarily due to the reduced PPC. The payable position has improved with the ongoing clearance of past dues (till June 2022) of central generators and independent power producers through 48 monthly instalments under the late payment surcharge (LPS) scheme, which in turn has put pressure on the debt coverage metrics, as the company has availed debt funding for it. Notwithstanding this, the company received ~Rs. 1,340 crore through a securitisation transaction in FY2025, which was utilised to reduce its outstanding payables and short-term debt.

High subsidy dependence - The subsidy dependence as a proportion of the operating income for GESCOM remains high at about 49% of the revenues in FY2025. This is owing to the large share of agriculture consumers in the energy sales mix. While there was a deficit in subsidy collections in FY2024, the collections in FY2025 were higher than the claimed amount as the company also received the FY2024 arrears in the fiscal. A timely and adequate subsidy collection remains important from a credit perspective.

Sensitivity of power purchase cost to GoK's power allocation policy - The PPC for GESCOM is susceptible to the power allocation policy of the GoK and the availability of power supply from KPCL's hydel stations. Any shortfall in the availability of cheap hydel power leads to dependence on high-cost power, as seen in the past. Also, the growing sharing of renewables in the power purchase mix in recent years has led to a backing down of the thermal stations (wherein discoms would continue to pay the fixed charges). This could increase the PPC for the company. This is accentuated by the inability of the company to pass on the increase in PPC to the consumers under the existing quarterly FCA framework. The FCA framework approved by the KERC does not allow pass-through of any variation in PPC from sources other than long-term thermal stations and is limited to the variation in energy charges for these plants. The variation in PPC is approved during the annual true-up process, which happens with a lag.

High tariff cross-subsidisation with subsidised supply to agriculture and domestic consumers - The cross-subsidisation requirement persists with higher tariffs charged from commercial and industrial consumers to compensate for the lower rates for domestic and agriculture consumers. This could result in a loss of industrial consumers for GESCOM, given the availability of cheaper power in the open access market. However, the recent measures by the KERC, such as the reduction in per unit energy charges for C&I consumers, the introduction of the Discounted Energy Rate Scheme (DERS) and lower tariffs during solar hours under the time-of-day (ToD) tariff regime allay concerns regarding the loss of C&I consumers to an extent.

Liquidity position: Stretched

The liquidity profile of GESCOM is stretched, based on the inadequate accruals to meet the debt obligations, moderate available cash balances and high working capital utilisation as on March 31, 2025. Nonetheless, the demonstrated support from the GoK through interest-free and GoK-guaranteed loans is expected to help the utility pay the dues to its generators. The capex funding is met through fresh equity, capital grants, consumer contributions and long-term debt. Going forward, a timely realisation of the receivables from consumers and timely receipt of the approved subsidy from the GoK will remain critical for the company.

Rating sensitivities

Positive factors – The ratings can be upgraded if the utility reduces its receivable position and improves its profitability metrics, leading to an improvement in its liquidity, while maintaining satisfactory operating efficiency. Further, the ratings remain sensitive to the credit profile of the GoK.

Negative factors – The ratings could face pressure if the receivables from the supply of power increase or there are significant delays in receiving the subsidy, adversely impacting the cash flows. Also, reduced operating efficiency resulting in higher-than-approved distribution loss levels would exert pressure on the ratings. Further, the ratings remain sensitive to the credit profile of the GoK.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power- Distribution
Parent/Group support	The assigned ratings factor in the systemic importance that GESCOM holds for the state power sector, which ICRA expects should induce the GoK to extend timely financial support to the rated entity, should there be a need
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of GESCOM

About the company

GESCOM, incorporated in 2002, is one of the five state-owned distribution utilities in Karnataka, which are licensed to supply electricity in the five designated areas of the state. GESCOM is licensed to distribute electricity to seven districts of Karnataka - Bellary, Bidar, Kalaburagi, Koppala, Raichur, Yadgiri and Vijayanagar - covering an area of 43,861 sq. km with 3.69 million consumers as on March 31, 2024. The other distribution utilities in Karnataka are Bangalore Electricity Supply Company Limited (BESCOM), Mangalore Electricity Supply Company Limited (MESCOM), Hubli Electricity Supply Company Limited (HESCOM) and Chamundeshwari Electricity Supply Corporation Limited (CESCOM). The transmission function in Karnataka is under state-owned Karnataka Power Transmission Corporation Limited (KPTCL), while the state-owned power generation assets are under KPCL.

Key financial indicators (audited)

GESCOM Standalone (audited)	FY2024	FY2025 [^]
Operating income	8596.8	8238.8
PAT *	-1496.7	-651.8
OPBDIT/OI	-3.3%	7.2%
PAT/OI	-17.4%	-9.1%
Total outside liabilities/Tangible net worth (times)	-7.4	-5.0
Total debt/OPBDIT (times)	-17.8	10.4
Interest coverage (times)	-0.5	0.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *PAT has been adjusted for prior period regulatory changes; [^] provisional financials; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2026)			Chronology of rating history for the past 3 years						
FY2026			FY2025		FY2024		FY2023		
Instrument	Type	Amount rated (Rs. crore)	Jul 31, 2025	Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	797.16	[ICRA]BBB-(Stable)	Apr 30, 2024	[ICRA]BBB-(Stable)	-	-	Jan 19, 2023	[ICRA]BBB-(Stable)
Fund based overdraft	Long term	100.00	[ICRA]BBB-(Stable)	Apr 30, 2024	[ICRA]BBB-(Stable)	-	-	Jan 19, 2023	[ICRA]BBB-(Stable)
Non-fund based letter of credit	Short term	-	-	Apr 30, 2024	[ICRA]A3	-	-	Jan 19, 2023	[ICRA]A3
Unallocated	Long term /Short term	103.84	[ICRA]BBB-(Stable) / [ICRA]A3	-	-	-	-	Jan 19, 2023	[ICRA]BBB-(Stable) / [ICRA]A3
Capex loan	Long term	300.00	[ICRA]BBB-(Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term – Fund based - Term loan	Simple
Long term – Fund based - Overdraft	Simple
Long term – Fund based - Capex loan	Simple
Long term/Short term unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click here](#)

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance/Sanction	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	Term loan	Oct 2020	-	Dec 2030	797.16	[ICRA]BBB- (Stable)
NA	Overdraft	-	-	-	100.00	[ICRA]BBB- (Stable)
NA	Capex term loans	Oct 2024	-	Oct 2034	300.00	[ICRA]BBB- (Stable)
NA	Unallocated	-	-	-	103.84	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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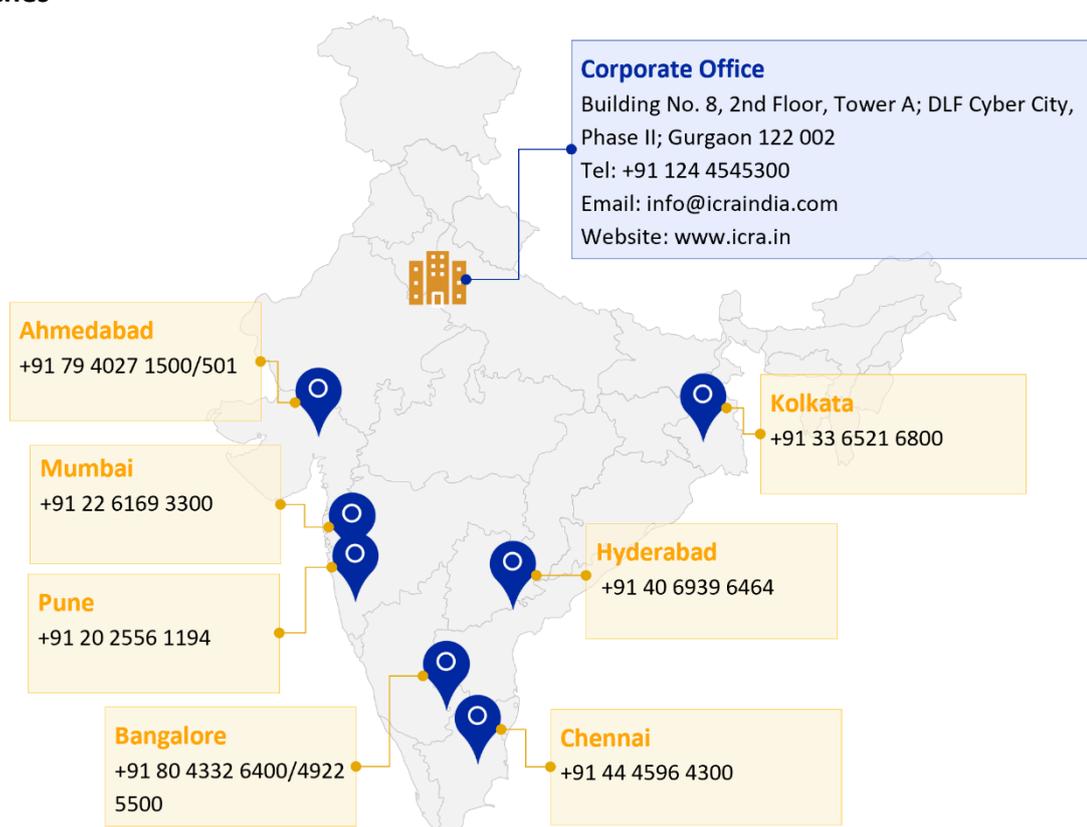
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