

West Bengal State Electricity Distribution Company Limited

Instrument	Amount	Rating Action
	In Rs. Crore	
Issuer Rating	-	Downgraded from IrBBB+ (Stable) to IrBBB (Stable); put on notice of withdrawal for a period of one year
Long Term Bond Programme	1000	Downgraded from [ICRA]BBB+ (Stable) to [ICRA]BBB (Stable)

ICRA has revised the long term rating assigned to the bond programmes of West Bengal State Electricity Distribution Company Limited (WBSEDCL)¹ accumulating to Rs 1000 crore² from [ICRA]BBB+ (pronounced ICRA triple B plus) to [ICRA]BBB (pronounced ICRA triple B). ICRA has also revised the issuer rating of WBSEDCL from IrBBB+ (pronounced IR triple B plus) to IrBBB (pronounced IR triple B). The outlook on the long-term rating and issuer rating remains Stable. The aforesaid issuer rating has been put on a Notice of Withdrawal for a period of one year, before being withdrawn.

The rating revisions take into account the consistent gap between WBSEDCL's average cost of supply (ACS) and average tariff, which has resulted in a large pile up of regulatory assets amounting to Rs 11,599 crore as on September 30, 2015, and the delays in the release of annual performance review (APR) orders for FY14 and FY15, in turn leading to uncertainties associated with the timely recoverability of income realizable through the regulatory mechanism which has already been booked in the accounts. ICRA notes that between FY14 – H1 FY16, WBSEDCL has booked ~Rs 6,900 crore as regulatory income, which is yet to be approved by the West Bengal Electricity Regulatory Commission (WBERC), thereby delaying their release. Although WBERC has started allowing the carrying cost on regulatory assets, the same continues to be at a lower level as compared to WBSEDCL's actual interest burden on working capital, which leads to interest cost under-recoveries, and therefore remains a concern. WBSEDCL's distribution losses have remained in the range of 25% - 28% between FY13 - FY15, being considerably higher than normative levels allowed by WBERC (17.5%), and therefore leads to disallowance of power purchase costs, in turn adversely impacting business returns. ICRA notes that with WBSEDCL's disallowed power purchase costs being significantly higher than the return on equity (RoE), in a key regulatory change brought in by WBERC in July 2013, WBSEDCL's disallowed power purchase cost had been capped at allowed RoE plus net unscheduled interchange (UI) charge receivable, which mitigates the impact of power purchase cost disallowances on WBSEDCL's profits to an extent. Given the high distribution loss levels, WBSEDCL's AT&C loss levels have also remained high, ranging between 28% - 32% between FY12 - FY15. Moreover, WBSEDCL's cost coverage ratio³ also remains moderate (0.82 - 0.89 times between FY13 - FY15), primarily on account of its high AT&C losses, delays in tariff revision, and disallowed power purchase costs. The ratings are further tempered by WBSEDCL's continuing trend of an increase in borrowing levels, especially due to higher reliance on working capital as well as short term funds to meet revenue account deficits, which has resulted in high interest burden, and also exposes the company to refinancing risks. Additionally, WBSEDCL's negative retained cash flows (RCF)⁴ and significant debt repayment obligations accentuate such refinancing risks further. However, the status of the company as a 100% Government of West Bengal (GoWB) owned entity gives it financial flexibility. ICRA notes that WBERC has released WBSEDCL's multi-year tariff (MYT) order for the FY15 - FY17 control period, which provides regulatory clarity, and therefore supports the ratings. Moreover, WBSEDCL has been able to gradually reduce its average power purchase cost in FY15 as well as the current financial year, which helps ease the pressure on the company's cash flows to an extent. In addition, post the commencement of 250 MW power supply to Bangladesh, WBSEDCL has been able to achieve a substantial increase in power trading income from FY15 onwards, which has also supported its cash flows. The ratings also derive comfort from WBSEDCL's limited dependence on subsidy from the State Government in the past, due to its healthy trading gains, as well as its favorable consumption mix, as reflected by a low share of agricultural connections as

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 Cost coverage pertains to Income realized vs. expenses booked during the year; Income realized during the year is calculated on cash basis; extraordinary income is adjusted, and only normal receivables are factored in to calculate income realized during the year

⁴ Retained cash flows denote the Fund flow from operations after deducting the interest cost burden

compared to the industrial and commercial segments, which have higher tariffs. Moreover, despite the large capital investments undertaken in the past, WBSEDCL's capital structure remains moderate, as indicated by a gearing of 1.76 time as on September 30, 2015, supported largely by the receipt of Central and State Government grants for capital projects. ICRA notes that GoWB has not yet joined the Ujwal Discom Assurance Yojna (UDAY) scheme, to take over majority of WBSEDCL's outstanding debt as on September 30, 2015. Going forward, ICRA believes that the company's initiatives towards loss reduction measures, adequate tariff revisions, release of regulatory assets by the regulator in a time-bound manner, and GoWB's final decision on the implementation of the UDAY scheme would remain key rating drivers.

Company Profile

West Bengal State Electricity Distribution Company Limited (WBSEDCL) was incorporated w.e.f. April 01, 2007, post unbundling of the erstwhile West Bengal State Electricity Board (WBSEB), in line with the requirement under the Electricity Act 2003. The erstwhile WBSEB has been unbundled into a) West Bengal State Electricity Distribution Company Limited and b) West Bengal State Electricity Transmission Company Limited (WBSETCL) in accordance with a transfer scheme notified by the State Government of West Bengal dated January 25, 2007. As a part of the transfer scheme, the functions and business of power transmission and load dispatch activities have been transferred to and vested in WBSETCL, and the functions and business of power distribution and activities related to hydro power undertakings have been transferred to and vested in WBSEDCL. WBSEDCL has around 1,067.35 MW of hydro power capacity, including a 900 MW pumped storage hydro power plant (primarily for meeting peak power loads). WBSEDCL is a power distribution licensee for almost the entire state of West Bengal, except for certain areas, which are catered by private distribution licensees. WBSEDCL accounts for about 80% of the power supply in the state and caters to almost 150 lakh low & medium voltage customers as well as 3919 high voltage customers.

Recent Results

In H1 FY16, WBSEDCL reported a profit after tax (PAT) of Rs 9.24 crore (provisional) on the back of an operating income of Rs 9,546.77 crore (provisional), as against a PAT of Rs. 8.14 crore (provisional) on the back of an operating income of Rs. 9,487.42 crore during H1 FY15 (provisional). During FY15, WBSEDCL had reported a PAT of Rs. 19.82 crores on an OI of Rs. 19,444.70 crores.

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