

India Ratings Affirms West Bengal State Electricity Transmission Company at 'IND BBB+'; Outlook Stable

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By Ankur Rustagi

India Ratings and Research (Ind-Ra) has affirmed West Bengal State Electricity Transmission Company Limited's (WBSETCL) Long-Term Issuer Rating at 'IND BBB+'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Long-term loans		-	-	August 2022	INR0.414 (reduced from INR0.542)	IND BBB+/Stable	Affirmed
Fund-based limits		-	-	-	INR3.250	IND BBB+/Stable	Affirmed
Bonds programme	INE631K07028	26 July 2011	10.29	25 July 2021	INR2.500	IND BBB+/Stable	Affirmed

KEY RATING DRIVERS

Tariff Order to Improve Cash Flow: WBSETCL's annual revenue requirement (ARR) was increased to INR14.1 billion for FY20 (FY19: INR12.6 billion, FY18: INR12.1 billion) in December 2020 by West Bengal Electricity Regulatory Commission (WBERC). It has been further increased to INR14.3 billion, INR15.3 billion and INR15.9 billion for FY21, FY22 and FY23, respectively, under multi-year tariff regulations, which would increase its annual cash accruals accordingly. The true-up exercise was also partially completed, allowing a recovery of INR0.08 billion and INR0.26 billion for FY14 and FY15, respectively. The company expects an inflow of INR1 billion-1.5 billion post the true-up exercise for FY16-FY20.

Healthy Credit Profile: During FY21, WBSETCL's net leverage (net debt/EBITDA) and interest coverage (EBITDA/interest expenses) improved to 2.5x (FY20: 3.0x) and 4.6x (3.5x), respectively, led by an improvement in the EBITDA to INR12.9 billion (INR9.7 billion) due to accumulated arrears for the FY19-FY21 period. WBSETCL undertook

capex of INR8.9 billion in FY21 (FY20: INR8.6 billion) and is likely to incur capex of nearly INR20 billion during FY22-FY23 towards network strengthening and expansion, feeder separation and increased transformation capacity. Despite the large capex, the net leverage is likely to remain at the existing level on account of the improved cash flow supported by the increased ARR for FY22 and FY23. So far, the company's cash flow from operations has remained fairly strong, given the timely payments from the state distribution company, West Bengal State Electricity Distribution Company Limited (WBSEDCL). However, any delay in the receipt of receivables could result in lower-than-expected cash flows, and consequently, a higher-than-expected leverage ratio. FY21 financials are provisional.

Liquidity Indicator – Adequate: WBSETCL has sufficient liquidity available to meet its debt servicing obligations and cover any short-term delays in collection, given the healthy cash and cash equivalent of INR5.65 billion at FYE21 (FYE20: INR4.4 billion, FYE19: INR4.6 billion) and stable EBITDA due to the cost-plus nature of its operations and timely payments by the off-takers. Moreover, the average utilisation of the working capital limits was 33% for the 12 months ended June 2021. WBSEDCL's total borrowings amounted to INR37.4 billion at FYE21 (FYE20: INR33.7 billion, FYE19: INR33.4 billion), out of which INR1.8 billion (INR1.1 billion, INR0.8 billion) was short-term debt. The company has a scheduled debt repayment of INR5.5 billion and INR3.4 billion for FY22 and FY23, respectively, and interest payments of around INR2.9 billion each for FY22 and FY23. Against this, WBSETCL is likely to generate EBITDA of INR11 billion-12 billion. The company is also looking at refinancing the loans to reduce its interest outgo.

Regulated Nature of Operations: WBSETCL operates on a cost-plus return on equity model which guarantees recovery of reasonable costs. This regulatory framework also allows WBSETCL to earn a return of 15.5% on the normative debt/equity of 70:30. However, the regulator allows this return on only 50% of the capitalisation done by the company in a particular year. Any adverse change in the regulatory principles by way of a reduction in the return on equity or tightening of the operational parameters could result in lower cash flows for WBSETCL.

Debtors to Normalise in FY22: WBSETCL's debtors increased to INR6.3 billion at FYE21 from INR2.3 billion at FYE20, on account of i) three-month current dues outstanding in March 2021 (as against the usual credit period of two months) due to weak liquidity position of WBSEDCL, leading to an increase of INR1.1 billion, ii) accumulated recovery and arrears amounting INR2.2 billion outstanding on account of the FY19 and FY20 tariff order received in December 2020, and iii) a cumulative increase in the monthly billing by 0.7 billion for February and March 2021 due to the arrears and increased ARR based on the latest tariff order. With the improved collections of WBSEDCL, the credit period for WBSEDCL has regularised to 60 days in the current financial year. However, owing to the delay in the finalisation of the tariff order for WBSEDCL, the timely payment of only the current dues excluding arrears is being made by WBSEDCL to WBSETCL.

WBSETCL extends a credit period of only 60 days to WBSEDCL as per the transmission agreement, and the payments are backed by a revolving letter of credit for one-month average billing, with delayed payments resulting in a late payment surcharge of 15% per annum. Despite this security mechanism, Ind-Ra believes WBSETCL's ability to invoke the letter of credit and late payment surcharge remains limited, as both WBSEDCL and WBSETCL are state government-owned entities. WBSEDCL is seeking additional funding under the Atmanirbhar Bharat Package pending the completion of sanction stipulations.

Counterparty Party Profile Continues to Weaken: WBSEDCL's credit profile continued to deteriorate in FY21 (unaudited financials), with the pending tariff revision and true-up of past ARRs causing cumulative regulatory assets to increase to INR192.3 billion during the year (FY20: INR155.3 billion, FY19: INR126.9 billion). Excluding the regulatory assets accretion, WBSEDCL incurred an EBITDA loss of INR21.9 billion in FY21 (FY20: loss of INR3.9 billion, FY19: INR9.5 billion). This coupled with an interest outflow of INR15.9 billion in FY21 (FY20: INR14.6 billion, FY19: INR14.3 billion) compelled the company to rely on increased borrowings and government grants and consumer contribution (FY21: INR187 billion, FY20: INR179.6 billion, FY19: INR160.0 billion) to fund the negative cash flow from operations. At FYE21, WBSEDCL's total debt stood at INR134.0 billion (FYE20: INR128.5 billion FYE19: INR110.7 billion), while the regulatory debt per the tariff order for FY18 stood at INR61 billion. Given the maturities of INR5 billion as well as significantly lower cash flow from operations in FY22, WBSEDCL would continue to rely on refinancing and government grants. However, the sufficient cash and cash equivalent (FYE21: INR5.2 billion, FYE20: INR6.4 billion, FYE19: INR8.6 billion) along with a short-term revolving facility of INR5 billion from the state government would provide some liquidity support to the company. WBSEDCL has delayed the repayment of instalments for state government-guaranteed pension funds and the loans taken from the state government since FY19. The tariff revision would remain a key monitorable for Ind-Ra.

Moreover, WBERC has not considered any working capital requirement in its tariff order, while WBSEDCL had a working capital debt of INR59.0 billion at FYE21 (FYE20: INR58.6 billion). Thus, the servicing of the interest on the working capital debt is also contingent on the regulatory grant being received from the government in a timely manner. Any timing mismatch in the receipt of the regulatory grant in the absence of an increase in the tariff could impact WBSEDCL's ability to service debt as well as make timely payments to WBSETCL.

Income from PGCIL Yet to be Booked: WBSETCL owns a part of two interstate transmission lines Kolaghat-Baripada and Santaldih-Chandil, for which WBSETCL is entitled to receive transmission charges as it owns, maintains and operates these lines. WBSETCL had received a tariff order for these lines for FY12-FY14, against which it booked an income in FY16, receivable from Power Grid Corporation of India Limited (PGCIL). However, there has since FY15 been no order from Central Electricity Regulatory Commission on the tariff to be charged for this line. PGCIL had been making regular payments till FY20, which WBSETCL, in the absence of a tariff order, is showing as an advance received from PGCIL. However, PGCIL has filed a petition regarding the same and did not make any payment in FY21. This advance stood at INR1.7 billion at FYE21 (FYE20: INR1.7 billion). Adjustment of the same is pending resolution of the petition filed by PGCIL.

RATING SENSITIVITIES

Positive: Timely receipt of the current dues and arrears from WBSEDCL along with an improvement in WBSEDCL's financial health could be positive for the ratings.

Negative: A continued weak financial profile of WBSEDCL, leading to delays in the realisation of receivables to WBSETCL, leading to deterioration in the latter's liquidity resulting in the net leverage exceeding 4.0x, all on a sustained basis, could be negative for the ratings.

COMPANY PROFILE

WBSETCL was incorporated in April 2007 post the unbundling of the erstwhile West Bengal State Electricity Board on functional lines in line with the requirement under Electricity Act 2003. West Bengal State Electricity Board was unbundled into WBSE-T and WBSE-D. WBSE-T is responsible for transmitting power across West Bengal. At FYE20, the company owned and operated a transmission network of 14,735 circuit kilometre extra high voltage transmission lines and 142 extra high voltage sub-stations with a transmission capacity of about 35,546MVA at 400kV, 220kV, 132kV and 66kV across West Bengal.

FINANCIAL SUMMARY

Particulars (INR billion)	FY21(P)	FY20
Revenue	17,911	14,082
EBITDA	12,925	9,657
Profit after tax	6,248	3,864
Gross interest expense	2,833	2,754
Total debt	37,376	33,720
Source: Ind-Ra, WBSETCL		

RATING HISTORY

Instrument Type	Current Rating/Outlook	Historical Rating/Outlook
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	Rating Type	Rated Limits (billion)	Rating	20 July 2020	12 August 2019	22 May 2019	10 April 2018
Issuer rating	Long-term	-	IND BBB+/Stable	IND BBB+/Stable	IND A-/Negative	IND A/Stable	IND A/Stable
Term loan	Long-term	INR0.414	IND BBB+/Stable	IND BBB+/Stable	IND A-/Negative	IND A/Stable	IND A/Stable
Fund-based limits	Long-term	INR3.250	IND BBB+/Stable	IND BBB+/Stable	IND A-/Negative	IND A/Stable	IND A/Stable
Bonds programme	Long-term	INR2.500	IND BBB+/Stable	IND BBB+/Stable	IND A-/Negative	IND A/Stable	IND A/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Long-term loans	Low
Fund-based limits	Low
Bonds programme	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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