

Press Release

West Bengal State Electricity Transmission Company Limited

May 06, 2021

Rating Upgraded



| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs.1059.00 Cr. |
| Long Term Rating | ACUITE A+/Stable (Upgraded) |

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating from '**ACUITE A**' (read as **ACUITE A**) to '**ACUITE A+**' (read as **ACUITE A plus**) on the Rs.1059 Cr bank facilities of West Bengal State Electricity Transmission Company Limited (WBSETCL). The outlook remains '**Stable**'.

The rating upgrade is driven by the overall improvement in the business risk profile of WBSETCL marked by significant increase in the revenues levels of the company coupled with steady profitability margins and stable financial risk profile. The rating upgrade also factors in an improvement in the fiscal profile of the Government of West Bengal which is expected to provide significant support to WBSETCL, as and when necessary. These strengths are partly offset by the inherently regulated nature of operations in the electricity transmission business and the counterparty exposure to the state distribution entity, WBSEDCL which has a relatively weaker credit profile.

About the company

West Bengal State Electricity Transmission Company Limited (WBSETCL) was incorporated in April 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 West Bengal State Electricity Distribution Company Limited (WBSEDCL) (rated at ACUITE BBB/Negative/A3+) and West Bengal State Electricity Transmission Company Limited (WBSETCL) in accordance with a transfer scheme notified by the State Government of West Bengal dated January 2007. As a part of the transfer scheme, the business of power transmission and load dispatch activities have been transferred and vested in WBSETCL and the business of power distribution and activities related to hydropower undertakings have been transferred and vested in WBSEDCL. Currently, WBSETCL operates and maintains a transmission network of 15081 CKM of Extra High Voltage Transmission lines along with 133 sub-stations (ranges from 132 KV to 400 KV) and total transformation capacity of 34396 MVA, spread over the entire stretch of the state of West Bengal. Moreover, WBSETCL maintained a transmission system availability of 99.92 per cent and transmission losses of only 2.49 per cent in FY2020.

Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of WBSETCL to arrive at the rating. However, of the rating factors in the support from the Government of West Bengal, given the latter holding 100 per cent ownership of WBSETCL and its strategic importance to the state.

Key Rating Drivers

Strengths

- **Support from the Government of West Bengal**

WBSETCL is a wholly-owned undertaking of the GoWB and a strategically important entity for the power sector infrastructure in the state of West Bengal. The ownership structure provides adequate financial flexibility. It is also the nodal agency of the government for undertaking power transmission activity in the state. Being the transmission licensee, WBSETCL is mandated to ensure the development of an efficient, coordinated and economical transmission network for smooth flow of power to the load centres. WBSETCL's credit quality is also supported by its access to funds at low cost and its ability to mobilise financial resources from several financial institutions and multilateral development institutions due to its status as a state owned entity.

West Bengal has been one of the fastest-growing states in India and is the sixth-largest state economy in India

with gross state domestic product (GSDP) growing at 14.60 per cent in 2019-20. While the state's revenue deficit has been relatively modest at 0.48 per cent, its fiscal deficit stood at 2.63 per cent in 2019-20. GoWB has significantly increased its focus on increasing industrial development in the state, which gets reflected from the high growth in FDI inflows onto the state which has witnessed an amount of about Rs.47106 Cr from FY2000 to FY2020. However, the state's overall borrowing level continues to remain high and is a challenge to its overall fiscal profile.

Acuite believes that WBSETCL, being a 100 per cent undertaking of GoWB, shall continue to benefit from the financial, operational and management support as and when required. The GoWB has demonstrated financial support by way of loans to WBSETCL on a regular basis. Any changes in the ownership pattern of WBSETCL or any event that impinges GoWB's overall credit profile shall remain a key rating sensitivity.

- **Strong business risk profile**

WBSETCL has achieved revenues of Rs.1437.92 Cr in FY2020 as compared to revenues of Rs.1320.81 Cr in till 31st December, 2020 (Provisional). The growth in revenues is on account of increase in revenue from short term open access charges. The profitability margins of the company are healthy with operating margin of 69.23 per cent in FY2020 as compared to 72.69 per cent in FY2019. The PAT margins stood at 26.87 per cent in FY2020 as against 29.32 per cent as on FY2019. The steady profitability margins have translated into moderate albeit steady ROCE levels for the company of about 9.30 per cent in FY2020 as against 10.37 per cent in FY2019. Further, West Bengal Electricity Regulatory Commission (WBERC) has approved Aggregate Revenue Requirement (ARR) for FY 2018-19 and FY2019-20 filed by WBSETCL on December, 2020. WBSETCL has received around Rs.297 Cr from WBSEDCL in January, 2021 on account of this foresaid tariff revision.

- **Inbuilt 'cost plus tariff' structure**

The billing of transmission charges by WBSETCL is regulated and fall under the gamut of the Annual Revenue Requirement (ARR) of a 'cost-plus' based tariff mechanism. The regulator allows a post-tax return on equity of 15.5 per cent and other uncontrollable expenses are allowed to be passed through in tariff through the Annual Performance Review (APR) process. Acuite believes the 'cost-plus' based tariff mechanism will continue to sustain the stable business outlook for the company.

- **Healthy financial risk profile**

The company's healthy financial risk profile is marked by strong network, comfortable gearing and healthy debt protection metrics. The tangible net worth of the company improved to Rs.4815.57 Cr as on March 31, 2020 from Rs.4459.43Cr as on March 31, 2019 due to steady earnings. Gearing of the company stood comfortable at 0.70 times as on March 31, 2020 as against 0.75 times as on March 31, 2019. The debt of Rs.3372.01 Cr mainly consists of long term borrowings of Rs.2391.59 Cr, state government loan of Rs.551.13 Cr, current obligations of Rs.321.84 Cr and working capital borrowing of Rs.107.45 Cr as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.08 times as on March 31, 2020 as against 1.10 times as on March 31, 2019. The healthy debt protection metrics of the company is marked by Interest Coverage Ratio at 3.74 times as on March 31, 2020 and Debt Service Coverage Ratio at 1.62 times as on March 31, 2020. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.20 times as on March 31, 2020. Acuite believes that going forward the financial risk profile of the company will remain comfortable backed by steady accruals.

Weakness

- **Regulated nature of operations**

WBSETCL continues to be exposed to regulatory uncertainty, given that the revenues or transmission charges are influenced by the regulatory framework governing the power sector. The company operates through a cost-plus return on equity model laid down by WBERC. Any change or reduction in return on equity or a tightening of the WBERC norms could result in lower operating cash flows. Further, lack of timely tariff revision could result in cash flow mismatch in the medium term. The entity is also subject to counterparty or delayed payment risk from WBSEDCL which has a relatively weaker credit profile as compared to WBSETCL.

Rating Sensitivity

- Timely support from the Government of West Bengal
- Periodical tariff revision

- Any significant increase in receivables from WBSEDCL

Material Covenant

None

Liquidity Profile: Strong

The company's liquidity is strong marked by net cash accruals of Rs.673.28 Cr in March 31, 2020 as against debt repayment obligation of Rs.309.47 Cr. The company has not availed any loan moratorium or additional Covid loans. The cash and bank balances of the company were high at Rs.254.39 Cr as on March 31, 2020 as compared to Rs.227.13 Cr as on March 31, 2019. The company has put aside fund of Rs.189.86 Cr as on March 31, 2020 and Rs.228.17 Cr as on March 31, 2019 to be utilized for redemption of debentures and unforeseen exigencies. The fund based limit remains utilised at around 42 per cent over the six months ended Dec, 2020. However, the current ratio stood below unity at 0.74 times as on March 31, 2020, on account of high other current liabilities arising from amount to be paid to Power Grid Corporation, consumer contribution to capital asset, payable to WBSETCL Pension Trust and provision for employee benefits. Acuite believes that going forward the company will maintain strong liquidity position due to steady accruals and healthy networth base.

Outlook: Stable

Acuite believes that the company will maintain 'Stable' outlook over the medium term due to the steady cash flows inherent in the power transmission business along with its strategic importance and the support provided by the state government. The outlook may be revised to 'Positive' in case the company registers consistent growth in revenues while maintaining its profitability and liquidity. Conversely, the outlook may be revised to 'Negative' in case of any unexpected deterioration in the financial profile, elongation of working capital cycle or any significant pressures on the fiscal position of the state government.

About the Rated Entity - Key Financials (Standalone)

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 1,437.92 | 1,380.48 |
| PAT | Rs. Cr. | 386.38 | 404.72 |
| PAT Margin | (%) | 26.87 | 29.32 |
| Total Debt/Tangible Net Worth | Times | 0.70 | 0.75 |
| PBDIT/Interest | Times | 3.74 | 3.86 |

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities in service sector- <https://www.acuite.in/view-rating-criteria-50.htm>
- State Government Support- <https://www.acuite.in/view-rating-criteria-26.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount | Ratings/Outlook |
|-------------|---------------------------------|-----------|-------------|----------------------------|
| | | | (Rs. Crore) | |
| 25-Aug-2020 | Cash Credit | Long term | 250.00 | ACUITE A/Stable (Assigned) |
| | Cash Credit | Long term | 75.00 | ACUITE A/Stable (Assigned) |
| | Term Loan | Long term | 190.00 | ACUITE A/Stable (Assigned) |

| | | | | |
|--|-----------|-----------|-------|----------------------------|
| | Term Loan | Long term | 54.00 | ACUITE A/Stable (Assigned) |
|--|-----------|-----------|-------|----------------------------|

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|-----------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 250.00 | ACUITE A+/Stable (Upgraded) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 75.00 | ACUITE A+/Stable (Upgraded) |
| Term Loan | 18-Dec-2018 | 7.65% | 31-Dec-2034 | 190.00 | ACUITE A+/Stable (Upgraded) |
| Term Loan | 06-Nov-2020 | 7.75% | 31-Dec-2038 | 490.00 | ACUITE A+/Stable (Assigned) |
| Term Loan | 29-Sep-2016 | 11.00% | 31-Aug-2022 | 54.00 | ACUITE A+/Stable (Upgraded) |

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About Acuité Ratings & Research

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