

Press Release
WEST BENGAL STATE ELECTRICITY TRANSMISSION COMPANY LIMITED
May 22, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1677.10	ACUITE A+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	1677.10	-	-

Rating Rationale

Acuité has reaffirmed the long-term rating of 'ACUITE A+' (read as ACUITE A plus) on the Rs. 1677.10 Cr bank facilities of West Bengal State Electricity Transmission Company Limited (WBSETCL). The outlook remains 'Stable'.

The rating takes into cognizance the stable business risk profile of WBSETCL marked by steady revenues levels of the company coupled with steady profitability margins and healthy financial risk profile. The rating also factors in the support from the government of West Bengal 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/Stable/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 15417 CKM of Extra High Voltage Transmission lines along with 139 sub-stations (ranges from 132 KV to 400 KV) and total transformation capacity of 50266 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 2.23 per cent in FY2022.

Standalone (Unsupported) Rating

ACUITE A-/Stable

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of WBSETCL to arrive at the rating. Acuité has also factored in benefits emanating from the ownership by Government of West Bengal. GoWB's financial support to WESETCL is in the form of its 100 per cent ownership and its guarantee for certain borrowings of WBSETCL.

Key Rating Drivers

Strengths

Strategically important entity and 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 18.10 per cent in 2021-22. While the state's revenue deficit has been relatively modest at 2.15 per cent, its fiscal deficit stood at 3.48 per cent in 2021-22. GoWB has significantly increased its focus on increasing industrial development in the state, which gets reflected from the improving FDI inflows onto the state. However, the state's overall borrowing level continues to remain high and is a challenge to its overall fiscal profile.

Acuité believes that WBSETCL, being a 100 per cent undertaking of GoWB, shall continue to benefit from the financial, operational and management support from time to time. 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.

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. Acuité believes the 'cost-plus' based tariff mechanism will continue to sustain the stable business outlook for the company.

Steady business risk profile buoyed by favorable operating efficiency

WBSETCL has achieved revenues of Rs.1713.11 Cr in FY2022 as compared to revenues of Rs.1854.63 Cr in FY2021 and Rs.1437.92 Cr in FY2020. Further, the company has achieved revenue of Rs. 2160.60 Cr in FY2023 (provisional).

The profitability margins of the company are healthy with operating margin of 67.40 per cent in FY2022 as compared to 72.16 per cent in FY2021. The PAT margins stood at 28.47 per cent in FY2022 as against 34.26 per cent as on FY2021. The steady profitability margins have translated into healthy ROCE levels for the company of about 9.18 per cent in FY2022 as against 12.26 per cent in FY2021.

Healthy financial risk profile

The company's healthy financial risk profile is marked by healthy networth, comfortable gearing and healthy debt protection metrics. The tangible net worth of the company improved to Rs. 6,057.75 Cr as on March 31, 2022 from Rs. 5,477.35 Cr as on March 31, 2021 due to accretion of reserves. Gearing of the company stood comfortable at 0.56 times as on March 31, 2022 as against 0.68 times as on March 31, 2021. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.92 times as on March 31, 2022 as against 1.03 times as on March 31, 2021. The healthy debt protection metrics of the company is marked by Interest Coverage Ratio at 4.43 times as on March 31, 2022 and Debt Service Coverage Ratio at 1.32 times as on March 31, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.24 times as on March 31, 2022. Acuité believes that going forward the financial risk profile of the company will remain comfortable backed by steady accruals.

Weaknesses

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.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Timely support from the Government of West Bengal
- Timelines for tariff revision
- Any significant increase in receivables from WBSEDCL

Material covenants

None

Liquidity Position: Strong

The company's liquidity is strong marked by net cash accruals of Rs.805.74 Cr in March 31, 2022 as against debt repayment obligation of Rs.301.27 Cr. The company has not availed any loan moratorium or additional covid loans. The cash and bank balances of the company stood at Rs.184.63 Cr as on March 31, 2022 as compared to Rs.301.25 Cr as on March 31, 2021. The company has put aside fund of of Rs.190.12 Cr as on March 31, 2022 and Rs.264.17 Cr as on March 31, 2021 to be utilized for redemption of debentures and unforeseen exigencies. The fund based limit remains utilised at around 7.6 per cent over the six months ended Apr, 2023. However, the current ratio stood below unity at 1.05 times as on March 31, 2022, on account of high other current liabilities due to amount received from Power Grid Corporation, consumer contribution to capital asset, payable to WBSETCL Pension Trust and provision for employee benefits. Acuité believes that going forward the company will maintain strong liquidity position due to steady accruals.

Outlook: Stable

Acuité 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.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1713.11	1854.63
PAT	Rs. Cr.	487.69	635.39
PAT Margin	(%)	28.47	34.26
Total Debt/Tangible Net Worth	Times	0.56	0.68
PBDIT/Interest	Times	4.43	4.61

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jun 2022	Term Loan	Long Term	490.00	ACUITE A+ Stable (Reaffirmed)
	Term Loan	Long Term	618.10	ACUITE A+ Stable (Assigned)
	Cash Credit	Long Term	250.00	ACUITE A+ Stable (Reaffirmed)
	Term Loan	Long Term	190.00	ACUITE A+ Stable (Reaffirmed)
	Term Loan	Long Term	54.00	ACUITE A+ Stable (Reaffirmed)
	Cash Credit	Long Term	75.00	ACUITE A+ Stable (Reaffirmed)
06 May 2021	Cash Credit	Long Term	75.00	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
	Term Loan	Long Term	190.00	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
	Cash Credit	Long Term	250.00	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
	Term Loan	Long Term	490.00	ACUITE A+ Stable (Assigned)
	Term Loan	Long Term	54.00	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	145.00	Simple	ACUITE A+ Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	80.00	Simple	ACUITE A+ Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	Simple	ACUITE A+ Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	190.00	Simple	ACUITE A+ Stable Reaffirmed
Housing and Urban Development Corporation Ltd (HUDCO)	Not Applicable	Term Loan	Not available	Not available	Not available	54.00	Simple	ACUITE A+ Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	490.00	Simple	ACUITE A+ Stable Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	618.10	Simple	ACUITE A+ Stable Reaffirmed

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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