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Bikaner Electricity Supply Limited

August 14, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities-	150.00 (enhanced from 130.00)	IVR BBB+ /Stable (IVR Triple B plus with Stable Outlook)	Reaffirmed
Short Term Bank Facilities	100.00	IVR A2 (IVR A Two)	Reaffirmed
Total	250.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Bikaner Electricity Supply Ltd (BKESL) continues to derive comfort from strong operational support of its parent company, CESC Ltd. (CESC), long track record of CESC in the power sector, BKESL's belongingness to the reputed RP- Sanjiv Goenka group and highly experienced & qualified management team. The ratings are further underpinned by the exclusive long-term power distribution agreement with Jodhpur Vidyut Vitran Nigam Ltd (JDVVNL) for supply of power in Bikaner city of Rajasthan, insularity of margin from increase in power purchase price, improvement in operational performance in FY20 and strong demand potential for power. However, the rating strengths are tempered by the short track record of BKESL's operation, high distribution loss though improved in FY20, prevalence of retail customers limiting the demand growth and high receivables.

Rating Sensitivities

Upward Factors:

- Significant improvement in operating performance, capital structure and credit profile of the parent, CESC Limited
- Significant improvement in operating performance of the company

Downward Factors:



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- Deterioration in operating performance impacting the liquidity and debt coverage indicators
- Deterioration in the capital structure
- Weakening of support from the parent company and/or moderation in the credit profile of the parent, CESC Limited

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Strong parent support**

BKESL is a wholly owned subsidiary of CESC, an established & well performing power utility based out of Kolkata. CESC has a strong financial risk profile with adequate liquidity. BKESL, being a wholly owned subsidiary of CESC, is expected to receive continuous support from its parent. CESC has infused ~Rs.120 crore in BKESL till FY20.

- **Long track record of the parent company, CESC, in the power sector**

CESC is having a long track record of operation. It is a vertically integrated power utility engaged in the business of generation, transmission and distribution of electricity to the consumers in its licensed area covering Kolkata and Howrah in West Bengal.

- **Belongingness to the reputed RP-Sanjiv Goenka group**

Kolkata based the RP-Sanjiv Goenka group is one of the leading industrial houses of the country with interest in power generation & distribution, coal, carbon black, retailing, entertainment and BPO business with CESC Ltd. being the flagship company. Other major companies of the group are Philips Carbon Black Ltd., CESC Infrastructure Ltd., Firstsource Solutions Ltd., Haldia Energy Ltd, Noida Power and Saregama India Ltd.

- **Highly experienced & qualified management team**

BKESL is managed by highly qualified and experienced employee pool transferred from CESC having strong experience in their related fields. In terms of operation, BKESL has lots of synergy with CESC.

- **Exclusive long-term power distribution agreement**



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JDVVNL has a distribution license under the provisions of Electricity Act, 2003 to supply electricity in the western and north-western part of Rajasthan. For distribution of power in its designated areas, JDVVNL undertook competitive bidding process to select its distribution franchises. For Bikaner city area, JDVVNL selected CESC Ltd from the bidding process. CESC designated, BKESL, as a special purpose vehicle (SPV) in order to discharge its obligations as a distribution franchise. In this regard, the Distribution Franchise Agreement (DFA) was signed in June, 2016 with a validity of 20 years. BKESL has the exclusive right to distribute power in Bikaner area of Rajasthan.

- **Insularity of margin from increase in power purchase price**

The power purchase price of the company is fixed as per the DFA for the next 20 from the date of the DFA. Any revision in the cost structure of JDVVNL will not have any impact on the fixed purchase price for BKESL. As per the agreement, power purchase cost per unit is proportionately linked to any revision in per unit power tariff revision by the Rajasthan Electricity Regulatory Commission and hence, it is a pass through. Therefore, the margin of BKESL is insulated from fluctuation in power purchase price.

- **Improvement in operational performance**

BKESL's total income registered a growth of ~12% during FY20 aided by higher net saleable power. The company started its operation in May, 2017 and reported losses till FY19 due to high level of T&D losses and other operational stabilization issues. However, under the guidance of CESC group, BKESL's operations turned profitable in FY20. During FY20, BKESL has shown a significant improvement in financial performance mainly by bringing down T&D losses to 14.41% in FY20 from 18.10% in FY19.

- **Strong demand potential for power**

The domestic power sector appears to have considerable growth potential, given the fact that the country is likely to be power deficient in many pockets particularly during the peak period due to mismatch between robust power demand and creation of supply facilities. The Bikaner city has high growth potential driven by its locational advantage and direct link to nearby major cities.



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Key Rating Weaknesses

- **Short track record of operation**

BKESL started its operation in May, 2017. Accordingly, it has a short track record of operation.

- **High distribution loss though improving**

BKESL witnessed a T&D loss of ~14.4% in FY20 (18.10% in FY19) as against a normative T&D loss as approved by Rajasthan Electricity Regulatory Commission for JDVVNL of 15%. Bikaner has a history of having high T&D loss and witnessed a T&D loss of 24.43% in FY16. However, under BKESL, T&D loss witnessed an improving trend exhibiting CESC's competence in managing T&D loss.

- **Prevalence of retail customers limiting the demand growth**

With a large urban/ semi urban profile of the license area, BKESL has higher proportion of retail customers in its consumer mix. Higher proportion of retail customers limits the growth potential to an extent due to lower possibility of extensive growth in power consumption in near term.

- **High receivables**

BKESL has more than six months' receivables of about ~Rs.39.70 crore (around 49% of its net worth of Rs.80.30) as on March 31, 2020 indicating a slow collection cycle. High receivables have a negative impact on the liquidity. BKESL is operating with a collection efficiency of about 93.83% in FY20, with almost 100% metered supply in its command area and computerised billing procedure.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies



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Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity of the company is expected to remain adequate backed by the support from the parent, CESC Ltd having highly comfortable liquidity position with high cash balances and liquid investments.

About the Company

Bikaner Electricity Supply Limited (BKESL - erstwhile Water Hyacinth Commosale Private Limited), incorporated in May 05, 2012, is a wholly owned subsidiary of CESC Ltd (CESC) belonging to Kolkata-based RP-Sanjiv Goenka group. The RP - Sanjiv Goenka group is one of the leading industrial houses of the country with interest in power generation & distribution, coal, carbon black, retailing, entertainment and BPO business. JDVVNL has a distribution license under the provisions of Electricity Act, 2003 to supply electricity in the western and north-western part of Rajasthan. JDVVNL undertook competitive bidding process to select its distribution franchises. For Bikaner city area, JDVVNL selected CESC Ltd from the bidding process. CESC designated, BKESL, as a special purpose vehicle (SPV), in order to discharge its obligations as a distribution franchise. In this regard, the Distribution Franchise Agreement (DFA) was signed in June, 2016. BKESL is engaged in electricity distribution operation in Bikaner city from May, 2017 as a distribution franchisee of JDVVNL. BKESL is sourcing power from JDVVNL as per the stated rates in DFA and selling the power to customers under its command area as per tariff order issued by RERC.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	491.77	549.11
EBITDA	-4.82	16.50
PAT	-13.80	5.90
Total Debt	62.65	58.98
Tangible Net worth	74.42	80.30
EBITDA Margin (%)	-0.98	3.01
PAT Margin (%)	-2.81	1.07
Overall Gearing Ratio (x)	0.84	0.73



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*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Bank Guarantee	Long Term	130.00	IVR BBB+/ Stable Outlook	IVR BBB+/ Stable Outlook (July 5, 2019)	-	IVR BBB+/ Stable Outlook (March 27, 2018)
2.	Term Loan	Long Term	20.00	IVR BBB+/ Stable Outlook	-	-	-
3.	Overdraft	Short Term	100.00	IVR A2	IVR A2 (July 5, 2019)	-	IVR A2 (March 27, 2018)

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually



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widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Term Loan	-	-	March 2024	20.00	IVR BBB+/ Stable Outlook
Long Term Non-Fund Based Facilities- Bank Guarantee	-	-	-	130.00	IVR BBB+/ Stable Outlook
Short Term Fund Based Facilities- Overdraft	-	-	-	100.00	IVR A2