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Kota Electricity Distribution Limited

August 14, 2020

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Fund Based Facilities- Term loan	96.56 (enhanced from Rs.70.31 crore)	IVR BBB+ /Stable (IVR Triple B plus with Stable Outlook)	Reaffirmed
Long Term Non-Fund Based Facilities- Bank Guarantee	225.00 (enhanced from Rs.219.50 crore)	IVR BBB+ /Stable (IVR Triple B plus with Stable Outlook)	Reaffirmed
Short Term Fund Based Facilities- Overdraft	100.00	IVR A2 (IVR A Two)	Reaffirmed
Total	421.56		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Kota Electricity Distribution Ltd (KEDL) continues to derive comfort from strong operational support of its parent company, CESC Ltd. (CESC), long track record of CESC in the power sector, KEDL'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 Jaipur Vidyut Vitran Nigam Ltd. (JVVNL) for supply of power in Kota city of Rajasthan, insularity of margin from increase in power purchase price and strong demand potential for power. However, the rating strengths are tempered by high distribution loss albeit gradual improvement, prevalence of retail customers limiting the demand growth and loss from operation with low debt coverage indicators along with 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



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Downward Factors:

- Deterioration in operating performance impacting the liquidity and debt coverage indicators on sustained basis
- More than expected debt funded capex leading to deterioration in 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**

KEDL 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. KEDL, being a wholly owned subsidiary of CESC, is expected to receive continuous support from its parent. CESC has infused ~Rs.264 crore in KEDL till FY20. Infomerics expects that CESC will continue to infuse funds as and when required for KEDL's operations.

- **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**

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

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



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JVVNL has a distribution license under the provisions of Electricity Act, 2003 to supply electricity in the eastern part of Rajasthan. For distribution of power in its designated areas, JVVNL undertook competitive bidding process to select its distribution franchises. For Kota city area, JVVNL selected CESC Ltd from the bidding process. CESC designated, KEDL, 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. KEDL has the exclusive right to distribute power in Kota 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 JVVNL will not have any impact on the fixed purchase price for KEDL. 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 (RERC) and hence, it is a pass through. Therefore, the margin of KEDL is insulated from fluctuation in power purchase price.

- **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. Kota city has high growth potential driven by its locational advantage and direct link to nearby major cities.

Key Rating Weaknesses

- **High distribution loss albeit gradual improvement**

KEDL witnessed a T&D loss of ~20.44% in FY20 (improved from 22.79% in FY19 and 27.35% in FY18) as against a normative T&D loss as approved by Rajasthan Electricity Regulatory Commission for JVVNL of 15%. The distribution loss has perennially been higher than the approved levels, mainly due to age-old distribution infrastructure resulting in slow meter reading, absence of full metering, inefficient billing systems, etc. Kota has a history of having high T&D loss and witnessed a T&D loss of 29.71% in FY15. However, under KEDL, T&D loss witnessed an improving trend exhibiting CESC's competence in managing T&D



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loss.

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

With a large urban/ semi urban profile of the license area, KEDL 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**

KEDL has more than six months receivables of about Rs.33.36 crore (around 73% of its net worth of Rs.45.62 crore) as on March 31, 2020 indicating an elongated collection cycle, impacting liquidity. KEDL is operating with a collection efficiency of about 95.50% in FY20 with almost 100% metered supply in its command area and computerised billing procedure.

- **Loss from operation with low debt coverage parameters**

Power distribution business requires time to stabilize and turn profitable due to its initial teething problems. Further, the power distribution in Kota city was earlier controlled by government controlled power distribution utility and had history of high T&D loss due to operational inefficiencies, age old machineries, power theft and faulty billing systems. KEDL is still incurring operational loss (though reduced in FY20) due to stabilization issues and high T&D losses. Hence, the debt coverage parameters continued to remain weak. However, the company is getting funding support from CESC to fund the losses and the debt servicing requirements. Moreover, the management is adopting more stringent measures and focusing on modern technology that could improve efficiency of operations and reduce the losses going forward.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate



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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

Kota Electricity Distribution Limited (KEDL - erstwhile Sheesam Commercial Pvt Ltd), incorporated in May 03, 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. JVVNL has a distribution license under the provisions of Electricity Act, 2003 to supply electricity in the Eastern part of Rajasthan. JVVNL undertook competitive bidding process to select its distribution franchises. For Kota city area, JVVNL selected CESC Ltd from the bidding process. CESC designated, KEDL, 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. KEDL is engaged in electricity distribution operation in Kota city from September 1, 2016 as a distribution franchisee of JVVNL. KEDL is sourcing power from JVVNL 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	809.35	869.73
EBITDA	-26.22	-20.90
PAT	-47.46	-50.57
Total Debt	157.99	192.96
Tangible Net worth	96.26	45.62
EBITDA Margin (%)	-3.24	-2.40
PAT Margin (%)	-5.86	-5.81
Overall Gearing Ratio (x)	1.64	4.23

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil



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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.	Term loan	Long Term	96.56	IVR BBB+/ Stable Outlook	IVR BBB+/ Stable Outlook (July 5, 2019)	-	IVR BBB+/ Stable Outlook (March 27, 2018)
2.	Bank Guarantee	Long Term	225.00	IVR BBB+/ Stable Outlook	IVR BBB+/ Stable Outlook (July 5, 2019)	-	IVR BBB+/ Stable Outlook (March 27, 2018)
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 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-1	-	-	December 2022	51.56	IVR BBB+/ Stable Outlook
Long Term Bank Facilities- Term Loan-2	-	-	March 2024	45.00	IVR BBB+/ Stable Outlook
Long Term Non-Fund Based Facilities- Bank Guarantee	-	-	-	225.00	IVR BBB+/ Stable Outlook
Short Term Fund Based Facilities- Overdraft	-	-	-	100.00	IVR A2