CESC Limited

November 11, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	200.00	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Total long-term instruments	**200.00 (₹ Two hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The rating assigned to the proposed non-convertible debenture issue of CESC Limited (CESC) derives strength from its status as monopoly for distribution of power in the licensed area of Kolkata and Greater Noida (through its joint venture [JV] - Noida Power Company Limited [NPCL]) and cost-plus nature of its business with assured return. The rating also factors in the fair operational diversity with strong integration of its generation and distribution business wherein more than 80% of the group's power supply to retail consumers is met through its own generating stations. Besides, favourable consumer mix across geographies for its distribution business with high operational efficiencies across segments as reflected in lower-than-approved transmission and distribution (T&D) losses for its distribution business leading to incentive income are other credit positives.

The rating also derives strength from the healthy business profile of CESC's generating stations characterised by the presence of long-term/medium-term power purchase agreement (PPA) for 95% of its total capacity (which has increased since last review due to additional tie-up of 210 MW net capacity at remunerative tariff under Dhariwal Infrastructure Limited (DIL, rated 'CARE BBB+; Stable/CARE A3+'), continued visibility in fuel supply due to the presence of long-term fuel supply agreement (FSA) and captive mine. The operational profile of these plants remained comfortable due to better-than-normative plant availability factor (PAF) leading to full recovery of their fixed charges in FY22 (refers to the period from April 01 to March 31) along with better volume and realisation on sales on merchant/short-term mode.

The rating also takes cognisance of acknowledgement of part of regulatory assets submitted by CESC during the last tariff determination process of West Bengal Electricity Regulatory Commission (WBERC) and allowance of incentive income of ₹166 crore for achieving lower-than-permissible T&D losses.

The aforementioned rating strengths are, however, tempered by accumulation of regulatory assets in CESC's books of accounts, various partial allowances made by the regulator as per the recent tariff order for Haldia Energy Limited (HEL, rated 'CARE AA-; Stable/ CARE A1+', operating a 600-MW thermal plant), CESC's elevated leverage and marginal coverage driven by sizable capex, dividend and overhead expenses. Bulky repayments in the medium-term necessitating refinancing, funding support for its distribution franchisee business and under-recoveries arising from use of coal from its captive coal mine due to negative bid are other credit weaknesses.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the profitability with the consolidated return on net worth (RONW) around 15% on a sustained basis.
- Improvement in the consolidated overall gearing ratio below 0.6x and total debt to PBILDT of below 2.5x.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Material delay in receipt of tariff orders/ true up orders.
- Deterioration in the consolidated overall gearing ratio above 1.50x or total debt to PBILDT above 8x.
- Weakening in the liquidity profile with free cash balance dipping below ₹2,000 crore on a consolidated basis.
- Deterioration in operating parameters or significant tightening of normative parameters.
- Significantly higher-than-envisaged level of support flowing to two distribution franchisees.

Detailed description of the key rating drivers

Key rating strengths

Established group with presence across diverse business verticals: CESC is a part of the RP-Sanjiv Goenka Group. The group has interests across diverse business segments, such as power, infrastructure, carbon black, retail, education, BPO, and media & entertainment. CESC has a highly qualified and experienced employee pool having large experience in their related field. CESC's improvement in operational efficiency over the years can be attributed to its experienced management team.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Long track record: Incorporated in 1899, CESC is an integrated power utility engaged in the business of generation, transmission and distribution (T&D) of electricity to the consumers in its licensed area, covering Kolkata and Howrah.

Fair operational diversity, strong business integration with a large share of revenue from regulated business: The T&D business is spread across Kolkata, Greater Noida, Rajasthan and Chandigarh. Its 2.1-GW thermal capacity is located in West Bengal. Deep integration is evidenced from sourcing of more than 80% of the group's power supply to retail consumers through its own generating sources. Over the years, the revenue from regulated business has been around 90%, while 78% of the thermal capacity have regulated tariff with fixed return on equity. This imparts cash flow stability.

Regulated monopolistic operation in distribution licensee businesses: CESC and NPCL (an approximately 73% JV of CESC) are the sole power distributing licensees for the Kolkata and Greater Noida region, respectively, with validity upto September 2038 and August 2023, respectively. The operations are on cost-plus tariff regime with opportunity to recover the cost incurred (subject to approval from the regulator), return on equity and generate additional income from incentive by posting better operating efficiencies.

Distribution licensee business have favourable consumer mix with strong operational performance: Major consumers of the Kolkata operation are based in the city with diversified consumer mix. Moreover, the Greater Noida operation has superior high tension (HT): low tension (LT) mix. Both the regions derive considerable collection through digital channel. The T&D loss for Kolkata Region is significantly lower than the WBERC norms leading to sizable incentive income on a regular basis, and that for Greater Noida region is in line with the Uttar Pradesh Electricity Regulatory Commission (UPERC) norms.

Improved operational performance of power generating business: The overall power generating business witnessed improvement characterised by additional power purchase agreement (PPA) tie-up in the medium term by DIL (operating a 600 MW plant), healthy realisation upon sale of power by DIL on short-term basis leading to debt prepayment during 5MFY23 (refers to the period from April 1 to August 31). Hence, CARE Ratings Limited (CARE Ratings) expects the requirement of financial support from the group to reduce going forward.
The plant availability and generation of HEL and Crescent Power Limited (CPL, rated 'CARE A-; Stable', operating 55-MW plants) continued to be strong in FY22. Both the plant availability as well as generation profile of CESC's standalone units continued to be steady during FY22.
The plants continued to remain insulated from fuel supply risk through the presence of FSA of 15.95 million tonne per annum with subsidiaries of Coal India Ltd and captive mine (Sarisatolli) operation.

Receipt of true up order till FY18, tariff orders for FY19-FY20 and FY21-FY23: In the past, while CESC was regular in filing for the tariff petitions, there were delays in receipt of tariff orders and true up orders from West Bengal Electricity Regulatory Commission (WBERC) (the regulator), which led to regulatory risk and accumulation of regulatory assets. However, WBERC has released the tariff order for FY19-FY20 on February 3, 2022, and tariff order for FY21-FY23 on August 1, 2022. As per the same, the regulator has allowed subsuming of monthly variable charge adjustment (MVCA) in base tariff leading to increase in base tariff by ₹0.29/unit to ₹7.31/unit. Subsequently, WBERC has released true up order for FY18 on August 1, 2022, in which it has acknowledged regulatory assets of ₹397 crore.

Key rating weaknesses

Accumulation of regulatory assets: The net accumulated regulatory assets for CESC (standalone) stood at ₹589 crore as on March 31, 2022. Due to higher power demand and escalated coal cost, net regulatory asset is projected to increase in FY23, and therefore, the timely realisation of the same is crucial. Moreover, many of the cost components of Aggregate Revenue Requirement for the control period of FY21-FY23 have been partially allowed by the regulator as per the recent tariff order for HEL. Extent of recognition of most of these items during actual true up is also to be seen.

Elevated leverage and marginal coverage metrics, marked by higher dividends: The overall gearing and TD/gross cash accrual (GCA) stood moderate at 1.40x as on March 31, 2022 (PY: 1.41x) and 8.90x as on March 31, 2022 (PY: 7.43x). The projected debt service coverage ratio (DSCR) is marginal on account of bulky repayments with sizable internal accrual commitments for capex. The GCA in the past was also impacted by higher overhead expenses. Dividend payment by the company has been high, especially during FY21 and FY22.

Profitability partially offset by negative bid in Sarisatolli captive coal mine: Of the total coal used by CESC in FY22, 38% was sourced from its captive mine Sarisatolli. Although the group had won this mine in February 2015 at negative bid of ₹470/ton, under recovery in terms of fuel cost continues to offset the profitability of the company.

Funding support envisaged for distribution franchisee business: In the past, CESC, on a standalone basis, has extended support to the weaker entities in its group to meet short-term liquidity mismatch/capex requirements. Although the credit profile of DIL has improved recently, support is envisaged for few of the loss-making distribution franchisees.

Liquidity: Adequate

The cash and cash equivalents of the company, on a consolidated basis, stood at ₹3,030 crore as on October 31, 2022. The company has also articulated about its liquidity policy, whereby it plans to maintain free cash and cash equivalents of ₹2,000 crore on a consolidated basis in the medium term, going forward. Furthermore, the liquidity is supported by average fund-based working capital utilisation, which stood moderate at around 62% for the trailing 12 months ended October 2022. The GCA in FY23 along with unutilised fund-based working capital limits and available cash balance would be adequate to service the debt obligations of ₹1,889 crore. The company is dependent on refinancing part of its scheduled repayments. Notwithstanding, the company has maintained a successful track record of refinancing its existing debt at relatively competitive rates which provides comfort.

Environment, social, and governance (ESG) profile: CESC is expected to benefit from its leadership in green buildings and various certifications. Social risk is mitigated through initiatives around education, healthcare and sanitation.

Analytical approach: Consolidated. The list of entities getting consolidated are as per Annexure-6.

Applicable criteria

Definition of Default
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Infrastructure Sector Ratings
Power Distribution Companies
Power Generation Projects
Thermal Power

About the company

CESC, belongs to the RP-Sanjiv Goenka group, which is a vertically-integrated power utility engaged in generation, transmission and distribution of electricity to the consumers in its licensed area, covering Kolkata and Howrah. As on June 30, 2022, the company has three thermal (coal-based) power stations with total generating capacity of 1,125 MW (operating capacity: 885 MW) serving 3.4 million consumers in its 567-sq km licensed area. The combined installed capacity (thermal) of the group is 2,365 MW, with power plants operating under the subsidiaries in Haldia, WB (600 MW) under HEL, Chandrapura, Maharashtra (600 MW) under DIL and 40 MW in Asansol, WB under Crescent Power Ltd. The group also operates solar power plant of 15 MW in Tamil Nadu under CPL.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	H1FY23 (UA)
Total operating income	11,759	12,668	NA
PBILDT	3,405	3,047	NA
PAT	1,363	1,404	NA
Overall gearing (times)	1.41	1.40	NA
Interest coverage (times)	2.54	2.70	NA

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: NA
Any other information: NA
Rating history for last three years: Please refer Annexure-2
Covenants of rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures	Proposed	NA	NA	NA	200.00	CARE AA; Stable

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial paper-Commercial paper (Carved out)	ST	500.00	CARE A1+	1)CARE A1+ (03-Oct-22)	1)CARE A1+ (04-Oct-21)	1)CARE A1+ (05-Oct-20)	1)CARE A1+ (05-Jul-19) 2)CARE A1+ (09-Apr-19)
2	Fund-based - LT-Cash credit	LT	1600.00	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (23-Dec-20) 2)CARE AA; Stable (05-Oct-20)	1)CARE AA; Stable (03-Oct-19) 2)CARE AA; Stable (05-Jul-19) 3)CARE AA; Stable (09-Apr-19)
3	Term loan-Long term	LT	2.50	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (23-Dec-20) 2)CARE AA; Stable (05-Oct-20)	1)CARE AA; Stable (03-Oct-19) 2)CARE AA; Stable (05-Jul-19) 3)CARE AA; Stable (09-Apr-19)
4	Non-fund-based - ST-BG/LC	ST	750.00	CARE A1+	1)CARE A1+ (03-Oct-22)	1)CARE A1+ (04-Oct-21)	1)CARE A1+ (23-Dec-20) 2)CARE A1+ (05-Oct-20)	1)CARE A1+ (03-Oct-19) 2)CARE A1+ (05-Jul-19) 3)CARE A1+ (09-Apr-19)
5	Fund-based - LT-Term loan	LT	2472.42	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (23-Dec-20) 2)CARE AA; Stable (05-Oct-20)	1)CARE AA; Stable (03-Oct-19) 2)CARE AA; Stable (05-Jul-19) 3)CARE AA; Stable (09-Apr-19)
6	Commercial paper-Commercial paper (Carved out)	ST	800.00	CARE A1+	1)CARE A1+ (03-Oct-22)	1)CARE A1+ (04-Oct-21)	1)CARE A1+ (05-Oct-20)	1)CARE A1+ (05-Jul-19) 2)CARE A1+ (09-Apr-19)
7	Commercial paper-Commercial paper (Standalone)	ST	300.00	CARE A1+	1)CARE A1+ (03-Oct-22)	1)CARE A1+ (04-Oct-21)	1)CARE A1+ (05-Oct-20)	1)CARE A1+ (05-Jul-19) 2)CARE A1+ (09-Apr-19)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
8	Debentures-Non-convertible debentures	LT	40.00	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (05-Oct-20) 2)CARE AA; Stable (19-May-20)	1)CARE AA; Stable (07-Feb-20)
9	Debentures-Non-convertible debentures	LT	40.00	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (05-Oct-20) 2)CARE AA; Stable (19-May-20)	1)CARE AA; Stable (07-Feb-20)
10	Debentures-Non-convertible debentures	LT	-	-	1)Withdrawn (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (05-Oct-20) 2)CARE AA; Stable (19-May-20)	1)CARE AA; Stable (07-Feb-20)
11	Debentures-Non-convertible debentures	LT	150.00	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (05-Oct-20) 2)CARE AA; Stable (19-May-20)	-
12	Debentures-Non-convertible debentures	LT	-	-	1)Withdrawn (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (05-Oct-20) 2)CARE AA; Stable (19-May-20)	-
13	Debentures-Non-convertible debentures	LT	15.00	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (05-Oct-20) 2)CARE AA; Stable (19-May-20)	-
14	Debentures-Non-convertible debentures	LT	15.00	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (05-Oct-20) 2)CARE AA; Stable (19-May-20)	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
15	Debentures-Non-convertible debentures	LT	150.00	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (05-Oct-20) 2)CARE AA; Stable (19-May-20)	-
16	Debentures-Non-convertible debentures	LT	250.00	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (05-Oct-20)	-
17	Debentures-Non-convertible debentures	LT	30.00	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (05-Oct-20)	-
18	Debentures-Non-convertible debentures	LT	125.00	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (23-Dec-20)	-
19	Debentures-Non-convertible debentures	LT	200.00	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (23-Dec-20)	-
20	Debentures-Non-convertible debentures	LT	275.00	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	1)CARE AA; Stable (23-Dec-20)	-
21	Debentures-Non-convertible debentures	LT	100.00	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	1)CARE AA; Stable (04-Oct-21)	-	-
22	Debentures-Non-convertible debentures	LT	300.00	CARE AA; Stable	1)CARE AA; Stable (03-Oct-22)	-	-	-
23	Debentures-Non-convertible debentures	LT	200.00	CARE AA; Stable				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple

Annexure-5: Bank lender details for this company

Click here to view Bank Lender Details **click here**

Annexure-6: List of subsidiaries, associates and joint ventures of CESC getting consolidated as on March 31, 2022

Sr. No.	Name of Subsidiaries and Associates	% ownership as on March 31, 2022
1	Haldia Energy Limited	100.00
2	Dhariwal Infrastructure Limited	100.00
3	Malegaon Power Supply Ltd	100.00
4	CESC Projects Limited	100.00
5	Bantal Singapore Pte Limited	100.00
6	Pachi Hydropower Projects Limited	100.00
7	Papu Hydropower Projects Limited	100.00
8	Ranchi Power Distribution Company Limited	100.00
9	Kota Electricity Distribution Limited	100.00
10	Bikaner Electricity Supply Limited	100.00
11	Bharatpur Electricity Services Limited	100.00
12	CESC Green Power Limited	100.00
13	Jharkhand Electric Company Limited	100.00
14	Jarong Hydro-Electric Power Company Limited	100.00
15	Eminent Electricity Distribution Limited	100.00
16	Au Bon Pain Café India Limited	93.10
17	Crescent Power Limited	67.83
18	Mahuagarhi Coal Company Pvt Ltd	50.00
19	Noida Power Company Limited (NPCL) (Joint Venture)	72.73

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst Contact
Name: Agnimitra Kar
Phone: +91-11-4533 3285
E-mail: agnimitra.kar@careedge.in

Relationship Contact
Name: Lalit Sikaria
Phone: + 91-33-4018 1600
E-mail: lalit.sikaria@careedge.in

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