सत्यमेव जयते

Ministry of Power
Government of India

State Distribution Utilities
First Annual Integrated Rating

MARCH, 2013

ज्योतिरादित्य मा. सिंधिया
JYOTIRADITYA M. SCINDIA

सत्यमेव जयते

विद्युत राज्य मंत्री (स्वतंत्र प्रभार)
भारत सरकार
Minister of State (I/C) for Power
Government of India

MESSAGE

I am happy to note that the first annual ratings of state distribution utilities under the integrated rating methodology formulated by Ministry of Power after wide consultations.

The distribution sector indeed is a vital link in the power sector value chain as it is the interface with the end consumers and responsible for generating revenue to sustain the entire value chain of this sector. Therefore, financial health of Distribution sector is of utmost importance.

The overall performance of state distribution utilities has been a matter of concern due to various factors. It is essential that distribution sector makes significant strides in improving its financial health while providing quality supply to consumers. Concerted efforts by all stakeholders are necessary to achieve the same.

Integrated Rating would facilitate realistic assessment of performance of distribution utilities and would enable them to weigh their strength and weakness and then chart a path for improvements wherever required. The rating methodology factors in the important role of the State Government and the Regulator in making the environment congenial and conducive for the effective performance of the Distribution Companies. I am sure the rating exercise will also help Banks/FIs adopt a uniform approach while funding needs of different utilities. Besides, integrated rating methodology aims at stimulating and improving performance of state distribution utilities. The parameters with their benchmarks used in the methodology will serve as guidelines for the utilities to compare themselves and to set targets to improve and sustain their performance.

I congratulate all stakeholders for their active role and support in the successful implementation of integrated rating methodology.

(Jyotiraditya M. Scindia)

RIGHT TO INFORMATION

Shram Shakti Bhawan, New Delhi-110 001 Phone : 91-11-23717474, 23710411, Fax : 91-11-23710065

पी. उमा शंकर
सचिव
भारत सरकार
P. Uma Shankar
Secretary
Government of India

सत्यमेव जयते
Ministry of Power
Unique Pin Code No. 110119
Shram Shakti Bhawan
New Delhi - 110001

विद्युत मंत्रालय
श्रम शक्ति भवन
नई दिल्ली-110001
Tele : 23710271/23711316
Fax : 23721487
E-mail : p.umashankar@nic.in

15.03.2013

MESSAGE

The integrated rating methodology for State Power Distribution Utilities has been formulated by the Ministry of Power in an attempt to facilitate a uniform and harmonized approach to rate them. It will enable identification of areas of concern that adversely impact their performance and incentivize utilities to improve their operational and financial performance in a sustainable manner. The rating methodology developed after extensive consultations with all stakeholders was unveiled in the State Power Ministers' Conference held in July 2012.

This rating methodology has been designed to facilitate the assessment of the performance of the utilities in an objective and holistic manner. The assessment would focus on both current performance as well as relative year to year improvements achieved in the level of performance to incentivize utilities across a broad performance level.

The integrated ratings would reflect the relative strength and weakness of the individual utilities and enable a focused approach for achieving further improvements in their operational and financial performance. It would also facilitate adoption of a consistent approach by Banks/FIs while considering funding proposals of distribution utilities.

The rating exercise has been carried out by independent credit rating agencies ICRA and CARE and utility-wise ratings would be posted in the website of Ministry of Power.

I am pleased to note that the first integrated rating exercise has been completed and would like to express my appreciation for the efforts made by all the stakeholders in bringing this first rating exercise to a successful completion.

Uma Shankar

(P. Uma Shankar)

First Annual Integrated Ratings of State Distribution Utilities as per Framework approved by Ministry of Power

Submitted by :

ICRA Limited

and

Credit Analysis and Research Ltd

March 2013

Table of Contents

Section I

Background, Utilities Covered and Scoring Methodology

BACKGROUND

The Integrated Rating methodology for State Power Distribution Utilities was developed by Ministry of Power (MoP) and unveiled in the State Power Ministers conference held in July 2012 (Appendix). The methodology was developed by MoP keeping in view poor financial health of State Distribution utilities and the need to base future funding exposures on an objective rating mechanism. The main objectives of developing the integrated rating methodology for the state distribution utilities are:

- To devise a mechanism for incentivising/dis-incentivising the entities in order to improve their operational & financial performance.
- To facilitate realistic assessment by Banks/FIs of the risks associated with lending exposures to various distribution utilities and enable funding with appropriate loan covenants for bringing improvement in operational, financial and managerial performance.
- May serve as a basis for Govt. assistance to the state power sector through various schemes like R-APDRP, NEF, etc.

MoP has mandated Power Finance Corporation (PFC) to co-ordinate the rating exercise, which in turn has appointed ICRA & CARE to carry out the rating exercise. The exercise does not cover State Power/Energy Departments and private sector distribution utilities.

UTILITIES COVERED BY ICRA & CARE

S.No.	Names of Distribution Utilities
	Utilities graded by ICRA
1	Dakshin Gujarat Vij Company Limited
2	Uttar Gujarat Vij Company Limited
3	Madhya Gujarat Vij Company Limited
4	Paschim Gujarat Vij Company Limited
5	West Bengal State Electricity Distribution Company Limited
6	Maharashtra State Electricity Distribution Company Limited
7	Bangalore Electricity Supply Company Limited
8	Mangalore Electricity Supply Company Limited
9	Hubli Electricity Supply Company Limited
10	Gulbarga Electricity Supply Company Limited
11	Punjab State Power Corporation Limited
12	Assam Power Distribution Company Limited
13	Chamundeshwari Electricity Supply Corporation Limited
14	Bihar State Power Holding Company Limited
15	Tamil Nadu Generation & Transmission Corporation Limited
16	Purvanchal Vidyut Vitran Nigam Limited
17	Paschimanchal Vidyut Vitran Nigam Limited
18	Kanpur Electricity Supply Company Limited
19	Dakshinanchal Vidyut Vitran Nigam Limited
20	Madhyanchal Vidyut Vitran Nigam Limited
	Utilities graded by CARE
21	Southern Power Distribution Company of Andhra Pradesh Limited
22	Eastern Power Distribution Company of Andhra Pradesh Limited
23	Kerala State Electricity Board
24	Central Power Distribution Company of Andhra Pradesh Limited
25	Himachal Pradesh State Electricity Board Limited
26	Northern Power Distribution Company of Andhra Pradesh Limited
27	Chhattisgarh State Power Distribution Company Limited
28	Uttar Haryana Bijli Vitran Nigam Limited
29	Madhya Pradesh Paschim Kshetra Vidyut Vitaran Company Limited
30	Dakshin Haryana Bijli Vitran Nigam Limited
31	Madhya Pradesh Poorv Kshetra Vidyut Vitaran Company Limited
32	Madhya Pradesh Madhya Kshetra Vidyut Vitaran Company Limited
33	Tripura State Electricity Corporation Limited
34	Uttarakhand Power Corporation Limited
35	Jaipur Vidyut Vitran Nigam Limited
36	Meghalaya Energy Corporation Limited
37	Ajmer Vidyut Vitran Nigam Limited
38	Jodhpur Vidyut Vitran Nigam Limited
39	Jharkhand State Electricity Board

RATING APPROACH / INPUTS

The broad parameters that have been used for the rating are as follows:

Sr. No.	Parameters	Weightage
1	Financial Performance	63
2	Audited Accounts	5,-12
3	Cross Subsidy	0,-2
4	Reform Measures - Unbundling & Corporatisation	0,-5
5	Regulatory Environment	15,-15
6	Forward looking parameters	5,-1
7	Incentive / Bonus marks	12
	Total score	100

Scores have been assigned both on the basis of absolute & relative improvement in operational and financial performance parameters. Financial performance parameters like subsidy received, cost coverage ratio, AT&C losses, financial planning, etc carry the maximum weightage of about 60%.Efficient Regulatory practices is the second most important factor holding weightage of 15%. These include Issue of regulatory guidelines, Issue of tariff guidelines, Timely filing of tariff petition; & Timely issue of tariff order. Other parameters relating to submission of audited accounts, metering, IT & computerisation, no default to Banks/FIs, Renewable energy purchase obligations compliance, etc account of around 25%. Certain parameters carry negative scores on non compliance like Non auditing of accounts (upto minus 12%), SEBs unbundling (upto minus 5%), Non filing of tariff petition (upto minus 5%), Deterioration of AT&C loss (upto minus 5%), Untreated revenue gap (upto minus 5%), Increase in payables, presence of regulatory assets, negative net worth (each upto minus 3%).

The rating has been based primarily on data submitted by the SEBs / State distribution utilities in response to questionnaires sent by the rating agencies. Other sources of data accessed include Audited Accounts, Annual Administrative Reports, assessment of Financial Resources for Annual Plan submitted to the Planning Commission and Tariff Orders issued by the SERCs.

The data collected, as above, has been supplemented with meetings with key officials of the SEBs / State distribution utilities.

Section II
Grading Scale & Utility-wise Grades

GRADING SCALE AND GRADES

Score Distribution	Grade	No. of Utilities	Grading Definition
Between 80 and 100	**A+**	**4**	Very High Operational and Financial Performance Capability
Between 65 and 80	**A**	**2**	High Operational and Financial Performance Capability
Between 50 and 65	**B+**	**11**	Moderate Operational and Financial Performance Capability
Between 35 and 50	**B**	**10**	Below Average Operational and Financial Performance Capability
Between 20 and 35	**C+**	**8**	Low Operational and Financial Performance Capability
Between 0 and 20	**C**	**4**	Very Low Operational and Financial Performance Capability

The proposed grading scale of **'A+ to C'** is ***different*** from the prevalent rating scale adopted by CRAs **(AAA to D)** as the prevalent rating measures the degree of safety regarding timely servicing of financial obligations based on "probability of default"; *however*, current grading exercise analyzes the operational and financial health of the distribution entities based on the rating framework approved by Ministry of Power. Further, credit rating for distribution utilities entails comparison with other corporates, as compared to the integrated rating exercise wherein comparison of the entity is done with other distribution utilities only.

UTILITY-WISE GRADES

S.No.	Name of Utility	Rating Agency	Grade
1	Dakshin Gujarat Vij Company Limited	ICRA	A+
2	Uttar Gujarat Vij Company Limited	ICRA	A+
3	Madhya Gujarat Vij Company Limited	ICRA	A+
4	Paschim Gujarat Vij Company Limited	ICRA	A+
5	West Bengal State Electricity Distribution Co. Ltd.	ICRA	A
6	Maharashtra State Electricity Distribution Co. Ltd.	ICRA	A
7	Bangalore Electricity Supply Company Limited	ICRA	B+
8	Mangalore Electricity Supply Company Limited	ICRA	B+
9	Southern Power Distribution Company of AP Limited	CARE	B+
10	Eastern Power Distribution Company of AP Limited	CARE	B+
11	Hubli Electricity Supply Company Limited	ICRA	B+
12	Kerala State Electricity Board	CARE	B+
13	Central Power Distribution Company of AP Limited	CARE	B+
14	Himachal Pradesh State Electricity Board Limited	CARE	B+
15	Gulbarga Electricity Supply Company Limited	ICRA	B+
16	Chhattisgarh State Power Distribution Company Ltd.	CARE	B+
17	Punjab State Power Corporation Limited	ICRA	B+
18	Northern Power Distribution Company of AP Limited	CARE	B
19	Assam Power Distribution Company Limited	ICRA	B
20	Chamundeshwari Electricity Supply Corporation Ltd.	ICRA	B
21	Uttar Haryana Bijli Vitran Nigam Limited	CARE	B
22	Tamil Nadu Generation and Distribution Corporation Ltd.	ICRA	B
23	Dakshin Haryana Bijli Vitran Nigam Limited	CARE	B
24	MP Pashchim Kshetra Vidyut Vitaran Company Ltd.	CARE	B
25	MP Poorv Kshetra Vidyut Vitaran Company Limited	CARE	B
26	Bihar State Power Holding Company Limited	ICRA	B
27	MP Madhya Kshetra Vidyut Vitran Company Limited	CARE	B
28	Tripura State Electricity Corporation Limited	CARE	C+
29	Uttarakhand Power Corporation Limited	CARE	C+
30	Jaipur Vidyut Vitran Nigam Limited	CARE	C+
31	Jodhpur Vidyut Vitran Nigam Limited	CARE	C+
32	Ajmer Vidyut Vitran Nigam Limited	CARE	C+
33	Meghalaya Energy Corporation Limited	CARE	C+
34	Jharkhand State Electricity Board	CARE	C+
35	Purvanchal Vidyut Vitaran Nigam Limited	ICRA	C+
36	Paschimanchal Vidyut Vitaran Nigam Limited	ICRA	C
37	Dakshinanchal Vidyut Vitran Nigam Limited	ICRA	C
38	Kanpur Electricity Supply Company Limited	ICRA	C
39	Madhyanchal Vidyut Vitran Nigam Limited	ICRA	C

Section III

Summary of State Power Distribution Utilities – Ratings

DAKSHIN GUJARAT VIJ COMPANY LIMITED

A+

Background

The Government of Gujarat unbundled and restructured the Gujarat Electricity Board with effect from 1st April, 2005. The Generation, Transmission and Distribution businesses of the erstwhile Gujarat Electricity Board were transferred to seven successor companies, namely GUVNL (the holding company), GSECL (generation company), GETCO (transmission company) and four power distribution companies namely, DGVCL, UGVCL, PGVCL and MGVCL.

Key Strengths

- Consistent track record of profitable operations and strong cost coverage given satisfactory collection performance, cost reflective tariffs, also supported by gains from Unscheduled Interchange (UI) and sale of surplus power available to GUVNL which in turn does the trading
- Timely submission of audited accounts, with the audited accounts for FY2011-12 being submitted by September 30,2012
- Completion of unbundling and corporatization of erstwhile Gujarat Electricity Board (GEB) w.e.f. April 2005
- Comfortable cost coverage ratio and capital structure
- Healthy cash collections from the consumers, also aided by improvement in AT&C Loss Levels which stand at 11.6% with a declining trend
- Fuel & Power Purchase Cost Adjustment (FPPCA) framework is operational, allowing the increase in such 'uncontrollable' cost items to be recovered from consumers on quarterly basis
- Regulatory clarity in place, also reinforced by the fact that GERC came out with an suo-moto order for FY 2012-13 due to delays in tariff petition filing by the discoms
- Sound financial flexibility and timely subsidy support from the state government

Key Concerns

- Absolute subsidy dependence for the state as a whole remains high, given the subsidized nature of tariff particularly towards agriculture consumers
- Subsidy dues receivable from GoG for the sector as a whole have built-up from Rs. 727.7 crore as on March 31, 2010 to Rs. 1451 crore as on March 31, 2012, due to budgetary allocation for a year remaining lower than actual subsidy claims. On annual basis, actual subsidy received has been at about 90% of the budgetary allocation for last three year period
- Likelihood of delays by DGVCL in filing of its tariff petition for FY 2013-14, as also observed for FY 2012-13

UTTAR GUJARAT VIJ COMPANY LIMITED

A+

Background

The Government of Gujarat unbundled and restructured the Gujarat Electricity Board with effect from 1st April, 2005. The Generation, Transmission and Distribution businesses of the erstwhile Gujarat Electricity Board were transferred to seven successor companies, namely GUVNL (the holding company), GSECL (generation company), GETCO (transmission company) and four power distribution companies namely, DGVCL, UGVCL, PGVCL and MGVCL.

Key Strengths

- Consistent track record of profitable operations and strong cost coverages given satisfactory collection performance, cost reflective tariffs, also supported by gains from Unscheduled Interchange (UI) and sale of surplus power available to GUVNL which in turn does the trading
- Timely submission of audited accounts, with the audited accounts for FY2011-12 being submitted by September 30,2012
- Completion of unbundling and corporatization of erstwhile Gujarat State Electricity Board (GEB) w.e.f. April 2005
- Comfortable cost coverage ratio and capital structure
- Healthy cash collections from the consumers, also aided by improvement in AT&C Loss Levels which stand at 10.05% with a declining trend
- Fuel & Power Purchase Cost Adjustment (FPPCA) framework is operational, allowing the increase in such 'uncontrollable' cost items to be recovered from consumers on quarterly basis
- Regulatory clarity in place, also reinforced by the fact that GERC came out with an suo-moto order for FY 2012-13 due to delays in tariff petition filing by the discoms
- Sound financial flexibility and timely subsidy support from the state government

Key Concerns

- Absolute subsidy dependence for the state as a whole remains high , given the subsidized nature of tariff particularly towards agriculture consumers
- Subsidy dues receivable from GoG for the sector as a whole have built-up from Rs. 727.7 crore as on March 31, 2010 to Rs. 1451 crore as on March 31, 2012, due to budgetary allocation for a year remaining lower than actual subsidy claims. On annual basis, actual subsidy received has been at about 90% of the budgetary allocation for last three year period
- Likelihood of delays by UGVCL in filing of its tariff petition for FY 2013-14, as also observed for FY 2012-13

MADHYA GUJARAT VIJ COMPANY LIMITED

A+

Background

The Government of Gujarat unbundled and restructured the Gujarat Electricity Board with effect from 1st April, 2005. The Generation, Transmission and Distribution businesses of the erstwhile Gujarat Electricity Board were transferred to seven successor companies, namely GUVNL (the holding company), GSECL (generation company), GETCO (transmission company) and four power distribution companies namely, DGVCL, UGVCL, PGVCL and MGVCL.

Key Strengths

- Consistent track record of profitable operations and strong cost coverage given satisfactory collection performance, cost reflective tariffs, also supported by gains from Unscheduled Interchange (UI) and sale of surplus power available to GUVNL which in turn does the trading
- Timely submission of audited accounts, with the audited accounts for FY2011-12 being submitted by September 30,2012
- Completion of unbundling and corporatization of erstwhile Gujarat State Electricity Board (GEB) w.e.f. April 2005
- Comfortable cost coverage ratio and capital structure
- Healthy cash collections from the consumers, also aided by improvement in AT&C Loss Levels which stand at 14.6% with a declining trend
- Fuel & Power Purchase Cost Adjustment (FPPCA) framework is operational, allowing the increase in such 'uncontrollable' cost items to be recovered from consumers on quarterly basis
- Regulatory clarity in place, also reinforced by the fact that GERC came out with an suo-moto order for FY 2012-13 due to delays in tariff petition filing by the discoms
- Sound financial flexibility and timely subsidy support from the state government

Key Concerns

- Absolute subsidy dependence for the state as a whole remains high , given the subsidized nature of tariff particularly towards agriculture consumers
- Subsidy dues receivable from GoG for the sector as a whole have built-up from Rs. 727.7 crore as on March 31, 2010 to Rs. 1451 crore as on March 31, 2012, due to budgetary allocation for a year remaining lower than actual subsidy claims. On annual basis, actual subsidy received has been at about 90% of the budgetary allocation for last three year period
- Likelihood of delays by MGVCL in filing of its tariff petition for FY 2013-14, as also observed for FY 2012-13

PASCHIM GUJARAT VIJ COMPANY LIMITED

A+

Background

The Government of Gujarat unbundled and restructured the Gujarat Electricity Board with effect from 1st April, 2005. The Generation, Transmission and Distribution businesses of the erstwhile Gujarat Electricity Board were transferred to seven successor companies, namely GUVNL (the holding company), GSECL (generation company), GETCO (transmission company) and four power distribution companies namely, DGVCL, UGVCL, PGVCL and MGVCL.

Key Strengths

- Consistent track record of profitable operations and strong cost coverage given satisfactory collection performance, cost reflective tariffs, also supported by gains from Unscheduled Interchange (UI) and sale of surplus power available to GUVNL which in turn does the trading
- Timely submission of audited accounts, with the audited accounts for FY2011-12 being submitted by September 30,2012
- Completion of unbundling and corporatization of erstwhile Gujarat State Electricity Board (GEB) w.e.f. April 2005.
- Comfortable cost coverage ratio and capital structure
- Healthy cash collections from the consumers, also aided by improvement in AT&C Loss Levels which stand at 25.9% with a declining trend
- Fuel & Power Purchase Cost Adjustment (FPPCA) framework is operational, allowing the increase in such 'uncontrollable' cost items to be recovered from consumers on quarterly basis
- Regulatory clarity in place, also reinforced by the fact that GERC came out with an suo-moto order for FY 2012-13 due to delays in tariff petition filing by the discoms
- Sound financial flexibility and timely subsidy support from the state government

Key Concerns

- Absolute subsidy dependence for the company as well as the state as a whole remains still high, given the subsidized nature of tariff particularly towards agriculture consumers
- Subsidy dues receivable from government of Gujarat (GoG) for the sector as a whole have built-up from Rs. 727.7 crore as on March 31, 2010 to Rs. 1451 crore as on March 31, 2012, due to budgetary allocation for a year remaining lower than actual subsidy claims. On annual basis, actual subsidy received has been at about 90% of the budgetary allocation for last three year period
- Likelihood of delays by PGVCL in filing of its tariff petition for FY 2013-14, as also observed for FY 2012-13

WEST BENGAL STATE ELECTRICITY DISTRIBUTION COMPANY LIMITED

A

Background

WBSEDCL was incorporated w.e.f. April 01 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 a) West Bengal State Electricity Distribution Company Limited and b) West Bengal State Electricity Transmission Company Limited (WBSETCL) in accordance with a transfer scheme notified by the State Government of West Bengal dated January 25, 2007.

Key Strengths

- Regulatory clarity in place, on the back of release of multi-year tariff order for the control period FY 2012 to FY 2014
- Timely submission of audited accounts for FY2012
- Monthly Variable Cost Adjustment framework is operational, allowing the increase in such 'uncontrollable' cost items to be recovered from consumers on monthly basis
- Long maturity profile of outstanding debt on its book, a substantial portion of which is contributed by State Government loans
- Comfortable capital structure
- Favourable consumption mix, on account of a low share of agricultural connections compared to the industrial and commercial segments, which has higher unit realizations, leading to low cross subsidization
- Low dependence on State government for subsidy support
- Low level of receivables
- Completion of unbundling and corporatization of erstwhile West Bengal State Electricity Board w.e.f. April 2007

Key Concerns

- Significant increase in borrowing levels from FY 2011 onwards
- Distribution loss levels continue to remain higher than as allowed by WBERC, leading to disallowance of power purchase costs, which adversely affects allowed returns. AT&C losses have been on the higher side with some deterioration as well
- Substantial build-up of regulatory assets pertaining to increase in power purchase costs and employee cost due to pay revision

MAHARASHTRA STATE ELECTRICITY DISTRIBUTION COMPANY LIMITED

A

Background

The Government of Maharashtra unbundled and restructured the erstwhile Maharashtra State Electricity Board (MSEB) with effect from 6th June, 2005. The Generation, Transmission and Distribution businesses of the erstwhile Maharashtra State Electricity Board were transferred to four successor companies, namely MSEB Holding Company Limited, Maharashtra State Power Generation Co. Ltd (MSPGCL), Maharashtra State Electricity Transmission Co. Ltd (MSETCL) and Maharashtra State Electricity Distribution Co. Ltd. (MSEDCL).

Key Strengths

- Timely submission of audited accounts for FY2012
- Steady improvement in AT&C losses over the years on account of measures such as network strengthening, anti-theft measures and distribution franchisee scheme
- Timely receipt of subsidy support from state government
- MSEDCL is the first utility in the country to successfully demonstrate the implementation of distribution franchisee scheme in 2007, which is also being implemented in other circles of the cities namely, Jalgaon, Aurangabad, & Nagpur since May 2011
- Fuel Adjustment Cost (FAC) mechanism is in place, albeit with a ceiling
- Compliance with non-solar RPO levels in place
- Completion of unbundling and corporatization of erstwhile Maharashtra State Electricity Board w.e.f. June 2005

Key Concerns

- Weak cost coverage indicators as reflected by continuing losses at net level since FY 2008
- High leveraging levels, due to working capital debt as well as debt funding for capex
- Significant dependence on subsidy support from State Government , which has also seen an increasing trend due to rise in cost of power supply & continuing subsidized nature of tariff towards agriculture category
- Delays in tariff determination & true-up process as well as under-recovery in FAC in the past has affected the cash flows of the utility
- Cost of supply remains vulnerable due to dependence on short term sources of power, given the continuing power deficit situation in the state

BANGALORE ELECTRICITY SUPPLY COMPANY LIMITED

B+

Background

The Government of Karnataka (GoK) initiated reform process in the state power sector during 1999-2000, with reorganisation and corporatisation of erstwhile Karnataka Electricity Board (KEB) and subsequent unbundling on functional lines into a transmission & distribution company called Karnataka Power Transmission Corporation Ltd (KPTCL) and a generating company called Visvesvaraya Vidyuth Nigam Ltd (VVNL) in April 2000. Thereafter, KPTCL was further unbundled into 5 independent companies effective from 01.06.2002 , with one transmission company named KPTCL and five distribution companies , namely BESCOM, MESCOM, HESCOM, GESCOM and CESCOM.

Key Strengths

- Timely support received from GoK for budgeted subsidy; subsidy dependence is relatively lower as compared to other DISCOMs in state
- Submission of audited accounts for FY2011-12 before December 2012
- Largest among Karnataka DISCOMs and accounts for 49.5% of total energy sold; Consumer profile is also favourable with good mix of HT and Commercial consumers
- Comfortable capital structure well supported by consumer contributions and interest coverage is healthy
- BESCOM's AT&C loss level has remained satisfactory and shown a declining trend(around 18% in FY 2012) and is above average among all Karnataka DISCOMs
- BESCOM has been relatively prompt in making payments to generators including Karnataka Power Corporation Limited (KPCL)
- 87% of power purchased through long term power purchase
- Power utilities in Karnataka are already unbundled and corporatized
- There is regulatory clarity in the state; MYT regime is in place and there have been regular tariff filings and orders

Key Concerns

- Cost coverage has been modest and shown a declining trend as BESCOM is supporting other weaker state DISCOMs in power purchase
- Relatively high level of tariff imposed on commercial/ industrial consumers to cross-subsidize other consumer segments
- Subsidy build-up although very moderate (subsidy receivable of Rs 482 crore as on 31st March, 2012 from Rs 100 crore as on 31st March 2009) due to delays in receiving true-up subsidy
- Delays in tariff filing (the additional time was approved by commission)

MANGALORE ELECTRICITY SUPPLY COMPANY LIMITED

B+

Background

The Government of Karnataka (GoK) initiated reform process in the state power sector during 1999-2000, with reorganisation and corporatisation of erstwhile Karnataka Electricity Board (KEB) and subsequent unbundling on functional lines into a transmission & distribution company called Karnataka Power Transmission Corporation Ltd (KPTCL) and a generating company called Visvesvaraya Vidyuth Nigam Ltd (VVNL) in April 2000. Thereafter, KPTCL was further unbundled into 5 independent companies effective from 01.06.2002 , with one transmission company named KPTCL and five distribution companies , namely BESCOM, MESCOM, HESCOM, GESCOM and CESCOM.

Key Strengths

- Timely support received from GoK for budgeted subsidy; subsidy dependence is relatively lower as compared to other DISCOMs in state
- Submission of audited accounts for FY2011-12 before December 2012
- Best among Karnataka DISCOMs in distribution losses, operational efficiency and metering, aided by lower proportion of agricultural consumers. AT&C losses have been low and showing a declining trend
- Comfortable capital structure although primarily at cost of non-payment to state generator
- More than 92% of power purchased through long term power purchase
- Power utilities in Karnataka are already unbundled and corporatized
- There is regulatory clarity in the state; MYT regime is in place and there have been regular tariff filings and orders

Key Concerns

- Cost coverage has sharply dipped in FY2012 due to Rs 145 crore of additional receivable owed by other state DISCOMs on account of power purchases
- High payable days as MESCOM has been delaying on payments to state generation utility Karnataka Power Corporation Limited (KPCL)
- Significant dependence on subsidy support from government on account of high proportion of agriculture consumers
- Relatively high level of tariff imposed on commercial/ industrial consumers to cross-subsidize other consumer segments
- Subsidy build-up although very moderate (subsidy receivable of Rs 270 crore as on 31st March, 2012 from Rs 64 crore as on 31st March 2009) due to delays in receiving true-up subsidy
- Delays in tariff filing (the additional time was approved by commission)

SOUTHERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED B+

Background

On Feb 1, 1999, Government of Andhra Pradesh initiated the first phase of reforms and restructuring in AP's power sector by unbundling APSEB into APGENCO and APTRANSCO to cater to Generation and Transmission & Distribution respectively. APTRANSCO was further reorganized into four distribution companies to cater to the needs to different districts of AP. Government of Andhra Pradesh on 31st March 2000 declared formation of Distribution Companies. In this process, Andhra Pradesh Southern Electricity Distribution Company was formed in April 1, 2000 to serve Krishna, Guntur, Prakasam, Nellore, Chittoor and Kadapa districts with a vision to 'become an efficient utility supplying reliable and quality power, promoting economic development and being self-reliant commercially'. The Corporate Office and Headquarters of APSPDCL are at Tirupati City.

Key Strengths

- AT& C Losses below the target level of 15% in FY2011 and FY2012
- Satisfactory regulatory environment - Unbundled based on regional lines, tariff regulatory norms compliant
- Higher growth rate in revenue as compared to growth in cost/expenditure
- Effective functioning of A.P. Electricity Regulatory Commission (APERC)
- CERC norms followed w.r.t. R.O.E and no untreated revenue gap
- Satisfactory overall consumer metering with around 93% of consumers being metered with implementation of key reform measures for curtailing theft and improving consumer grievance mechanisms

Key Concerns

- Low cost coverage with income covering only around 81% of the costs
- Non receipt of subsidy for expensive power from government leading to high receivables and receivable days. To fund these receivables, DISCOM has raised short term loans resulting in unfavorable capital structure with high debt to equity
- Liquidity stress at the back of delays in receipt of subsidy for expensive power and approved FSA. Further, FSA for FY2008-09, FY2009-10 and Q1FY2010-11 is still under consideration in courts and hence not yet recovered
- Huge net losses during the period FY2010-12 when adjusted for subsidy received from GoAP
- Absence of true-up order. APSPDCL is regularly filing for true-up annually, however true-up order is not in place

EASTERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED

B+

Background

APEPDCL was formed on March 31, 2000 and is engaged in distribution and bulk supply of power in the Eastern region of Andhra Pradesh. APEPDCL covers the five circles viz. Srikakulam, Visakhapatnam, Vizianagaram, East and West Godavari districts & 20 Divisions of Coastal Andhra Pradesh and caters to consumer base of about 48 lakh (as on March 31, 2012).

Key Strengths

- Relatively lower and improving AT&C loss (about 10.6% in FY12 against 14.4% in FY11)
- Timely receipt of Tariff subsidy from Government of Andhra Pradesh (GoAP) and moderate collection days (~46 days in FY12)
- Effective functioning of the Andhra Pradesh Electricity Regulatory Commission (APERC)
- Implementation of key reform measures such as unbundling on functional lines, Anti-theft measures, customer service, call centre, etc
- Compliance with the regulatory environment (viz. Tariff filing, Utilization of R-APDRP proceeds, etc) and maintenance of quality accounts

Key Concerns

- Liquidity stress led by delayed realization of subsidies from the GoAP for high cost power purchases
- Coverage of costs through revenue at only 83% during FY12
- Weakening of capital structure over the last three years with increasing reliance on short term debt (constituting 88% of debt profile as on March 31, 2012)
- High payables days due to the liquidity stretch

HUBLI ELECTRICITY SUPPLY COMPANY LIMITED

B+

Background

The Government of Karnataka (GoK) initiated reform process in the state power sector during 1999-2000, with reorganisation and corporatisation of erstwhile Karnataka Electricity Board (KEB) and subsequent unbundling on functional lines into a transmission & distribution company called Karnataka Power Transmission Corporation Ltd (KPTCL) and a generating company called Visvesvaraya Vidyuth Nigam Ltd (VVNL) in April 2000. Thereafter, KPTCL was further unbundled into 5 independent companies effective from 01.06.2002 , with one transmission company named KPTCL and five distribution companies , namely BESCOM, MESCOM, HESCOM, GESCOM and CESCOM.

Key Strengths

- Timely support received from GoK for budgeted subsidy
- Comfortable capital structure
- Timely submission of audited accounts for FY12 by September 30,2012
- Significant improvement in AT&C loss levels; however it remains high at around 25.2% during FY12
- More than 90% of power purchased through long term power purchase
- Power utilities in Karnataka are already unbundled and corporatized
- There is regulatory clarity in the state; MYT regime is in place and there have been regular tariff filings and orders

Key Concerns

- Relatively low cost coverage (89% in FY12)
- Weak financial profile marked by net losses, low interest coverage ratio and high receivable and payable days
- Significant dependence on subsidy support from government on account of high proportion of agriculture consumers
- Relatively high level of tariff imposed on commercial/ industrial consumers to cross-subsidize other consumer segments
- Subsidy build-up (subsidy receivable of Rs 1086 crore as on 31st March, 2012) due to delays in receiving true-up subsidy
- Non completion of rural feeder segregation
- Delays in tariff filing

KERALA STATE ELECTRICITY BOARD

B+

Background

Kerala State Electricity Board (KSEB) was constituted by the Government of Kerala in March 1957, under the Electricity (Supply) Act, 1948. KSEB is in the business of Generation, Transmission and Distribution of electricity to all classes of consumers in the state of Kerala. KSEB caters to consumer base of about 1.06 crore (as on March 31, 2012). The installed power generation capacity of KSEB was 2,820 MW as on March 31, 2012, of which hydel constituted the major portion with generation capacity of 1,949 MW as on March 31, 2012. The total energy consumption within the state was 15,981 Million units during FY2012. The grading exercise is based upon audited financials of KSEB for the period FY2009-FY2011 and provisional results for FY2012.

Key Strengths

- Satisfactory level of AT&C losses which has substantially declined during the past decade
- Relatively better financial risk profile attributable to accessibility to low cost hydel power which forms the major portion of power generated, though quantum of generation is susceptible to rainfall
- Implementation of 100% metering and effective collective mechanism in place

Key Concerns

- Increasing dependence on power purchases with negligible capacity addition in the past leading to increase in cost of supply
- Cross subsidy of more than 20% and higher share of subsidized segment (primarily domestic) in total power consumption
- Significant build up of regulatory asset in the past three years ended March 2012
- SEB continues to function and unbundling process is yet to be implemented
- Ability to maintain financial risk profile in absence of major capacity additions and increasing consumption of heavily subsidized segment

CENTRAL POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED B+

Background

Central Power Distribution Company of Andhra Pradesh Limited (APCPDCL) is the largest Discom in the state of Andhra Pradesh covering seven districts and catering to over 8 million consumers. APCPDCL was formed on the 31st March, 2000 and presently operates as a distribution licensee in the central part of Andhra Pradesh covering seven districts i.e. Hyderabad, Ranga Reddy, Ananthapur, Mahaboobnagar, Nalgonda, Kurnool and Medak . In 1998, the State of Andhra-Pradesh enacted the State Electricity Reform Act and the first transfer scheme for unbundling of State Electricity Board into two entities, Andhra Pradesh Transmission Corporation Limited (APTRANSCO) and Andhra Pradesh Generation Corporation Limited (APGENCO) was undertaken. This was followed by a second transfer scheme which was drawn up in March 2000, wherein the distribution function was segregated from APTRANSCO and vested with four distribution companies (CPDCL for central region, EPDCL for eastern region, NPDCL for northern region and SPDCL for southern region) based on regional lines.

Key Strengths

- Largest Discom in the state of Andhra Pradesh
- Moderate AT& C Losses ranging between 18-21% for FY10-12 (excluding FSA)
- Low receivable days (excluding FSA and unbilled receivables)
- High overall consumer metering with 88% of consumers being metered
- Satisfactory regulatory environment - Unbundled based on regional lines, tariff regulatory norms compliant
- Timely receipt of tariff subsidy with 100% of the same received in the past
- Effective functioning of A.P. Electricity Regulatory Commission (APERC)
- CERC norms followed w.r.t. R.O.E and no untreated revenue gap

Key Concerns

- Low cost coverage and the same has remained below 100% for FY10-12
- Liquidity stress due to delays in receipt of expensive power subsidy and approval for FSA
- Significant increase in debt resulting in deterioration in debt to equity ratio and interest coverage
- APCPDCL is regularly filing for true-up annually, however true-up order is not in place
- Despite registering profits during FY10-12, APCPDCL has recorded losses on subsidy received basis

HIMACHAL PRADESH STATE ELECTRICITY BOARD LIMITED

B+

Background

The Himachal Pradesh State Electricity Board (HPSEB) was constituted in the year 1971. HPSEB carried out functions of Generation, Transmission and Distribution for the State of Himachal Pradesh up to June 10, 2010. In June 2010, Government of Himachal Pradesh (GoHP), transferred the functions of distribution, trading and generation of electricity to Himachal Pradesh State Electricity Board Limited (HPSEBL) and the function of evacuation of power by transmission lines to Himachal Pradesh Power Transmission Company Limited, vide the Himachal Pradesh Power Sector Reforms Transfer Scheme, 2010. A separate generation company for execution of new projects in State sector was already created by GoHP.

HPSEBL is responsible for the development, (planning, designing, and construction), operation and maintenance of power distribution system in Himachal Pradesh with inherent trading functions. Ownership and O&M of generating stations of erstwhile HPSEB was also given to HPSEBL. However, in April 2012, HPSEBL has transferred the O&M of its existing and upcoming generating stations to Beas Valley Power Corporation Limited.

Key Strengths

- Relatively low level of AT&C losses and improvement over the years, led by high collection efficiency
- Satisfactory progress in terms of reforms and restructuring, which includes unbundling, adoption of MYT framework and receipt of significant amount of subsidy from the State Government on time
- Moderate capital structure and comfortable receivables cycle
- Implementation/steady progress in key reform measures such as special courts for anti-theft measures, 100% consumer metering, achievement of RPO targets, setting up of call centre etc
- Significant sourcing of power through hydro power plants, which insulates it from fuel cost escalation risk to an extent

Key Concerns

- High operating cost primarily due to high employee expenses, which in turn is resulting in low level of cost coverage & interest coverage, continuing net losses, deterioration of networth and increase in total debt
- Prolonged payable cycle
- Significant delay in making the audited financials available
- Untreated revenue gap
- Slow progress on utilization under R-APDRP scheme

GULBARGA ELECTRICITY SUPPLY COMPANY LIMITED

B+

Background

The Government of Karnataka (GoK) initiated reform process in the state power sector during 1999-2000, with reorganisation and corporatisation of erstwhile Karnataka Electricity Board (KEB) and subsequent unbundling on functional lines into a transmission & distribution company called Karnataka Power Transmission Corporation Ltd (KPTCL) and a generating company called Visvesvaraya Vidyuth Nigam Ltd (VVNL) in April 2000. Thereafter, KPTCL was further unbundled into 5 independent companies effective from 1st June 2002, with one transmission company named KPTCL and five distribution companies, namely BESCOM, MESCOM, HESCOM, GESCOM and CESCOM.

Key Strengths

- Timely support received from GoK for budgeted subsidy
- Comfortable capital structure
- Significant improvement in AT&C loss levels, which stood at around 18.6% during FY12
- More than 90% of power purchased through long term power purchase
- Power utilities in Karnataka are already unbundled and corporatized
- There is regulatory clarity in the state; MYT regime is in place and there have been regular tariff filings and orders

Key Concerns

- Relatively low cost coverage (87% in FY12)
- Weak financial profile marked by net losses, low interest coverage ratio and high receivable and payable days
- Significant dependence on tariff subsidy support from government on account of high proportion of agriculture consumers
- Relatively high level of tariff imposed on commercial/ industrial consumers to cross-subsidize other consumer segments
- Subsidy build-up (subsidy receivable of Rs 795 crore as on 31st March, 2012) due to delays in receiving true-up subsidy
- Rural feeders are not segregated as yet
- Regulatory assets carried for more than 3 years
- Delays in tariff filing and submission of audited accounts

CHHATTISGARH STATE POWER DISTRIBUTION COMPANY LIMITED

B+

Background

Chhattisgarh State Power Distribution Company Limited (CSPDCL) was formed in 2009, consequent to the unbundling of Chhattisgarh State Electricity Board (CSEB). CSPDCL supplies power to the entire state of Chhattisgarh. It's consumer base stood at 35.51 lakh as at end FY2012. As per provisional results provided for FY2012, CSPDCL registered total revenue of Rs.4,875 crore and net loss of Rs.1,310 crore.

Key Strengths

- Satisfactory progress in terms of reforms and restructuring, which includes unbundling, presence of MYT norms and 100% ROE principles being followed
- Timely receipt of subsidy from the State Government
- Control over AT&C losses and healthy improvement over previous year
- Implementation/steady progress in key reform measures and strengthening of regulatory environment, such as near 100% metering, presence of a dedicated IT cell, special courts for anti-theft measures, setting up of consumer service centers and satisfactory debt repayment record
- Comfortable debt equity and fixed assets to total debt ratios due to low debt in the books

Key Concerns

- Deterioration in financial parameters specifically pertaining to cost coverage and interest coverage due to subdued financial performance in FY2012 (as per provisional results provided). The entity witnessed a large revenue gap in FY2012, part of which was not allowed to be carried by the state regulator
- Non provision of gratuity and pension liabilities which was qualified by the Auditors in their report for FY2011
- High payable days of CSPDCL

PUNJAB STATE POWER CORPORATION LIMITED

B+

Background

Punjab State Electricity Board was unbundled into two successor entities on April 16, 2010 i.e. PSPCL and PSTCL; PSPCL entrusted with Generation, Trading and Distribution functions and PSTCL entrusted with Transmission and State Load Despatch functions. PSPCL was formed pursuant to the implementation of Punjab Power Sector Reforms Transfer Scheme (Transfer Scheme) by the Government of Punjab.

Key Strengths

- Comfortable capital structure post restructuring
- Timely subsidy support
- Improving revenue levels and modest AT&C Loss Levels
- Unbundling and corporatization of the erstwhile PSEB
- Fuel & Power Purchase Cost Adjustment (FPPCA) framework is operational, allowing the increase in such 'uncontrollable' cost items to be recovered from consumers on quarterly basis

Key Concerns

- Weak financial profile as reflected in sustained net losses and low cost coverage during the last three years, which has resulted in delays in debt servicing on loans.
- Absolute subsidy dependence for the state as a whole remains high, given the subsidized nature of tariff particularly towards agriculture consumers
- Low regulatory clarity, as reflected by the fact that no true-up petition has been filed for the last two years
- Unbundling took place w.e.f. April, 2010. Audited financial accounts post unbundling still not available

NORTHERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED

B

Background

The Northern Power Distribution Company of Andhra Pradesh (APNPDCL) was incorporated under the Companies Act, 1956 as a Public Limited Company on March 30, 2000 to carry out electricity distribution business as part of the unbundling of erstwhile APSEB. The Company caters the electricity to Warangal, Karminagar, Khammam, Nizamabad and Adilabad Districts. The company reaches out to a consumer base of 44.78 lakhs (March 31, 2012) spread across hamlets, villages, towns and cities.

Key Strengths

- Moderate AT& C Losses ranging between 19.01-19.79% for FY 2010-FY2012
- Satisfactory overall consumer metering with 80% of consumers being metered with implementation of key reform measures for curtailing theft and improving consumer grievance mechanisms
- Satisfactory regulatory environment - Unbundled based on regional lines, tariff regulatory norms compliant
- Timely receipt of tariff subsidy from GoAP
- Effective functioning of A.P. Electricity Regulatory Commission (APERC)
- CERC norms followed w.r.t. R.O.E and no untreated revenue gap

Key Concerns

- Low cost coverage with income covering only around 82% of the costs for FY 2012
- Liquidity stress at the back of delays in receipt of subsidy for expensive power. Further, FSA for FY 2009, FY 2010 and Q1 FY 2011 is still under consideration and hence not yet recovered
- Unfavorable capital structure with high short term borrowings owing to delay in receipt of subsidies and FSA
- High payable days
- Absence of true-up order. APNPDCL is regularly filing for true-up annually, however true-up order is not in place
- Although registering profits for FY2010-FY2012, when adjusted for subsidy received, APNPDCL records losses

ASSAM POWER DISTRIBUTION COMPANY LIMITED

B

Background

Unbundling exercise of the erstwhile Assam State Electricity Board (ASEB) was completed w.e.f. December 2004 to separate distribution, transmission and generation companies. Assam Electricity Grid Corporation Limited (AEGCL) to carry out function as State Transmission Utility Assam Power Generation Corporation Limited (APGCL) to carry out the function of generation of electricity in the state of Assam. As regards distribution, three electricity distribution companies were formed, namely Lower, Central and Upper Assam Distribution Company, to carry out the function of distribution and retail sale of electricity in the districts covered under each company area. Later in the financial year ended 2010, the three distribution entities were merged into a single distribution company namely Assam Power Distribution Company Limited (APDCL).

Key Strengths

- Regulatory clarity in place, on the back of release of multi-year tariff (MYT) order for the control period FY 2011 to FY 2013; however, MYT petition for the next control period yet to be filed
- Low dependence on government subsidy as reflected by no specific subsidy requirement in the tariff order
- Fuel and Power Purchase Price Adjustment (FPPPA) framework allows quarterly pass on of higher fuel and power purchase costs
- Favourable consumption mix, on account of a low share of agricultural connections compared to the industrial and commercial segments, which has higher unit realizations, leading to low cross subsidization
- Completion of unbundling and corporatization of erstwhile Assam State Electricity Board w.e.f. December 2004

Key Concerns

- Weak financial profile as reflected through consistent operating level losses reported and low cost coverage ratio over the past few years
- High AT&C losses on account of high distribution loss levels and collection inefficiency
- Substantial build up of receivables position; however, the same is being funded largely through creditors
- Delay in finalization of accounts for FY 2012

CHAMUNDESHWARI ELECTRICITY SUPPLY CORPORATION LIMITED

B

Background

The Government of Karnataka (GoK) initiated reform process in the state power sector during 1999-2000, with reorganisation and corporatisation of erstwhile Karnataka Electricity Board (KEB) and subsequent unbundling resulting in Karnataka Power Transmission Corporation Ltd. (KPTCL) for transmission & distribution activities and Visvesvaraya Vidyuth Nigam Ltd (VVNL) for generation activities in April 2000. Thereafter, KPTCL was further unbundled into 5 independent companies effective from 01.06.2002 , with one transmission company named KPTCL and five distribution companies , namely BESCOM, MESCOM, HESCOM, GESCOM and CESCOM.

Key Strengths

- Timely support received from GoK for budgeted subsidy
- Comfortable capital structure although primarily at cost of non-payment to state generator
- More than 88% of power purchased through long term power purchase
- Power utilities in Karnataka are already unbundled and corporatized
- There is regulatory clarity in the state; MYT regime is in place and there have been regular tariff filings and orders
- Submission of audited accounts for FY2011-12 by December 2012

Key Concerns

- Weakest among Karnataka DISCOMs on cost coverage (78% in FY12)
- Weak financial profile marked by net losses, low interest coverage ratio and high receivable and payable days; this has resulted in past delays in timely servicing of bank loans
- AT&C loss level has worsened from almost 24.9% in FY 2010 to 28.2% in FY 2012, due to persistently high level of distribution loss at around 24% and lower collections
- Significant dependence on subsidy support from government on account of high proportion of agriculture consumers
- Relatively high level of tariff imposed on commercial/ industrial consumers to cross-subsidize other consumer segments
- Subsidy build-up (subsidy receivable of Rs 440 crore as on 31st March, 2012 increased from Rs 30 crore as on 31st March 2009) due to delays in receiving true-up subsidy
- Non completion of rural feeder segregation
- Delays in tariff filing (the additional time was approved by commission)

UTTAR HARYANA BIJLI VITRAN NIGAM LIMITED

B

Background

Uttar Haryana Bijli Vitran Nigam Ltd. (UHBVNL) is a power distribution company which is responsible for distribution and retail supply of electricity in the North Zone of Haryana comprising of Ambala, Yamunanagar, Kurukshetra, Karnal, Sonepat, Rohtak, and Jind circles. UHBVNL cater to around 26,00,000 customers including domestic, commercial, industrial, agricultural and other clients in FY 2012. As on March 31, 2012, the Government of Haryana (GoH) holds 61.6% of the shares of UHBVNL while the remaining shares are held by Haryana Vidyut Prasaran Nigam Ltd (HVPNL).

Key Strengths

- Filing of Aggregate Revenue Requirement (ARR) and issue to tariff order in a time bound manner
- Timely finalization of financial statements
- AT&C losses (25.71% in FY2012) have registered improvement over the years
- High overall consumer metering of about 94% in FY2012
- Implementation in key reform measures, unbundling of utilities, setting up of consumer grievance forums, special courts for power theft and e-payment facilities for consumers, etc.
- Sustained support from the State Government in terms of equity infusion and timely receipt of subsidy

Key Concerns

- Low cost coverage ratio of 69% and 73% in FY2012 and FY2011 respectively
- Weak financial risk profile attributable to continuous losses, negative networth and weak debt coverage indicators
- Low fixed asset creation with most of the debt utilized towards working capital financing
- Low collection efficiency with high receivables over the years
- Lower utilization of R-APDRP scheme
- High level of regulatory assets

TAMIL NADU GENERATION & DISTRIBUTION CORPORATION LIMITED **B**

Background

Vide order G.O.(Ms).No.100 dated October 19, 2010 of the Tamil Nadu Electricity (Reorganization and Reforms) Transfer Scheme 2010 issued by GoTN, TNEB has been reorganized into TNEB Limited, Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) and Tamil Nadu Transmission Corporation Limited (TANTRANSCO).

Key Strengths

- The recent filing of the Financial Restructuring Plan (FRP) by the Discom to TNERC is expected to offload ~Rs. 24,422 crore of term and purchase liabilities to GoTN and restructuring by the lenders
- Slew of own power generation projects expected to become functional during FY2014, which would reduce the currently high dependence on expensive power purchase from independent power producers (IPPs) and traders
- Healthy cash collections from the consumers, also aided by improvement in AT&C Loss Levels
- Fuel & Power Purchase Cost Adjustment (FPPCA) framework is operational, allowing the increase in such 'uncontrollable' cost items to be recovered from consumers on quarterly basis
- Has completed its FY2012 audited accounts with comments by the CAG, as also various other measures involving IT compliance, anti theft measures and MYT tariff from FY2014 onwards
- Low level of receivables. However, the utility has been stretching its creditors by delaying payments for power purchases
- Reorganization and corporatization of erstwhile Tamil Nadu Electricity Board w.e.f. October 2010

Key Concerns

- Continuing delays in servicing bank loans
- Low cost coverage ratio resulting in severe losses hitherto incurred by the utility
- Albeit the recent steep tariff revision w.e.f. April 2012, the utility is expected to close FY2013 with net losses of ~Rs. 7,000 crore; nevertheless, many directives such as fuel-cost adjustment factor, capping of power purchase from traders, and treatment of regulatory asset aid in revamping the financial strength of the entities
- Lack of further power sector reforms as reflected in the unsatisfactory progress on consumer metering besides continuance of free/subsidized power schemes
- Dependence on tariff subsidy from GoTN has increased substantially; hence, the Board is increasingly exposed to the credit risk of GoTN for its functioning
- Slippage in commissioning of projects would make the entities resort to high cost power
- High financial risk profile on a standalone basis arising from cash losses, poor capital structure and debt protection measures and cash flows are expected to remain stressed in the medium-term
- Likelihood of delays by TANGEDCO in filing of its tariff petition for FY 2013
- High amount of regulatory assets , with carrying period of more than 3 years

DAKSHIN HARYANA BIJLI VITRAN NIGAM LIMITED

B

Background

Dakshin Haryana Bijli Vitran Nigam Ltd. (DHBVNL) is a power distribution company which is responsible for distribution and retail supply of electricity in the South Zone of Haryana comprising of Bhiwani, Faridabad, Gurgaon, Hisar, Narnaul and Sirsa circles. DHBVNL cater to around 24,00,000 customers including domestic, commercial, industrial, agricultural and other clients in FY2012. As on March 31, 2012, the Government of Haryana (GoH) holds 65.3% of shares of DHBVNL while the rest are held by Haryana Vidyut Prasaran Nigam Ltd (HVPNL).

Key Strengths

- Filing of Aggregate Revenue Requirement (ARR) and issue to tariff order in a time bound manner
- AT&C loss levels at 26.72% in FY2012
- High overall consumer metering of about 97% in FY2012
- Implementation in key reform measures, unbundling of utilities, setting up of consumer grievance forums, special courts for power theft and e-payment facilities for consumers, etc.
- Sustained support from the State Government in terms of equity infusion and timely receipt of subsidy
- Timely finalization of financial statements

Key Concerns

- Low cost coverage ratio of 78% and 77% in FY2012 and FY2011 respectively
- Weak financial risk profile attributable to continuous losses, negative networth and weak debt coverage indicators
- Low fixed asset creation with most of the debt utilized towards working capital financing
- Low collection efficiency with high receivables over the years
- Lower utilization of R-APDRP scheme
- High level of regulatory assets

MADHYA PRADESH PASCHIM KSHETRA VIDYUT VITARAN COMPANY LIMITED

B

Background

Madhya Pradesh Paschim Kshetra Vidyut Vitaran Co. Ltd. (MPPKVV) is an unbundled state power distribution company of Madhya Pradesh State Electricity Board (MPSEB). As per the Madhya Pradesh Vidyut Sudhar Adhiniyam 2000 of Government of Madhya Pradesh (GoMP), the erstwhile Madhya Pradesh State Electricity Board (MPSEB) was unbundled into a Generation Company, a Transmission Company and three Distribution Companies (Discoms) w.e.f. November 1, 2002. M.P. Power Generating Co. Ltd. (MPPGCL) was incorporated as a sole generation company, M.P. Power Transmission Co. Ltd. (MPPTCL) was incorporated as a sole transmission company and three Discoms were incorporated in the form of M.P. Poorv Kshetra Vidyut Vitaran Co. Ltd. (MPPoKVV), M.P. Madhya Kshetra Vidyut Vitaran Co. Ltd. (MPMKVV) and M.P. Paschim Kshetra Vidyut Vitaran Co. Ltd. (MPPKVV).

Key Strengths

- Unbundling of MPSEB and regular tariff revisions (tariffs revised in 2011 and 2012) to improve the financial health of Discom
- Timely receipt of subsidy from the State Government and approval of Financial Restructuring Plan
- Fuel Cost Adjustment framework is operational, allowing the increase in such 'uncontrollable' cost items to be recovered from consumers on monthly basis
- No untreated revenue gap as per the tariff order
- Timely finalization of the audited accounts
- Moderate level of cross subsidy

Key Concerns

- Funding of the entire asset base has been done through debt thus leading to an unfavorable capital structure. Further, accumulated losses from the past have led to a negative net worth
- Cost coverage ratio below unity over the past three years till FY2012, albeit with marginal improvement
- Decline in the collection efficiency over the past three years till FY2012 mainly due to higher sales to agriculture sector also resulting in deterioration in AT&C losses over past three years till FY2012
- High receivables days with significant increase in FY2012 over FY2011

MADHYA PRADESH POORV KSHETRA VIDYUT VITARAN COMPANY LIMITED B

Background

Madhya Pradesh Poorv Kshetra Vidyut Vitaran Co. Ltd. (MPPoKVV) is an unbundled state power distribution company of Madhya Pradesh State Electricity Board (MPSEB). As per the Madhya Pradesh Vidyut Sudhar Adhiniyam 2000 of Government of Madhya Pradesh (GoMP), the erstwhile Madhya Pradesh State Electricity Board (MPSEB) was unbundled into a Generation Company, a Transmission Company and three Distribution Companies (Discoms) w.e.f. November 1, 2002. M.P. Power Generating Co. Ltd. (MPPGCL) was incorporated as a sole generation company, M.P. Power Transmission Co. Ltd. (MPPTCL) was incorporated as a sole transmission company and three Discoms were incorporated in the form of M.P. Poorv Kshetra Vidyut Vitaran Co. Ltd. (MPPoKVV), M.P. Madhya Kshetra Vidyut Vitaran Co. Ltd. (MPMKVV) and M.P. Paschim Kshetra Vidyut Vitaran Co. Ltd. (MPPKVV).

Key Strengths

- Unbundling of MPSEB and regular tariff revisions (tariffs revised in 2011 and 2012) to improve the financial health of Discom
- Timely receipt of subsidy from the State Government and approval of Financial Restructuring Plan
- Fuel Cost Adjustment framework is operational, allowing the increase in such 'uncontrollable' cost items to be recovered from consumers on monthly basis
- Improvement in the collection efficiency over the past three years till FY2012
- No untreated revenue gap as per the tariff order
- Timely finalization of the audited accounts
- Moderate level of cross subsidy

Key Concerns

- Funding of the entire asset base has been done through debt thus leading to an unfavorable capital structure. Further, accumulated losses from the past have led to a negative net worth
- Cost coverage ratio below unity though with gradual improvement in the past three years till FY2012
- High AT&C losses in FY2012, though it has improved over past three years till FY2012
- High receivables days, although the same have shown an improving trend over the past three years till FY2012

BIHAR STATE POWER HOLDING COMPANY LIMITED

B

Background

Under the new 'Bihar State Electricity Reforms Transfer Scheme 2012', the BSEB has been unbundled into five companies w.e.f. November 1, 2012: Bihar State Power Holding Company Limited (the holding company), Bihar State Power Transmission Company, Bihar State Power Generation Company, South Bihar Power Distribution Company and North Bihar Power Distribution Company. Bihar State Power Company Limited will own the shares of the newly-incorporated four other companies.

Key Strengths

- Satisfactory progress in terms of reforms and restructuring of the sector, which includes unbundling on functional lines and corporatization
- Timely receipt of subsidy from the State Government
- Effective functioning of the Bihar Electricity Regulatory Commission
- Regulatory clarity in place, on the back of release of multi-year tariff order for the control period FY 2014 to FY 2016 in November 2012 and timely filing of tariff petition/orders
- Timely availability of audited financial accounts for FY2012
- Implementation/steady progress in key reform measures such as special courts for anti-theft measures, unbundling of utilities, setting up of consumer grievance forums, etc
- Fuel & Power Purchase Cost Adjustment (FPPCA) framework is operational, allowing the increase in such ‘uncontrollable’ cost items to be recovered from consumers on monthly basis

Key Concerns

- Continuing weak financial position, with coverage of costs through revenues at less than 80%
- High and increasing AT&C losses (of around 60% in FY 2012)
- Huge unmetered consumption and deterioration in collection efficiency
- Funding of the entire asset base has been done through debt thus leading to an unfavorable capital structure. Further, accumulated losses from the past have led to a negative net worth
- High amount of receivables, although the same has shown a declining trend over the years

MADHYA PRADESH MADHYA KSHETRA VIDYUT VITARAN COMPANY LIMITED

B

Background

Madhya Pradesh Madhya Kshetra Vidyut Vitaran Co. Ltd. (MPMKVV) is an unbundled state power distribution company of Madhya Pradesh State Electricity Board (MPSEB). As per the Madhya Pradesh Vidyut Sudhar Adhiniyam 2000 of Government of Madhya Pradesh (GoMP), the erstwhile Madhya Pradesh State Electricity Board (MPSEB) was unbundled into a Generation Company, a Transmission Company and three Distribution Companies (Discoms) w.e.f. November 1, 2002. M.P. Power Generating Co. Ltd. (MPPGCL) was incorporated as a sole generation company, M.P. Power Transmission Co. Ltd. (MPPTCL) was incorporated as a sole transmission company and three Discoms were incorporated in the form of M.P. Poorv Kshetra Vidyut Vitaran Co. Ltd. (MPPoKVV), M.P. Madhya Kshetra Vidyut Vitaran Co. Ltd. (MPMKVV) and M.P. Paschim Kshetra Vidyut Vitaran Co. Ltd., (MPPKVV).

Key Strengths

- Unbundling of MPSEB and regular tariff revisions (tariffs revised in 2011 and 2012) to improve the financial health of Discom
- Timely receipt of subsidy from the State Government and approval of Financial Restructuring Plan
- Fuel Cost Adjustment framework is operational, allowing the increase in such 'uncontrollable' cost items to be recovered from consumers on monthly basis
- No untreated revenue gap as per the tariff order
- Moderate level of cross subsidy

Key Concerns

- Accumulated losses from the past have led to a negative net worth
- Cost coverage ratio below unity over the past three years till FY2012 with no signs of improvement
- Decline in the collection efficiency over the past three years till FY2012 mainly due to higher sales to agriculture sector and non receipt of payment from certain areas of Gwalior region.
- High AT&C losses increasing over past three years till FY2012 with no signs of improvement
- High receivables days in FY2012 with no major improvement over the past three years till FY2012
- Delay in the finalization of the audited accounts
- CAGR of total revenue for last three years till FY2012 is less than CAGR of total expenses for the same period

TRIPURA STATE ELECTRICITY CORPORATION LIMITED

C+

Background

TSECL has been created from the erstwhile Department of Power, Government of Tripura and started its operation from January 1, 2005. TSECL is the sole electricity utility in Tripura responsible for generation, transmission and distribution of electricity in the state.

Key Strengths

- High income from power trading
- Power purchased from outside is sourced under long-term arrangement
- Comfortable debt-equity ratio
- Timely receipt of subsidy from the State Government
- Favorable regulatory environment such as compliance of F.O.R regulations and tariff order issued for FY13
- Effective functioning of the Tripura Electricity Regulatory Commission
- Implementation/steady progress in key reform measures such as setting up of special courts for anti-theft measures, metering of consumers along with computerized billing, setting up of customer service and dedicated IT cell head, etc.

Key Concerns

- Falling share of own power generation to total power supply
- Low cost coverage ratio and significant increase in AT&C losses
- High amount of receivables
- Unbundling process not yet completed
- Fuel & Power Purchase Cost Adjustment (FPPCA) framework is in place. However, the same is not yet implemented on a monthly or quarterly basis

UTTARAKHAND POWER CORPORATION LIMITED

C+

Background

Uttarakhand Power Corporation Ltd. (UPCL), formerly Uttaranchal Power Corporation Ltd. was incorporated under the Companies Act, 1956 on February 12, 2001 consequent upon the formation of the State of Uttarachal. UPCL has been entrusted to cater to the Transmission & Distribution Sectors inherited after the de-merger from Uttar Pradesh Power Corporation Limited (erstwhile UPSEB) since April 01, 2001.

On June 01, 2004, Power Transmission Corporation Limited was formed to maintain and operate Transmission lines and substations while UPCL catered to sub-transmission/ distribution lines in the State.

Key Strengths

- No subsidy support from the State Government
- High overall consumer metering of about 98.27%
- Debt profile primarily constituting of long-term debt
- Implementation in key reform measures such as special courts in each district and own Vigilance Cell as anti-theft measures, unbundling of utilities, setting up of consumer grievance forums, etc.

Key Concerns

- Continuing weak financial position, with coverage of costs through revenues at less than 80% and relatively high AT&C losses of over 25% (though improved from over 28% during last 2 yrs)
- Continued losses in the past have led to a negative net worth during FY 2012
- Delays in filing of business plan and tariff petition for 2013-14
- High amount of receivables

JAIPUR VIDYUT VITRAN NIGAM LIMITED

C+

Background

Jaipur Vidyut Vitran Nigam Ltd. (JVVN) is an unbundled state power distribution company of Rajasthan State Electricity Board (RSEB). As per the Rajasthan Power Sector Reforms Act, 1999 of GoR, the erstwhile Rajasthan State Electricity Board was unbundled into a Generation Company, a Transmission Company and three Distribution Companies (Discoms) w.e.f. July 19, 2000. Rajasthan Rajya Vidyut Utpadan Nigam (RVUN) was incorporated as a sole generation company, Rajasthan Rajya Vidyut Prasaran Nigam (RVPN) was incorporated as a sole transmission company and three Discoms were incorporated in the form of JVVN, Ajmer Vidyut Vitran Nigam Ltd. (AVVN) and Jodhpur Vidyut Vitran Nigam Ltd. (JoVVN). JVVN covers the 12 districts of Rajasthan namely Jaipur, Dausa, Alwar, Bharatpur, Dholpur, Kota, Bundi, Baran, Jhalawar, Sawaimadhopur, Tonk and Karoli.

Key Strengths

- Unbundling of SEB along-with two recent tariff revisions to improve financial health of Discom
- Majority of the debt is guaranteed by Govt. of Rajasthan (GoR)
- Recent Revised Financial Restructuring Plan is approved by Energy Department, GoR

Key Concerns

- Substantially weak financial position on the back of no tariff revision during the period 2005 to 2011 leading to funding of revenue gap by way of short-term loans ultimately resulting in to sharp increase in debt level
- Unreasonably long period of 23 years for liquidation of subvention by GoR
- Operating at no ROE
- Funding of the entire asset base has been done through debt thus leading to an unfavorable capital structure. Further, accumulated losses from the past have led to a negative net worth
- Cost coverage is below unity even after two tariff hikes
- High AT & C losses, although the same has shown a declining trend over the years
- Substantial delays in finalization of accounts for FY2011, non-finalization of accounts for FY2012 along with serious audit qualifications on the quality of accounts

JODHPUR VIDYUT VITRAN NIGAM LIMITED

C+

Background

Jodhpur Vidyut Vitran Nigam Ltd. (JoVVN) is an unbundled state power distribution company of Rajasthan State Electricity Board (RSEB). As per the Rajasthan Power Sector Reforms Act, 1999 of GoR, the erstwhile Rajasthan State Electricity Board was unbundled into a Generation Company, a Transmission Company and three Distribution Companies (Discoms) w.e.f. July 19, 2000. Rajasthan Rajya Vidyut Utpadan Nigam (RVUN) was incorporated as a sole generation company, Rajasthan Rajya Vidyut Prasaran Nigam (RVPN) was incorporated as a sole transmission company and three Discoms were incorporated in the form of JoVVN, Jaipur Vidyut Vitran Nigam Ltd. (JVVN) and Ajmer Vidyut Vitran Nigam Ltd. (AVVN). JoVVN covers 10 districts viz. Jodhpur, Jaisalmer, Bikaner, Sirohi, Jalore, Barmer, Pali, Churu, Hanumangarh and Shriganganagar.

Key Strengths

- Unbundling of SEB along-with two recent tariff revisions to improve financial health of Discom
- Majority of the debt is guaranteed by Govt. of Rajasthan (GoR)
- Recent Revised Financial Restructuring Plan is approved by Energy Department, GoR

Key Concerns

- Substantially weak financial position on the back of no tariff revision during the period 2005 to 2011 leading to funding of revenue gap by way of short-term loans ultimately resulting in to sharp increase in debt level
- Unreasonably long period of 23 years for liquidation of subvention by GoR
- Operating at no ROE
- Funding of the entire asset base has been done through debt thus leading to an unfavorable capital structure. Further, accumulated losses from the past have led to a negative net worth
- Cost coverage is below unity even after two tariff hikes along-with substantially long payables period
- High AT & C losses, although the same has shown a declining trend over the years
- Substantial delays in finalization of accounts for FY2011, non-finalization of accounts for FY2012 along with serious audit qualifications on the quality of accounts

AJMER VIDYUT VITRAN NIGAM LIMITED

C+

Background

Ajmer Vidyut Vitran Nigam Ltd. (AVVN) is an unbundled state power distribution company of Rajasthan State Electricity Board (RSEB). As per the Rajasthan Power Sector Reforms Act, 1999 of GoR, the erstwhile Rajasthan State Electricity Board was unbundled into a Generation Company, a Transmission Company and three Distribution Companies (Discoms) w.e.f. July 19, 2000. Rajasthan Rajya Vidyut Utpadan Nigam (RVUN) was incorporated as a sole generation company, Rajasthan Rajya Vidyut Prasaran Nigam (RVPN) was incorporated as a sole transmission company and three Discoms were incorporated in the form of AVVN, Jaipur Vidyut Vitran Nigam Ltd. (JVVN) and Jodhpur Vidyut Vitran Nigam Ltd. (JoVVN). AVVN covers 11 districts of Rajasthan namely Ajmer, Bhilwara, Nagaur, Sikar, Jhunjhunu, Udaipur, Banswara, Chittorgarh, Rajsamand, Doongarpur and Pratapgar.

Key Strengths

- Unbundling of SEB along-with two recent tariff revisions to improve financial health of Discom
- Majority of the debt is guaranteed by Govt. of Rajasthan (GoR)
- Recent Revised Financial Restructuring Plan is approved by Energy Department, GoR

Key Concerns

- Substantially weak financial position on the back of no tariff revision during the period 2005 to 2011 leading to funding of revenue gap by way of short-term loans ultimately resulting in to sharp increase in debt level
- Unreasonably long period of 23 years for liquidation of subvention by GoR
- Operating at no ROE
- Funding of the entire asset base has been done through debt thus leading to an unfavorable capital structure. Further, accumulated losses from the past have led to a negative net worth
- Cost coverage is below unity even after two tariff hikes along-with substantially long payables period
- High AT & C losses, although the same has shown a declining trend over the years
- Substantial delays in finalization of accounts for FY2011, non-finalization of accounts for FY2012 along with serious audit qualifications on the quality of accounts

MEGHALAYA ENERGY CORPORATION LIMITED

C+

Background

Meghalaya Energy Corporation Ltd. (MeECL) is the sole electricity utility in Meghalaya responsible for generation, transmission and distribution of electricity in the state. Meghalaya State Electricity Board was unbundled w.e.f. from April 1, 2010. However, the Annual Accounts of MeECL (successor utility) for FY 2010-11 and FY 2011-12 cover all the three functions namely generation, transmission and distribution.

The initial installed capacity when the erstwhile Meghalaya State Electricity Board (MeSEB) was bifurcated from the Assam State Electricity Board (ASEB) in 1975 was 65.2 MW. Over the years, the installed capacity has increased by 123.5 MW. All the above are hydel power stations with the main reservoir at Umiam for all the stages. Therefore, all these stages depend mainly on water availability at the Umiam reservoir.

Key Strengths

- Filing of tariff petition in a time-bound manner and receipt of tariff order as per regulations
- Satisfactory consumer metering of more than 80 percent
- Implementation/steady progress in key reform initiatives for anti-theft measures, setting up of call center and consumer grievance addressal forum, etc.
- Competitive power purchase mechanism in place with power procurement through long term PPAs covering over 90 percent of the total power purchase requirements

Key Concerns

- Continuing weak financial position, with coverage of costs through revenues at less than 70%
- AT&C losses of 49.6 percent resulting in net loss over the last three years
- Non-availability of audited annual accounts for the last two years
- Entity continues to handle all the three functions namely generation-transmission-distribution; Effective un-bundling has not taken place
- Funding of the asset base has been done through debt thus leading to an unfavorable capital structure
- Non-receipt of true-up order resulting in untreated revenue gap in the past
- Deteriorating trend of payable days

JHARKHAND STATE ELECTRICITY BOARD

C+

Background

JSEB's total generation capacity comprises 840 MW thermal and 130 MW hydel power. The thermal generation Power Station at Patratu has already outlived its life. The consumer base of JSEB stood at 19.77 lakhs as at end-FY2012. As per provisional results provided for FY2012, JSEB registered total revenue of Rs.3,190 crore and net loss of Rs.753 crore.

Key Strengths

- Timely receipt of subsidy from the State Government
- Implementation/steady progress in key reform measures, such as presence of a dedicated IT cell, special courts for anti-theft measures, setting up of consumer service centers and satisfactory debt repayment record

Key Concerns

- Poor financial parameters specifically pertaining to cost coverage, interest coverage and debt equity ratio
- High AT&C losses and deterioration in the same compared to previous year
- High receivable and payable days
- Unbundling yet to take place and the entity continues to function as a SEB
- High extent of cross subsidy

PURVANCHAL VIDYUT VITRAN NIGAM LIMITED

C+

Background

In pursuance of a reform exercise, erstwhile UPSEB was unbundled under the first reforms transfer scheme dated 14th January 2000, into three separate entities: Uttar Pradesh Power Corporation Limited (UPPCL) – vested with the function of Transmission and Distribution within the State; Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) – vested with the function of Thermal Generation within the State; and Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL) – vested with the function of Hydro Generation within the State. Through another Transfer Scheme dated 15th January, 2000, assets, liabilities and personnel of Kanpur Electricity Supply Authority (KESA) under UPSEB were transferred to Kanpur Electricity Supply Company (KESCO), a company registered under the Companies Act, 1956. Need for further unbundling of UPPCL (responsible for both Transmission and Distribution functions) along functional lines was again felt after the enactment of the Electricity Act 2003, and four new distribution companies ("Discoms") were created vide Uttar Pradesh Transfer of Distribution Undertaking Scheme 2003 namely DVVNL, MVVNL, PVVNL and PuVVNL.

Key Strengths

- Timely servicing of debt obligations
- Timely subsidy support from the state government. However, the same is not adequate to cover the losses
- Completion of unbundling and corporatisation of erstwhile Uttar Pradesh State Electricity Board w.e.f. January 2000

Key Concerns

- No inputs provided by the utility for rating exercise. Hence, all the inputs provided by UPPCL have been used for the same
- Weak financial profile as reflected in sustained net losses, and weak cost coverage (~0.72 in FY2012)
- Relatively high levels of AT&C losses (35.7% in FY12), although the same have shown significant improvement of 20% over the last year
- Significantly stretched receivable and payable days
- Negative net worth resulting in adverse capital structure
- Delay in submission of Audited accounts, audited accounts for last two years still not available
- Low regulatory clarity in place, as reflected by delay in submission of ARR petition in the last three years, no true-up petition for the last three years

PASCHIMANCHAL VIDYUT VITRAN NIGAM LIMITED

C

Background

In pursuance of a reform exercise, erstwhile UPSEB was unbundled under the first reforms transfer scheme dated 14th January 2000, into three separate entities: Uttar Pradesh Power Corporation Limited (UPPCL) – vested with the function of Transmission and Distribution within the State; Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) – vested with the function of Thermal Generation within the State; and Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL) – vested with the function of Hydro Generation within the State. Through another Transfer Scheme dated 15th January, 2000, assets, liabilities and personnel of Kanpur Electricity Supply Authority (KESA) under UPSEB were transferred to Kanpur Electricity Supply Company (KESCO), a company registered under the Companies Act, 1956. Need for further unbundling of UPPCL (responsible for both Transmission and Distribution functions) along functional lines was again felt after the enactment of the Electricity Act 2003, and four new distribution companies ("Discoms") were created vide Uttar Pradesh Transfer of Distribution Undertaking Scheme 2003 namely DVVNL, MVVNL, PVVNL and PuVVNL

Key Strengths

- Timely servicing of debt obligations
- Timely subsidy support from the state government. However, the same is not adequate to cover the losses
- Completion of unbundling and corporatization of erstwhile Uttar Pradesh State Electricity Board w.e.f. January 2000

Key Concerns

- Weak financial profile as reflected in sustained net losses, and weak cost coverage (~0.87 for the last 3 years)
- Relatively high levels of AT&C losses (~32% in FY12), which have shown deterioration over the last couple of years
- Significantly stretched receivable and payable days
- Negative net worth resulting in adverse capital structure
- Delay in submission of Audited accounts, audited accounts for FY 2012 still not available
- Low regulatory clarity in place, as reflected by delay in submission of ARR petition in the last three years, no true-up petition for the last three years

DAKSHINANCHAL VIDYUT VITRAN NIGAM LIMITED

C

Background

In pursuance of a reform exercise, erstwhile UPSEB was unbundled under the first reforms transfer scheme dated 14th January 2000, into three separate entities: Uttar Pradesh Power Corporation Limited (UPPCL) – vested with the function of Transmission and Distribution within the State; Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) – vested with the function of Thermal Generation within the State; and Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL) – vested with the function of Hydro Generation within the State. Through another Transfer Scheme dated 15th January, 2000, assets, liabilities and personnel of Kanpur Electricity Supply Authority (KESA) under UPSEB were transferred to Kanpur Electricity Supply Company (KESCO), a company registered under the Companies Act, 1956. Need for further unbundling of UPPCL (responsible for both Transmission and Distribution functions) along functional lines was again felt after the enactment of the Electricity Act 2003, and four new distribution companies ("Discoms") were created vide Uttar Pradesh Transfer of Distribution Undertaking Scheme 2003 namely DVVNL, MVVNL, PVVNL and PuVVNL

Key Strengths

- Timely subsidy support from the state government. However, the same is not adequate to cover the losses
- Completion of unbundling and corporatization of erstwhile Uttar Pradesh State Electricity Board w.e.f. January 2000

Key Concerns

- Weak financial profile as reflected in sustained net losses, and weak cost coverage (~0.56 in FY2012)
- High levels of AT&C losses (62.1% in FY12)
- Significantly stretched receivable and payable days
- Negative net worth resulting in adverse capital structure
- Delay in submission of Audited accounts, audited accounts for FY 2012 still not available
- Low regulatory clarity in place, as reflected by delay in submission of ARR petition in the last three years, no true-up petition for the last three years

KANPUR ELECTRICITY SUPPLY COMPANY LIMITED

C

Background

In pursuance of a reform exercise, erstwhile UPSEB was unbundled under the first reforms transfer scheme dated 14th January 2000, into three separate entities: Uttar Pradesh Power Corporation Limited (UPPCL) – vested with the function of Transmission and Distribution within the State; Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) – vested with the function of Thermal Generation within the State; and Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL) – vested with the function of Hydro Generation within the State. Through another Transfer Scheme dated 15th January, 2000, assets, liabilities and personnel of Kanpur Electricity Supply Authority (KESA) under UPSEB were transferred to Kanpur Electricity Supply Company (KESCO), a company registered under the Companies Act, 1956. Need for further unbundling of UPPCL (responsible for both Transmission and Distribution functions) along functional lines was again felt after the enactment of the Electricity Act 2003, and four new distribution companies ("Discoms") were created vide Uttar Pradesh Transfer of Distribution Undertaking Scheme 2003 namely DVVNL, MVVNL, PVVNL and PuVVNL

Key Strengths

- Favourable consumer mix with no rural consumers
- Overall consumer metering of 100% achieved in the last three years
- Completion of unbundling and corporatization of erstwhile Uttar Pradesh State Electricity Board w.e.f. January 2000

Key Concerns

- Weak financial profile as reflected in sustained net losses, and weak cost coverage
- Significantly stretched receivable and payable days. Progressively decline in realized revenue and increases in total expenditure booked in the last three years
- Minimal capital expenditure incurred in the last three years
- Negative net worth resulting in adverse capital structure
- High AT&C Loss levels on account of low collection efficiency
- Delays in receipt of subsidy support from GoUP (which is routed through UPPCL)
- No MYT order in place
- Delay in submission of Audited accounts, audited accounts for last two years still not available
- Low regulatory clarity in place, as reflected by delay in submission of ARR petition in the last three years, no true-up petition for the last three years

MADHYANCHAL VIDYUT VITRAN NIGAM LIMITED

C

Background

In pursuance of a reform exercise, erstwhile UPSEB was unbundled under the first reforms transfer scheme dated 14th January 2000, into three separate entities: Uttar Pradesh Power Corporation Limited (UPPCL) – vested with the function of Transmission and Distribution within the State; Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL) – vested with the function of Thermal Generation within the State; and Uttar Pradesh Jal Vidyut Nigam Limited (UPJVNL) – vested with the function of Hydro Generation within the State. Through another Transfer Scheme dated 15th January, 2000, assets, liabilities and personnel of Kanpur Electricity Supply Authority (KESA) under UPSEB were transferred to Kanpur Electricity Supply Company (KESCO), a company registered under the Companies Act, 1956. Need for further unbundling of UPPCL (responsible for both Transmission and Distribution functions) along functional lines was again felt after the enactment of the Electricity Act 2003, and four new distribution companies ("Discoms") were created vide Uttar Pradesh Transfer of Distribution Undertaking Scheme 2003 namely DVVNL, MVVNL, PVVNL and PuVVNL

Key Strengths

- Timely servicing of debt obligations
- Timely subsidy support from the state government. However, the same is not adequate to cover the losses
- Completion of unbundling and corporatization of erstwhile Uttar Pradesh State Electricity Board w.e.f. January 2000

Key Concerns

- No inputs provided by the utility for rating exercise. Hence, all the inputs provided by UPPCL have been used for the same
- Weak financial profile as reflected in sustained net losses, and weak cost coverage (0.68 in FY2012 and has shown significant deterioration over the last year)
- High levels of AT&C losses (42.1% in FY12), which have shown deterioration of 14% over the last year
- Significantly stretched receivable and payable days
- Negative net worth resulting in adverse capital structure
- Delay in submission of Audited accounts, audited accounts for last two years still not available
- Low regulatory clarity in place, as reflected by delay in submission of ARR petition in the last three years, no true-up petition for the last three years

Section IV
Key Findings

KEY FINDINGS

- Cost coverage ratio for most of the power distribution entities evaluated by ICRA & CARE in most states has remained low (<0.90) due to substantial increase in expenses primarily on account of higher fuel cost, employee related expenses and interest cost whereas increase in tariffs have not been adequate enough to compensate for the higher costs. This has resulted in large losses impacting the financial risk profile of these entities. Cost coverage is also adversely impacted due to significant build up of regulatory assets/deemed regulatory assets for the power distribution entities in states like Rajasthan, Kerala and Haryana. Cost coverage for power distribution entities in Andhra Pradesh has been adversely impacted due to increase in receivables pertaining to Fuel Surcharge Adjustments (FSA) and expensive power subsidies. The cost coverage for Gujarat Utilities has been the highest at close to 1.0 on account of satisfactory collection performance and cost reflective tariffs.

- Low cost coverage in the recent past has resulted in substantial build of debt for funding of losses. Utilities in states such as Tamil Nadu, Rajasthan, AP, UP, Punjab and Haryana have substantial debt for meeting cash losses.

- Aggregate Technical & commercial (AT&C) loss has witnessed steady improvement and has remained relatively low for power distribution entities in Gujarat, Karnataka (except for CESCOM), Maharashtra, Andhra Pradesh, Himachal Pradesh and Kerala with various measures such as network strengthening, effective implementation of anti-theft measures etc. For most other distribution entities, while there is a trend of improvement in the past few years, AT&C loss still remains at relatively high levels.

- Power distribution entities in states like Gujarat, Maharashtra, Karnataka, Madhya Pradesh, Haryana, Kerala and Chhattisgarh have been receiving the tariff related subsidies regularly from the state. In Andhra Pradesh, while distribution entities are receiving normal tariff subsidy in timely manner the expensive power related subsidy receivables have increased sharply in past few years. However utilities in certain states like West Bengal have not received any direct revenue subsidy support from the State Government as they are not dependent on government subsidies.

- As far as the unbundling/corporatisation is concerned majority of states have effectively implemented the same with exception of few states such as Kerala and Jharkhand.

- Relatively highly rated entities such as power distribution entities in Gujarat, Maharashtra, Karnataka, West Bengal and Andhra Pradesh score favourably in parameters such as timely submission of audited financials, quality of accounts, effective regulatory environment prevalent in the state etc. However, while tariff orders for FY2012-13 have been issued for all the utilities, only a handful of utilities have filed their tariff petition for FY 2013-14 by November 30th, 2012.

- In terms of availability of audited accounts for FY2011-12, only 21 out of a total of 39 utilities have submitted audited annual accounts for FY2012.

Appendix - Integrated Rating System for State Power Distribution Utilities

(unveiled in the State Power Ministers Conference held in July 2012)

1. Background

Distribution function is a crucial link in the electricity chain as it provides the last mile connectivity in the Electricity Sector. With over 90% of the country's distribution business coming under the ailing state distribution sector, achieving improvements in the financial and operational performance of the State Power Distribution Utilities is of paramount importance for the robust overall development of the Indian power sector. The state power distribution sector today presents a grim scenario with mounting financial losses and is plagued by operational and cost inefficiencies besides regulatory infirmities.

With increasing losses, and inadequate support from the State Govt., most of the State Distribution Utilities have been forced to increase their level of borrowings, mostly bank borrowings, beyond their sustainable limits. Banks in the past have generally relied on sovereign guarantees for taking loan exposures to the State Power Distribution utilities and have continued to increase their lending exposure sizably. As on date a major portion of the losses of state distribution utilities are funded by bank borrowings, mostly short term borrowings. With signs of severe financial strain emerging in the distribution sector in certain states, lending institutions, especially banks had become cautious as a result of which the fund flow to the entire state power sector had been affected adversely .

2. Introduction

Ministry of Power initiated action for development of an Integrated Rating Methodology covering the State Power Distribution Utilities keeping in view the poor financial health of the State Distribution Utilities due to multifarious factors and the need to base future funding exposures on an objective rating mechanism.

The main objective of developing the integrated rating system for the state distribution utilities is to devise a mechanism for incentivising / dis-incentivising the distribution entities in order to improve their operational and financial performance. This rating system is an attempt to facilitate a uniform and harmonized approach to the rating of State Power Distribution Utilities by Banks/FIs.

The rating methodology focuses on stimulating and improving operational and financial performance of distribution entities. The objective of the exercise is to rate all utilities in power distribution sector on the basis of their performance and their ability to sustain the performance level. The methodology adopted attempts to objectively adjudge the performance and award marks to various performance parameters of these utilities. In certain parameters marks have been assigned for both current levels of performance and relative improvement from year to year.

The financial performance parameters like subsidy received, cost coverage ratio, AT&C losses, financial planning, etc. carry maximum weightage of about 60% in determining the rating as these parameters directly determine the viability of the utility. The second most important factor is sustaining the financial health and could be achieved through an efficient regulatory practice and 15% weightage has been assigned to the same. The parameters under regulatory practices include issue of regulatory guidelines, issue of tariff guidelines, timely filing of tariff petition and timely issue of tariff order. Other parameters relating to timely submission of audited accounts, metering, IT & computerization, no default to Banks / FIs, Renewable energy Purchase Obligation compliance, etc. account for around 25%.

It is essential that state governments and power distribution utilities adhere to certain minimum requirements which are mandatory as per law or otherwise. The methodology adopted therefore proposes to introduce negative marks for non compliance. In the absence of negative marks such parameters would have led to assigning of some weightage to minimum eligibility criteria at the expense of parameters which can distinguish merits of rated utilities. The parameters assigned negative marks include non-auditing of accounts (upto minus 12%), SEB unbundling (upto minus 5%), non-filing of tariff petition (upto minus 5%), untreated revenue gap (upto minus 5%), deterioration in AT&C Loss (upto minus 5%), increase in payables (upto minus 3%), presence of Regulatory Asset (upto minus 3%), negative net-worth (minus 3%) and extent of cross subsidy (upto minus 2%). The negative marks for such parameters give necessary depth and flexibility to rating methodology.

The integrated rating methodology would facilitate realistic assessment by Banks/FIs of the risks associated with lending exposures to various state distribution utilities and enable funding with appropriate loan covenants for bringing overall improvement in operational, financial and managerial performance. The rating methodology could also be the basis for Govt. assistance to the state power sector through various schemes like R-APDRP, NEF, etc.
The rating of all state power distribution utilities will be carried out by the credit rating agencies appointed by Ministry of Power. However state

power departments would not be covered under the proposed rating mechanism. The ratings will be published on the website of the Ministry.

3. Integrated rating system

(i) Summary of Rating Parameters

S.No.	Parameters	Weightage
1.	**Financial Performance**	
i	Coverage Ratio	15
ii	AT&C Losses	12,-5
iii	Subsidy Support	10
iv	Interest Coverage Ratio	5
v	Debt Equity Ratio	5,-3
vi	Sustainability	9
vii	Receivables	4
viii	Payables	3,-3
2.	**Audited Accounts**	5,-12
3.	**Cross Subsidy**	0,-2
4.	**Reform measures - Unbundling & Corporatisation**	0,-5
5.	**Regulatory Environment**	15,-15
6.	**Forward Looking parameters**	5,-1
7	**Incentive / Bonus marks**	12
	TOTAL	**100**

(ii) Definitions

S. No.	Parameters	Definition
1.i	Coverage Ratio	(Revenue realized from sale of power + Other income + Subsidy received) (Total Expenditure booked) Revenue realised from power = Opening receivables (power sale) – Closing receivables (power sale) + revenue from sale of power booked during the year
1.ii	**AT&C Losses (%) for SEBs/PDs/ Discoms**	**(Net input energy (Mkwh) – Energy Realized (Mkwh)) x 100** **Net input energy (Mkwh)**
	• Net input energy (Mkwh)	Total input energy (adjusted for transmission losses and energy traded)
	• Energy realized (Mkwh)	Net sale of Energy (Mkwh) x Collection Efficiency
	• Net sale of energy (Mkwh)	Total energy sold (adjusted for energy traded)
	• Collection Efficiency (%)	(Net Revenue from Sale of Energy – Change in Debtors for Sale of Power) x 100 Net Revenue from Sale of energy
	• Net revenue from sale of energy (Rs. cr)	Revenue from sale of energy (adjusted for revenue from energy traded)
1.iv	Interest Coverage Ratio	(PAT + Depreciation, Amortisation + Interest charged to operation) Interest charged to operation
1.v	Debt Equity Ratio	Total Borrowings Total Networth Total Borrowings = Long term debt + Short term Debt Total Networth = Equity + Reserves + Accumulated Profits, Losses – Miscellaneous expenses not written off
1.vi	Sustainability	
1.vi.c	Fixed Assets to Total Debt Ratio	Net Fixed Assets Total Debt
1.vii	Receivables (no. of days)	Debtors for sale of power x 365 Revenue from sale of power
1.viii	Payables (no. of days)	Creditors for purchase of power x 365 Cost of purchase of power

(iii) Scoring Methodology

S. No.	Parameters	Score
1.i	**Cost Coverage**	**15**
A	Equal to or more than 1.02	15
	Less than 1.02 upto 0.85	proportionate
	Less than 0.85	0
	In case Coverage Ratio less than 0.85 and showing improvement	
	Progressive Increment (Improvement in ratio) in 2 years to the tune of 20%	3
	Increment (Improvement in ratio) during last financial year to the tune of 10%	2
1.ii	**AT&C Losses**	**12**
A	Less than or equal to 15%	12
	Between 15-30%	Proportionate
	More than 30%	0
	AT&C loss - Improvement/ Deterioration trend	
	Improvement – reduction in AT&C Loss	
B	Reduction in AT&C loss by 10%	5
	Reduction in AT&C loss by 8%	4
	Reduction in AT&C loss by 6%	3
	Deterioration when >30%	
C	Increase in AT&C loss by 20% or more	-5
	Increase in AT&C loss by 10% up to 20%	-3
	Increase in AT&C loss by 5% up to 10%	-2
1.iii	**Subsidy Support**	**10**
A	**Advance payment of Subsidy**	
	• If advance payment made as per direction of regulator	10
	• No subsidy is recognised by the regulator (as the need does not arise and if utility has registered	10

	positive PAT during the relevant period)	
B	**Where Subsidy not paid in advance**	
	Entire subsidy is released by Govt. within the end of the first quarter of the subsequent year.	8
	Only part of the subsidy is released by Govt. within the end of the first quarter of the subsequent year	Proportionate
1.iv	**Interest Coverage Ratio (ICR)**	**5**
A	If ICR is 2 and above	5
	If ICR is less than 2 but equal to 1.5 and above	3
	If ICR is less than 1.5 but equal to 1.25 and above	1
	If ICR is less than 1.25	0
1.v	**Debt Equity Ratio**	**5**
A	If DER is 2.33 and less	5
	If DER is more than 2.33 but equal to 3	3
	If DER is more than 3 but equal to 4	2
	If DER is more than 4 but equal to 5.65	1
	If DER is more than 5.65	0
	Negative Net worth	-3
1.vi	**Sustainability**	**9**
A	**Submission of Business / Perspective Plan/FRP (and in force during the last / current year)**	**2**
	If Business plan/ FRP approved by the Board / State Govt.	1
	If Business plan/ FRP approved by SERC	2
B	**CAGR of Total Revenue on realized basis vs. CAGR of Total Expenditure over 3 years**	**3**
	% Difference (CAGR Growth of Revenue – CAGR Growth of Expenditure)	Marks Allotted
	+3 to -3 (1% decrease in difference leads to reduction by 1/2 mark)	3 to 0
C	**Fixed Assets to Total Debt Ratio**	**4**
	If Ratio is equal to 80% and above	4
	If Ratio is less than 80% but equal to 70% and above	2
	If Ratio is less than 70% but equal to 60% and above	1
	If Ratio is less than 60%	0

1.vii	**Receivables**	**4**
	< 60 days	4
	Between 60 and 90 days	proportionate
	>90 days	0
1.viii	**Payables**	**3**
	< 60 days	3
	Between 60 and 90 days	proportionate
	= 90 days	0
	Between 90 and 120 days	-1
	Between 120 and 180 days	-2
	>180 days	-3
2	**Availability of Audited Annual Accounts (Statutory Audit)**	**5**
	Exercise Year - FY (T) **Rating w.e.f. beginning of FY 'T+1'**	
	Parameter	
	FY (T-1) Audited accounts made available by 30th September of FY(T)	5
	FY (T-1) Audited accounts made available by 31st December of FY(T)	4
	Audited accounts for FY (T-2) available. Accounts for FY(T-1) made available by 31st Dec has been adopted by Board of Directors and also submitted to statutory auditors/CAG	2
	Audited accounts for FY (T-2) available. Preliminary / Provisional Accounts for FY (T-1) made available by 31st Dec is awaiting board approval.	0
	FY (T-2) Audited	-5
	FY (T-3) Audited	-10
If two audited accounts relating to past 5 years are submitted within a span of 9 months in the last calendar year then negative marks will be converted to zero.		
2.1	**Audit Qualifications**	-2
	Non-provision / payment of Employee related liabilities / Statutory dues in the accounts.	-2
3	**Extent of Cross subsidy (average score of various categories to be taken)**	**0**
	Between 20% and 30% of Average Cost of Supply	-1
	More than 30% of Average Cost of Supply	-2

4	**Unbundling & Corporatisation***	
	Already Unbundled	0
	SEB continues to function	-5
	Issue of Gazette notification for Unbundling	-4
	Issue of Gazette notification for Transfer of Assets	-3
	*Wherever unbundling process has been stayed by a court order, no negative marks would apply.	
5.1	**Regulatory Environment**	**15**
A	**Issue of Regulations (as per F.O.R model regulations) w.r.t to Determination of Tariff , Open Access**	**2**
B	**Tariff Filing / Tariff Order**	
i	Tariff Petition Filed for next financial year (As on 30th November)	3
ii	Non-filing of Tariff petition / Non-issuance of Tariff Order	
	No tariff petition / order for current year	-1
	No tariff petition / order for last two years	-3
	No tariff petition / order for last three years	-5
iii	Tariff Order Issued as per regulations	
	Tariff Order for Current Financial Year (2010-11) (for rating on Dec 2010)	4
	MYT Order covers Current Financial Year (2010-11)	6
iv	True-up order for year, prior to previous year issued on basis of audited accounts	2
	If there is no True-up order	-1
v	Return on Equity	
	Return on equity – CERC / F.O.R. norms followed 100%	2
	Return on equity – CERC / F.O.R. norms followed partially	1
	Return on equity – CERC / F.O.R. norms not followed	-1
vi	Untreated Revenue Gap in the ARR order	-5
5.2	**Regulatory Asset**	
	If Regulatory Asset not created or if created carrying cost has been allowed by Regulator	0

	If carrying cost is not allowed by Regulator	-2
	If regulatory asset carried for more than 3 years	-3
6	**Forward Looking parameters**	**5**
A	**Automatic pass through of fuel cost**	
	• Yes	2
	• No	-1
B	**Cost competitiveness of power purchase outside long term PPA (Cost of long term PPA power purchase, cost of purchases outside long term PPA and quantum of power purchase outside long term PPA)**	
	• More than 90% power purchase through long term PPA	2
	• Between 85% to 90% power purchase through long term PPA	1
C	**Utilisation of 100% R-APDRP scheme**	1
7	**Incentive / Bonus marks** *(limited to 12 marks)*	**12**
i	Net Profit (on subsidy received basis)	
	• in last 3 years	3
	• in last 2 years	2
ii	No default in last 3 years to Banks / FIs	2
iii	Quality of accounts with reference to full provision for employee related and other statutory liabilities.	2
iv	Induction of PPP structure in distribution of power	1
v	Average debt profile vis-a-vis project resource mobilisation programme	1
vi	Trend of Capex (where investment in capital expenditure while maintaining existing DE Ratio)	2
vii	RPO Compliance	
	• If target set for RPO	1
	• If target achieved for RPO	2
viii	Segregation of rural feeders	1
ix	Overall consumer metering (80% or more)	3
x	Anti-theft measures • Establishment & operationalisation of special courts (at least one court covering each distribution utility)	2
xi	Dedicated IT Cell headed at the level of GM / Director	1

xii	Customer Service / Establishment of Call center, E-Payment facilities, etc.	1

4. All State Distribution Utilities would be required to furnish requisite inputs on year to year basis along with relevant documents like Audited Annual Accounts, ARR submitted to SERC, SERC orders, Business Plan, State Budgetary Plan, State Govt orders/notifications, Subsidy release particulars etc.

□□□