



Rating Rationale

Power Company Of Karnataka Ltd

12 Oct 2018

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹ 3766.81 Crores of Power Company Of Karnataka Ltd (PCKL or the 'Company').

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Jan 2018)	Present
Fund based Sanctioned Term Loans	2300	3766.81	Long Term	BWR AA- (SO) (Pronounced BWR Double A Minus (Structured Obligation)) Outlook: Stable	BWR AA- (SO) (Pronounced BWR Double A Minus (Structured Obligation)) Outlook: Stable <i>Reaffirmed</i>
Fund based Proposed Term Loans	1466.81	-			
Total	3766.81	3766.81	INR Three Thousand Seven Hundred and Sixty Six Crores and Eighty One Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Ratings: Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of PCKL up to FY18, projection for the period FY19 to FY28, the Government of Karnataka (GoK) order "EN 3 PSR 2016/ P3" dated 31 Mar 2017, State Budget and other documents for the Karnataka Government, and other information and clarification as provided by PCKL.

The rating factors, inter alia, the ownership of the Company and its strategic importance to the State of Karnataka, credit strength of the Government of Karnataka which has extended an unconditional and irrevocable guarantee to the rated facility, besides placing appropriate system for debt servicing. The rating also factors in prudent fiscal discipline and liquidity management by the Karnataka State, low levels of committed expenditure, good demographic indicators of the State.



The rating is however constrained by the declining trend in the state's revenue surplus and the Company's standalone net worth which is very low compared to the loan amount proposed.

Karnataka has been maintaining a sound fiscal discipline over the years. Its demographic indicators continue to remain much better than the country average. But of late it has been seen that the state lagging behind its peers such as Gujarat, Maharashtra, and Tamil Nadu in attracting corporate investments. Going forward, the State Government's ability to maintain healthy economic stability, comfortable financial risk profile, improvement in revenue surplus and debt coverage indicators would be the key rating sensitivities.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

BWR believes the **Power Company Of Karnataka Ltd's** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Power Company of Karnataka Limited (PCKL) was incorporated in August 2007 by the Government of Karnataka as a Special Purpose Vehicle (SPV) to supplement the efforts of Karnataka Power Corporation Limited (KPCL) in capacity addition by way of setting up of new power projects through bidding process, under Case-II bidding guidelines issued by Ministry of Power (MoP), Government of India (GoI) and long term procurement of power under Case-I bidding guidelines of MoP, GoI. In order to bridge the short term demand and supply gap, PCKL has been procuring power on behalf of the ESCOMs from various sources including purchase of power through Energy Exchange, Banking (SWAP) as well as bilateral transactions. PCKL also coordinates with other States and Central Government agencies on power related issues as well as through the forum of Southern Regional Power Committee (SRPC).

PCKL's shareholding is with five Electricity Supply Companies (ESCOMs) of the Karnataka State with Bangalore Electricity Supply Company Ltd (BESCOM) being the majority shareholder.



Details of the Facility

GoK vide order EN 3 PSR 2016/ P3 dated 31 Mar 2017 has approved to clear the KPCL power purchase dues in the books of accounts of ESCOMs to the extent of receivables from Gram Panchayats (GP) through securitization of GP dues (including interest) of Rs 3766.81 Crs. As per the order, Power Company of Karnataka Ltd (PCKL) is appointed as the nodal agency for implementing the securitization of Gram Panchayath dues, to mobilize long term loan from Banks or financial institutions amounting to Rs 3766.81 Crs and the GoK would provide guarantee for the debt servicing till the entire loan is repaid. The Company is expected to operate on a 'No profit, no loss' basis for the next ten years.

The outstanding dues from Gram Panchayats to ESCOMs would be transferred from the books of ESCOMs to the books of PCKL, which would be hypothecated as the Primary Security to the lenders. The Gram Panchayats, out of the funds received from the RDPR under various schemes, would release funds to liquidate the outstanding electricity charges dues to PCKL which in turn will meet the debt obligation of the lenders.

Company Financial Performance

The Company reported a Net loss of Rs 0.17 Crs on Net Income of Rs 0.01 Crs in FY18 compared to Rs PAT of 0.47 Crs on Net Income of Rs 0.41 Crs in FY17. The Company's net worth stood at Rs 23.65 Crs against total debt of Rs 2300 Crs as on 31 Mar 2018.

Karnataka State Finance

Own tax revenues have grown at CAGR of 6.5% during 2013-2018, while Central tax transfers have grown at 18% CAGR during the same period. Higher share of State's own revenue (Own Tax & Non-tax revenue) in Total Revenues (47% in 2018) is a positive. Overall, the Revenue Receipts increased from ₹ 133,213Cr in 2016-17 to ₹ 146,043 Cr in 2017-18 RE.

During 2017-18, Revenue expenditure accounted for about 77% of Total expenditure of Rs. 189679 Cr, while capital outlay accounted for 16%, the balance being repayment of loans. Committed expenditures, comprising salary, pension, interest payments and administrative expenses, increased from Rs 61568 Cr in 2016-17 to Rs. 70399 Cr in 2017-18, mainly due to higher outgo on salary expenditure.

Rating History for the last three years

S.No	Instrument /Facility	Current Rating (Oct 2018)			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	Jan 2018	June 2017	2016
1	Fund Based	Long Term	3766.81	BWR AA-(SO) (Stable) Reaffirmed	BWR AA-(SO) (Stable)	BWR AA-(SO) (Stable)	-
	Total		3766.81	INR Three Thousand Seven Hundred and Sixty Six Crores and Eighty One Lakhs Only			

Key Financial Indicators

Key Parameters	Units	FY16	FY17	FY18
Result Type		Audited	Audited	Audited
Net Sales	Rs Crs	0.28	0.41	0.01
PAT	Rs Crs	0.79	0.48	-0.17
Tangible Net worth	Rs Crs	25.02	25.57	23.65
Total Debt/Tangible Net worth	Times	0.00	0.00	97.26

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Ratings based on Government Support](#)
- [Structured Obligation \(SO\) Instruments](#)



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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹62,000 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

DISCLAIMER

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