

Evaluation Study of Hubli Electricity Supply Company Ltd.
(HESCOM), Hubli

Department of Public Enterprises

Executive Summary

HESCOM Limited was incorporated on 30.04.2002 under the Companies Act, 1956 and the company started operation with effect from 01.06.2002 with its headquarters at Hubli. The Company was established with an objective to carry on the business of distribution and supply of electricity more efficiently and economically.

The Company has geographical jurisdiction of 49 taluks spread over in seven Districts comprising of Dharwad, Belgaum, Gadag, Haveri, Uttar Kannada, Bagalkot & Bijapur.

The assets of erstwhile KEB related to seven districts in the northern western Karnataka were transferred to HESCOM.

HESCOM has customer base of about 38 lakhs electricity consumers covering an area of 54,513 sq.kms & population of over 1.66 crores.

The Company has assets worth Rs. 4,900 crores. Annual revenue of about Rs. 4,600 crore and an equal amount of expenditure.

The Company has accumulated losses amount to Rs. 650 crore as on 31.3.2013. However, made a modest profit of Rs. 40 crore during 2012-13 and Rs. 39 crores during 2011-12.

The Company has supplied 11,000 million units of electric power in 2013-14, but still there is a severe shortage of power.

Sale of unmetered energy during 2008-09 was accounting 52% of the total sale of energy and 55% during 2012-13.

The sale of energy to LT1 BJ/KJ and LT4 IP account for 56.34% during 2008-09 and 57.55% during 2012-13.

Customer Density in HESCOM has increased from 60 customers per sq.kms during 2008-09 to 70 customers per sq.kms during 2012-13.

Customer per employee has increased from 465 customers per employee during 2008-09 to 526 customers per employee during 2012-13.

Sale of energy during 2008-09 was 1,698 units per customer per year and increased to 2,204 units per customer per year during 2012-13.

Sale of energy during 2008-09 was 0.101 MU per sq.kms per year and increased to 0.154 MU per sq.kms per year during 2012-13.

HESCOM has achieved collection efficiency of 88.90% during 2008-09, 92.36% during 2009-10 and 96.05% during 2012-13.

The Distribution loss of the HESCOM has reduced from 20.86% during 2009-10 to 19.88% during 2012-13.

HESCOM may initiate steps for engaging a technical consultancy organization for conducting detailed survey, for preparing Detailed Project Report (DPR) and Viability Report to assess technical and financial viability of achieving LT to HT ratio of 1 : 1.

The failure rate of Distribution Transformers during 2009-10 stood at 14.97% in overall (Rural & Urban areas).

The failure rate of Distribution Transformers during 2012-13 stood at 17.24% in overall (Rural & Urban areas).

HESCOM has achieved most of the major objects outlined in the MoA while registering as Company. HESCOM has taken several steps in improving its performance and efficiency.

HESCOM has shown reducing trend in financial cost to sales ratio, which has decreased from 10.37% to 6.19% during the period review. Similarly, employees cost ratio has decreased from 11.18% to 8.28%. The power purchase cost to sales ratio has decreased from 103.05% to 78% and again increased to 80.96%.

Return on capital was negative during first three years of review and it was around 3% during 2011-12 and 2012-13. Similar trend in return on equity has been observed. The return on net worth was negative during first three years of review and 315% during 2011-12 and 22.27% during 2012-13. The high return on net worth during 2011-12 is attributed to earning of the profit and low net worth.

The debt equity ratio was very high at 3.42 during 2008-09 and reduced to 1.26 during 2012-13. The debt equity ratio maintained around 1.50 during 2011-12 and 2012-13.

The earnings per share was negative during first three years and HESCOM has earned about Rs. 0.60 per share during 2011-12 & 2012-13. The number of consumers / customers per employee has increased from 465 to 525 during the period of review. Similarly, revenue per employee has increased from Rs. 0.27 crores to Rs. 0.64 crores during the period of review.

The networth of HESCOM was negative during first three years of operation and marginally became positive at Rs. 12.62 crores during 2011-12 and Rs. 183 crores during 2012-13.

The debt equity ratio was very high at 3.42 during 2008-09 and reduced to 1.26 during 2012-13. The debt equity ratio maintained around 1.50 during 2011-12 and 2012-13. This is in view of increase in share capital.

Average sales revenue per month has increased from Rs. 156 crores during 2008-09 to Rs. 384 crores during 2012-13. Number of month's debtors outstanding has decreased from eight months to four months during the period of review and debtors to sales ratio decreased from 65% to 34% during the period of review.

Average monthly purchase of power has increased from Rs. 160 crores during 2008-09 to Rs. 311 crores during 2012-13. The creditors to purchase ratio increased to 102% during 2009-10 from 80% during the previous year and reduced to 42% during 2012-13.

The current ratio and quick ratio have improved during the period of review, however, are much lower than expected value.

Comparative Key Financial Figures/ Ratios of HESCOM & DGVC.

Particulars	HESCOM	DGVC	DGVC/ HESCOM (%)
Numberof Consumers	36,87,256	2,333,476	63.28
Energy Purchased (Mus)	9,593	12,365	128.90
EnergySold (Mus)	6,676	10,563	158.22
UnitLoss (MUs)	1,918	1,867	97.34
Collection efficiency (%)	96.20	96.74	

T& D Losses (%)	19.99*	14.57	
Distribution losses (%)		10.24	
AT& C Losses (%)	23.15	17.36	
Average Realization per Unit (Rs.)	5.09	4.84	
Return on capital employed (%)	2.59	5.97	
Return on equity (%)	5.62	28.51	
Return on networth (%)	315	4.82	
Debt Equity Ratio	1.60	0.12	
Earning Per Share(in Rs.)	0.56	2.85	508.93
Debt Collection Period (No. of days)	131	33	25.19
Number of Employees	7,394	4,813	65.09
No. of Consumers per Employee	499	485	97.19
Revenue from Sale of Power per Employee (Rs. in crore)	0.52	1.26	242.31
Rating	B+	A+	

*excluding transmission losses of about 4% of KPTCL

➤ The broad suggestions & recommendations are presented below: -

- HESCOM may initiate steps to replace old electro-mechanical meters by high precision static meters. Limit the MNR meters to 1% by replacing such meters by high precision static meters. Fix the meters to IP connections or DTC metering of the DTCs feeding to IP sets as there is farmer's protest.
- HESCOM may initiate steps to meter all distribution transformers other than R-APDRP towns.
- HESCOM may take steps to implement HVDS in more areas to prevent losses in phased manner as the scheme involves heavy capital investment (one transformer per IP set).
- HESCOM may consider publish the names of consumers having arrears over Rs. one lakh value regularly.
- HESCOM shall create awareness more in rural sector regarding safety and theft of power which leads to imprisonment apart from heavy penalty.
- HESCOM may get credit rating done for the Company for availing financial assistance from new sources. Further, the Company may engage professional agency involved in arranging debt at lower cost.
- HESCOM may take initiatives to prepare realistic power Master Plans for their systems to develop a strategy to meet the growing electricity demands of the different sectors of the state's economy over the next 15 years (on par with electrical power survey data conducted by CEA).
- HESCOM shall encourage customers for making payment through online payment especially for R-APDRP towns in 1st phase.

- HESCOM may consider to give wide publicity and propaganda for energy saving measures, metering of connections, prompt payment of electricity bill and safety measures by way of demand side activities.
- HESCOM may come out with New Charter of Consumer fixing maximum period for providing different type of services to the consumers, on the similar lines of DGVL.
- Suitable measures may be taken to fill up existing vacant post as required (through KPTCL), for phasing out contract employment, outsourcing in core activities.
- All employees in HESCOM are on deputation from KPTCL. In view of this, HESCOM may consider to have their own Cadre for recruitment of employees at least for 'C' & 'D' Cadre of employees and limit deputation of employees in 'A' & 'B' Cadre only.
- Steps may be initiated for replacement of manpower depleted due to superannuation with action plan well in advance.
- HESCOM may outsource services for housekeeping, security, transportation and other non-core activities in the existing vacant posts under group 'C' & 'D' cadre. This would possibly reduce employees cost to the Company in these cadres.

Suggestions & Recommendations

HESCOM has customer base of about 38 lakhs of which 35% are covered under free / subsidized power supply by the Government. The supply of energy to free & subsidized power supply category account for 57% of the total. Out of total LT-1 (BJ / KJ) 84% are metered and only 34% of LT-4 (IP sets) are metered. HESCOM supplies metered energy to 45% of the total connections and balance energy supply is unmetered. HESCOM has earned profit of about s. 40 crores during last two years.

HESCOM has to comply with directions issued by the Government to implement the policies and programmes. Most of the operations of HESCOM come under the review of KERC and orders passed by KERC need to be implemented by HESCOM. Prior approval of KERC is required to take up projects having bearing on finance and tariffs of HESCOM. In view of the above, implementation of suggestions and recommendations may need prior approval of KERC.

The broad suggestions & recommendations are presented below:

(a) Short term recommendations

- HESCOM may consider publish the names of consumers involved in power→ theft over Rs. one lakh value having arrears over Rs. one lakh value regularly.
- HESCOM shall create awareness more in rural sector regarding safety and→ theft of power which leads to imprisonment apart from heavy penalty.
- HESCOM may get credit rating done for the Company for availing financial→ assistance from new sources. Further, the Company may engage professional agency involved in arranging debt at lower cost.

- HESCOM shall encourage customers for making payment through online→ payment especially for R-APDRP towns in 1st phase.
- HESCOM may consider to give wide publicity and propaganda for energy saving measures, metering of connections, prompt payment of electricity bill and safety measures by way of demand side activities.
- HESCOM may come out with New Charter of Consumer fixing maximum→ period for providing different type of services to the consumers, on the similar lines of DGVL.
- HESCOM may take suitable steps to improve the speed of establishment of→ sub-stations. For this purpose, suitable monitoring mechanisms may be put in place.
- HESCOM may take suitable steps to incentivize franchises of micro feeders→ achieving over 95% of revenue collection efficiency.

(b) Long Term Recommendations

- ❖ HESCOM may initiate steps to replace old electro-mechanical meters by→ high precision static meters. Limit the MNR meters to 1% by replacing such meters by high precision static meters. Fix the meters to IP connections or DTC metering of the DTCs feeding to IP sets as there is farmer's protest.
- ❖ HESCOM may initiate steps to meter all distribution transformers other→ than R-APDRP towns.
- ❖ HESCOM may take steps to implement HVDS in more areas to prevent→ losses in phased manner as the scheme involves heavy capital investment (one transformer per IP set). Further, re-conductoring and adopting triple A type of conductor in place of ACSR conductor shall be the innovative method and general policy to

be framed out for adoption of triple A conductor in 11 KV and 33 KV network which will reduce distribution loss to a greater extent i.e., by nearly 2 to 3%.

- ❖ In order to improve distribution network for reducing distribution losses, it is desirable to have LT HT line ratio of 1 : 1. Approximate cost of conversion of LT line to HT line would be Rs. 1,590 crores at Rs. 3 lakh per km. HESCOM may initiate steps for engaging a technical consultancy organization for conducting detailed survey, for preparing Detailed Project Report (DPR) and Viability Report to assess technical and financial viability of achieving LT to HT ratio of 1 : 1.
- ❖ HESCOM may take initiatives to prepare realistic power Master Plans for their systems to develop a strategy to meet the growing electricity demands of the different sectors of the state's economy over the next 15 years (on par with electrical power survey data conducted by CEA).
- ❖ Steps may be initiated for replacement of manpower depleted due to superannuation.

(c) Recommendations requiring outside support

- ❖ HESCOM has sanctioned manpower strength of 13,137 of which 7,232 are filled up and 5,905 are vacant. The percentage of vacancy is 12% in Group 'A' 52% in Group 'B' and 37% in Group 'C' and 52% in Group 'D'. The overall percentage of vacancy is 45%. HESCOM may consider the following to improve and consolidate manpower strength:

- ❖ Suitable measures may be taken to fill up existing vacant post as required (through KPTCL), for phasing out contract employment, outsourcing in core activities.
- ❖ All employees in HESCOM are on deputation from KPTCL. In view of this, HESCOM may consider to have their own Cadre for recruitment of employees at least for 'C' & 'D' Cadre of employees and limit deputation of employees in 'A' & 'B' Cadre only.
- ❖ HESCOM may outsource services for housekeeping, security, transportation and other non-core activities in the existing vacant posts under group 'C' & 'D' cadre. This would possibly reduce employees cost to the Company in these cadres.
- ❖ HESCOM may initiate suitable steps for fixing of meters to all IP connections to reduce excess drawal of power. May take suitable steps to control and monitor unauthorized connections of IP sets in rural areas or DTC metering of the DTCs feeding to IP sets as there is farmer's protest. Regularization of unauthorized IP sets which requires heavy capital investment wherein GoK support is required. This is aimed at reducing high rate of transformer failures in rural areas.
- ❖ HESCOM may take suitable steps for fixing meters to all distribution transformers other than R-APDRP towns.