APRIL 22, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES OF PUNJAB STATE POWER CORPORATION LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities	10,609.45 [Enhanced from Rs.10,364.45]	**CARE BB+ (Double B Plus)**	Reaffirmed
Short term Bank Facilities	297.00 [Reduced from Rs.542.00]	**CARE A4+ (A Four Plus)**	Reaffirmed
Total Facilities	**10906.45 (Rupees Ten Thousand Nine Hundred and Six Crore and Fourty Five Lacs only)**		
Non SLR Bonds –I @	340.00	**CARE BBB(SO) (Triple B Structured Obligation)**	Reaffirmed

@ based on credit enhancement in the form of unconditional and irrevocable guarantee provided by Government of Punjab

Rating Rationale

The ratings continue to remain constrained by the company's exposure to the regulatory risk in terms of revision of tariff and full pass through of costs and its significant unrecovered revenue gap in the absence of cost reflective tariffs leading to higher reliance on debt.The ratings, however, derive strength from the Government of Punjab's (GoP) support to the utility, its stable financial risk profile and moderate Aggregate Technical and Commercial (AT&C) losses.

Going forward, the continuity of GoP's support to PSPCL, its timely revision in tariff and its ability to reduce AT&C losses shall remain the key rating sensitivities.

The rating for the non-SLR bonds is based on the credit enhancement in the form of unconditional and irrevocable guarantee of GoP for the timely servicing of interest and principal repayments. The rating continues to be constrained by tepidity in tax and non-tax revenues collections by GoP, high debt burden and slippages in cash balance management of GoP. The rating however, continues to derive support from efforts of the GoP at reducing revenue deficit and fiscal deficit along with a cautious attempt to limit borrowings.

Going forward, the state is expected to benefit from its priority sector spending in infrastructure, education, health and development of agriculture, coupled with increased contribution of industry to the state's GSDP and improvements in revenue buoyancy.

Background

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

PSPCL is an unbundled entity of erstwhile Punjab State Electricity Board (PSEB). PSEB was statutory body and enjoyed the status of a regulated monopoly for generation, transmission and distribution of power in the state of Punjab. The Govt. of Punjab vide its notification dated April 16, 2010 unbundled PSEB into two companies viz PSPCL and PSTCL (rated CARE BBB-). PSPCL has been entrusted with the functions of generation and distribution of power in the state whereas the transmission function is undertaken by PSTCL. PSPCL operates its own power plants and also gets power from Bhakra Beas Management Board (BBMB). The company is also allocated power from the central sector power projects. It has a total power generation capacity of 4,948.47 MW (thermal power capacity of 2,640 MW and hydel power capacity of 2,308 MW). Its Aggregate Technical & Commercial (AT&C) losses stood at during FY15 21.86% (Prov.) as against 18.19% in FY14.

During FY15 (provisional), PSPCL reported a PBILDT of Rs.3,381crore and PAT of Rs.133crore on a total operating income of Rs.23,658crore.

Financial Summary of Government of Punjab (GoP)

Government of Punjab has a mixed financial profile, on one hand there is slippage in the revenue deficit target while on the other hand it is in adherence to the fiscal deficit target. The economic slowdown in the state's GSDP is transmitting to lower revenue generation. The state's finances are also pressured on account of its high revenue expenditure which is primarily due to the highs level of committed expenditure on account of increased payments towards salaries.

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****For detailedRationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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