Punjab State Power Corporation Limited

April 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	5,907.02	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	1,352.83	CARE A4+ (A Four Plus)	Reaffirmed
Total Bank Facilities	**7,259.85 (Rs. Seven Thousand Two Hundred Fifty-Nine Crore and Eighty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of PSPCL takes into account the exposure of PSCPL to regulatory risk in terms of revision in tariff and full pass through of costs, its high dependence on subsidy payments from Government of Punjab (GoP) coupled with instances of delay in receipt of subsidy and continued losses at net level with moderated debt coverage indicators. However, the ratings continue to derive comfort from Government of Punjab's (GoP) support to the utility and its moderate Aggregate Technical and Commercial (AT&C) losses. The ratings also take note of improvement in the capital structure with one time conversion of state govt. loans under UDAY to equity.

Key Rating Sensitivities

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

- AT&C loss levels to remain within Punjab State Electricity Regulatory Commission (PSERC) approved levels on sustained basis.
- Continuous improvement in the financial risk profile on sustained basis with profit at net level.
- Improvement in the ARR-ACS gap beyond Rs. 0.15 per unit on sustained basis.

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

- Deterioration in the AT&C losses beyond 23% on sustained basis.
- Substantial overdue power purchase liabilities leading to creditor days of over 120 days.
- Any adverse change in the regulatory environment of the power sector in Punjab.
- Substantial delay in the receipt of subsidy and absence of financial support from GoP.

Detailed description of the key rating drivers

Key Rating Weaknesses

Regulatory risks related to revision in tariffs

PSPCL faces significant regulatory risks associated with the revision in tariffs. The risks not only pertain to delay in receipt of tariff orders but can also be towards non approval of expenses by the regulatory commission. The company has received modest tariff hike for FY19 and FY20. Moreover, the regulator vide tariff order dated June 01, 2020 for FY21, did not allow any tariff hike due to Covid-19 outbreak and lockdown in the state. Further, there is untreated revenue gap of Rs. 224.83 crore which shall have bearing on the financial risk profile of PSPCL.

Dependence on subsidy payments from GoP with instances of delay in receipt of subsidy

PSPCL has fair dependence on subsidy evidenced from the fact that roughly 28% of the total power sales booked in FY19 and FY20 comprised tariff subsidy. Due to the high-leveraged finances of the Punjab government, there has been some delay in release of subsidy in the past. As on March 31, 2020 the subsidy receivable from GoP stood at Rs. 5,576 crore which has marginally reduced to Rs. 5,507 crore as on January 31, 2021. The company has met the above gap through borrowings from banks and financial institutions leading to elevated leverage profile of the company.

Continued losses at net level and moderated debt coverage indicators

The company continues to post net losses which has increased to Rs. 1,158 crore in FY20 from Rs. 38 crore in FY19. ARR-ACS gap of the company has been below-average during FY19 and FY20. The interest coverage ratio of the company has moderated to 1.04x in FY20 from 1.39x in FY19. Total debt to gross cash accruals ratio of the company moderated to 96.89x in FY20 from 24.63x in FY19.

In 9MFY21 (Prov.), the company has registered operating profit margin of 12.54% with PAT margin of 3.55%. The improvement in the PAT margin is mainly on account of reduction in interest cost of the company due to conversion of state govt. debt to equity.

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

Key Rating Strengths

Support from Government of Punjab (GoP)

PSPCL is the successor entity of the erstwhile PSEB and enjoys regulated monopolies for generation and distribution of power in the state of Punjab. Over the years, there has been continuous support from GoP in the form of equity as well as payment of subsidy for agricultural and below poverty line supplies. In the past, GoP has also extended support by way of guarantee to source the debt at competitive rates. The company has received the subsidy of Rs. 9,394 crore in FY20 against the subsidy booked of Rs. 9,212 crore translating to a realization of 101.98% (PY: 104.61%). The trend has remained comfortable in 10MFY21 as well at 100.85%.

Improvement in the capital structure and consistent growth in revenues

The company has registered growth of 1.06% in total operating income to Rs. 33,145 crore in FY20 from Rs. 32,796 crore in FY19, attributable to higher volume sales. The company has sold 48,050 MUs in FY20 increased from 47,446 MUs in FY19. In 9MFY21 (Prov.), the company has registered total operating income of Rs. 24,575 crore with gross cash accruals of Rs. 1,847 crore.

Further, the company has healthy capital structure pursuant to conversion of state government loans of Rs. 15,628 crore under UDAY into equity during FY20 as exhibited by overall gearing of 0.63x as on March 31, 2020 improved from 2.80x as on March 31, 2019. The said conversion is part of MoU signed under UDAY between PSPCL, GoP and Ministry of Power (MoP). Although there has been a reduction in debt during FY20 (due to this conversion), contingent liabilities recognized in the books of account for FY20 continued to remain at elevated level.

Moderate AT&C losses

PSPCL's AT&C losses stood at 14.00% in FY20 as against 11.28% in FY19 & 18.13% in FY18. AT&C losses have moderated from previous year mainly due to lower collection efficiency in FY20. The same is also higher than the AT&C loss levels approved by the regulator in the tariff order resulting into under recovery of costs. However, it is sub 15% and well below the national average.

Liquidity: Adequate

The liquidity position of the company is adequate as reflected by collection period of 62 days in FY20 (PY: 54 days) and moderate collection efficiency of 97.98% achieved in FY20. The liquidity profile of the company is also supported by moderate utilization of working capital limits at 75% for the trailing 12 months ended Dec 2020 coupled with regular receipt of subsidy from GoP for FY21. Although the projected gross cash accrual of the company less equity commitment for capex is comparable vis a vis its debt repayment in FY21, PSPCL enjoys fair financial flexibility due to its parentage. The company has also availed the moratorium from lenders under COVID-19 regulatory package announced by the Reserve Bank of India.

Analytical approach: Standalone

Applicable Criteria

CARE's Criteria on assigning Outlook & Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's Methodology for Power Generation Projects
CARE's Methodology- Power Distribution Companies
CARE's Methodology- financial ratios – Non-financial sector
CARE's Criteria for Short-term Instruments
CARE's Methodology on factoring linkages with Government
Liquidity Analysis of Non-financial Sector Entities

About the Company

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. 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).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total Operating Income	32,796	33,145
PBILDT	4,031	3,197
PAT	-38	-1,158
Overall Gearing (times)	2.80	0.63
Interest coverage (times)	1.39	1.04

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History: Please refer Annexure-2

Annexure-1: **Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	August- 2029	4447.02	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	1460.00	CARE BB+; Stable
Non-fund-based-Short Term	-	-	-	1269.50	CARE A4+
Fund-based - ST-Term loan	-	-	Within a year	83.33	CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Bonds	LT	-	-	-	-	1)Withdrawn (16-Sep-19) 2)CARE BBB (SO); Negative (05-Apr-19)	-
2.	Fund-based - LT-Term Loan	LT	4447.02	CARE BB+; Stable	-	1)CARE BB+; Stable (29-Jun-20) 2)CARE BB+; Stable (07-Apr-20)	1)CARE BB+; Stable (05-Apr-19)	1)CARE BB+; Stable (06-Apr-18)
3.	Fund-based - LT-Cash Credit	LT	1460.00	CARE BB+; Stable	-	1)CARE BB+; Stable (29-Jun-20) 2)CARE BB+; Stable (07-Apr-20)	1)CARE BB+; Stable (05-Apr-19)	1)CARE BB+; Stable (06-Apr-18)
4.	Non-fund-based-Short Term	ST	1269.50	CARE A4+	-	1)CARE A4+ (29-Jun-20) 2)CARE A4+ (07-Apr-20)	1)CARE A4+ (05-Apr-19)	1)CARE A4+ (06-Apr-18)
5.	Fund-based - ST-Term loan	ST	83.33	CARE A4+	-	1)CARE A4+ (29-Jun-20) 2)CARE A4+ (07-Apr-20)	1)CARE A4+ (05-Apr-19)	1)CARE A4+ (06-Apr-18)

Annexure-3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-Term loan	Simple
4.	Non-fund-based-Short Term	Simple

Note on complexity levels of the rated instrument: *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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