Punjab State Power Corporation Limited

April 05, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Non-SLR Bonds*	24.40 (reduced from 331.60)	**CARE BBB (SO); Negative [Triple B (Structured Obligation); Outlook: Negative**	**Reaffirmed**
Total Instruments	**24.40 Rupees Twenty Four Crore and Forty Lakhs Only**		
Long term Bank Facilities (Term Loan)	3,416.63 (enhanced from 3,393.41)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Reaffirmed**
Long term Bank Facilities (Fund Based)	860.00	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities (Non-Fund Based)	769.50	**CARE A4+ [A Four Plus]**	**Reaffirmed**
Short term Bank Facilities (Term Loan)	500.00 (enhanced from 300.00)	**CARE A4+ [A Four Plus]**	**Reaffirmed**
Total Bank Facilities	**5,546.13 (Rupees Five Thousand Five Hundred Forty Six Crore and Thirteen Lakhs Only)**		

Details of instruments/facilities in Annexure-1

**based on the credit enhancement in the form of unconditional and irrevocable guarantee provided by Government of Punjab (GoP).*

Detailed Rationale & Key Rating Drivers

The rating for the Non-SLR bonds is based on the credit enhancement in the form of unconditional and irrevocable guarantee from Government of Punjab (GoP) for timely servicing of interest and principal payment. The rating of GoP continue to derive support from stable economic growth of 6% during FY16-18, higher revenue receipts of the state aided by positive growth across all the segments and government's expenditure towards asset creation coupled with increase in private investments. The rating also derive comfort from being a self-reliant state with majority of its revenues (tax and non-tax) from its own sources. These rating strengths are however, constrained by high and increasing revenue deficit, non-adherence to fiscal consolidation targets laid down by finance commission. The ratings also factors in the high levels of debt of GoP, shortcomings in liquidity management and absence of Guarantee Redemption Fund (GRF) and Consolidated Sinking Fund (CSF).

***Outlook:** Negative*

The outlook for GoP rating is negative as state's fiscal situation continues to be strained and is likely to be pressured in FY20 as well. The revenue deficit of the state is estimated to be widened to a 7 year high in FY19 (RE), mainly on account of higher growth in revenue expenditure in comparison to revenue receipts. The high debt levels of the stat would continue to be weigh on the overall financial position.

The reaffirmation of ratings assigned to bank facilities of Punjab State Power Corporation Limited (PSPCL) *continues to be constrained by PSPCL's exposure to the regulatory risk in terms of revision of tariff and full pass through of costs and below average financial risk profile of PSPCL attributable to losses at net level coupled with moderation in capital structure. The ratings also take cognizance of reduction in losses in FY18 on account of increase in tariff by the regulator. 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 revision in tariffs for FY19 by the regulator.*

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.

Detailed description of the key rating drivers

Credit enhancement in the form of Guarantee from Government of Punjab

PSPCL is the successor entity of the erstwhile PSEB and enjoys regulated monopolies for generation and distribution of power in the state of Punjab. The company is wholly owned by GoP and has also extended its unconditional and irrevocable corporate guarantee for the timely repayment of interest and principal on the outstanding Non SLR Bonds-I of Rs. 24.40 crore (reduced from Rs. 331.60 crore). Over the years, there has been continuous support from GoP in the form

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

of equity as well as regular repayment of subsidy for agricultural and below poverty line supplies. The said subsidy payments stood at Rs. 6,578 crore in FY18, increased from Rs. 5,600 crore in FY17.

Below average financial risk profile.

The company has below average financial risk profile attributable to losses at net level coupled with leveraged capital structure. The company has registered net loss of Rs. 907 crore in FY18, though improved from net loss of 2,836 crore in FY17. During 9MFY19, net losses stood at Rs. Rs. 299 crore. Further, the company witnessed increase in leverage as evident from the overall gearing of 2.81x as on March 31, 2018 as against 2.52x as on March 31, 2017. The deterioration was on account of relatively lower net-worth due to net losses coupled with high debt levels owing to high loan liabilities to meet the revenue gap and capex requirements. Further, the net worth of the company witnessed moderation over the past three years on account of net losses to the utility. However, the company has reported growth in its total operating income and witnessed improvement in operating profitability in FY18. Also, the company had cash and cash equivalents of Rs. 337.18 crore as on March 31, 2018.

Regulatory risks related to revision in tariffs

PSPCL faces significant regulatory risks associated with the revision in tariffs and pass through of power purchase costs. The risks not only pertain to delay in receipt of tariff orders it can also be towards non approval of expenses by the regulatory commission. However, the company has received the tariff hike of 9.33% and 2.17% for FY18 & FY19 respectively.

Revision in tariffs vide order from PSERC

The company had received tariff hike of 2.17% for FY19 (FY18- 9.33%) over the existing tariff vide order dated April 19, 2018 from Punjab State Electricity Regulatory Commission (PSERC). The commission had determined the cumulative revenue gap of Rs. 668.91 crore up to FY19. The revision in tariffs is expected to improve the profitability and liquidity profile of the company.

Analytical approach: The bonds issued by PSPCL are backed by unconditional and irrevocable corporate guarantee from Government of Punjab (GoP) while bank facilities are evaluated on standalone basis.

Applicable Criteria

CARE's criteria on assigning outlook to credit ratings
CARE's policy on default recognition
CARE’s policy for service sector companies
CARE‘s methodology for private power producers
CARE's rating methodology on financial ratios – Non-financial sector
CARE's criteria for short term instruments
CARE’s policy for factoring linkages in ratings
CARE‘s methodology for state governments

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)	FY17 (A)	FY18 (A)
Total operating income	24934	29504
PBILDT	681	3548
PAT	-2836	-907
Overall gearing (times)	2.52	2.81
Interest coverage (times)	0.27	1.28

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

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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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	-	-	-	3416.63	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	860.00	CARE BB+; Stable
Non-fund-based-Short Term	-	-	-	769.50	CARE A4+
Fund-based - ST-Term loan	-	-	-	500.00	CARE A4+
Bonds	September 07, 2009	9.01%	September 07, 2019	24.40	CARE BBB (SO); Negative

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Bonds	LT	24.40	CARE BBB (SO); Negative	-	1)CARE BBB (SO); Negative (05-Jan-18) 2)CARE BBB (SO); Stable (02-May-17)	1)CARE BBB (SO) (20-Jun-16) 2)CARE BBB (SO) (22-Apr-16)	1)CARE BBB (SO) (14-Apr-15)
2.	Fund-based - LT-Term Loan	LT	3416.63	CARE BB+; Stable	1)CARE BB+; Stable (06-Apr-18)	1)CARE BB+; Stable (02-May-17)	1)CARE BB+ (20-Jun-16) 2)CARE BB+ (22-Apr-16)	1)CARE BB+ (14-Apr-15)
3.	Fund-based - LT-Cash Credit	LT	860.00	CARE BB+; Stable	1)CARE BB+; Stable (06-Apr-18)	1)CARE BB+; Stable (02-May-17)	1)CARE BB+ (20-Jun-16) 2)CARE BB+ (22-Apr-16)	1)CARE BB+ (14-Apr-15)
4.	Fund-based - ST-Term loan	-	-	-	-	-	1)Withdrawn (20-Jun-16) 2)CARE A4+ (22-Apr-16)	1)CARE A4+ (14-Apr-15)
5.	Non-fund-based-Short Term	ST	769.50	CARE A4+	1)CARE A4+ (06-Apr-18)	1)CARE A4+ (02-May-17)	1)CARE A4+ (20-Jun-16) 2)CARE A4+ (22-Apr-16)	1)CARE A4+ (14-Apr-15)
6.	Fund-based - ST-Term loan	ST	500.00	CARE A4+	1)CARE A4+ (06-Apr-18)	-	-	-

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