Punjab State Power Corporation Limited

June 29, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long term Bank Facilities-Term Loan	4,447.02 (enhanced from 3,416.63)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Long term Bank Facilities- Fund based	1,460.00 (enhanced from 860.00)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities-Term Loan	83.33	CARE A4+ (A Four Plus)	Reaffirmed
Short term Bank Facilities- Non fund based	1,269.50 (enhanced from 1,186.17)	CARE A4+ (A Four Plus)	Reaffirmed
Total Facilities	**7,259.85 (Rupees Seven Thousand Two Hundred Fifty Nine Crore and Eighty Five Lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to bank facilities of Punjab State Power Corporation Limited (PSPCL) continues to remain constrained by PSPCL's exposure to the regulatory risk in terms of revision of tariff and full pass through of costs and average financial risk profile of PSPCL attributable to continued losses at net level coupled with leveraged capital structure. The ratings also take cognizance of reduction in net loss in FY19 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 FY20 by the regulator.

<u>Rating Sensitivities</u>

Positive Factors

- Significant reduction in AT&C losses below 15% on a sustained basis.
- Favourable tariff order from PSERC and improvement in financial risk profile on a sustained basis.

Negative Factors

- Any deterioration in AT&C level below 23% on a sustained basis.
- Any further deterioration in financial risk profile on a sustained basis.

Detailed description of the key rating drivers

Key Rating Weaknesses

Average financial risk profile.

The company has average financial risk profile attributable to continued losses at net level coupled with leveraged capital structure. The company has registered net loss of Rs. 38 crore in FY19 which improved from net loss of 907 crore in FY18. The company has reported growth in its total operating income and witnessed improvement in operating profitability in FY19. The total operating income of the company has increased to Rs. 32,798 crore backed by increase in tariff and higher number of units sold in FY19. The capital structure of the company continued to remain leveraged at same levels for FY19 and FY18 on account of high debt levels owing to high loan liabilities to meet the revenue gap and capex requirements. The overall gearing stood at 2.80x as on March 31, 2019 as against 2.81x as on March 31, 2018. Further, the net worth of the company witnessed improvement for FY19 due to lower amount of net losses to the utility. During 9MFY20, the company reported net loss of Rs. 224 crore on a total operating income of Rs.27,321 crore.

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 2.14% and 2.17% for FY20 & FY19 respectively.

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

Key Rating Strengths

Support from Government of Punjab in the form of subsidy payments

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 regular payment of subsidy for agricultural and below poverty line supplies. The said subsidy payments stood at Rs. 9,036 crore and Rs. 6,577 crore during FY19 and FY18 respectively.

Moderate AT&C losses

PSPCL's AT&C losses stood at 19.76% in FY19 as against 19.38% in FY18. AT&C losses have registered slight decline but it continues to remain high. The decline in AT&C losses was largely driven by decrease in billing efficiency to ~85% in FY19 from ~86% in FY18. PSPCL's collection efficiency remained at similar levels during FY18 and FY19 at ~93%.

Revision in tariffs vide order from PSERC

The company had received tariff hike of 2.14% for FY20 (FY19- 2.17%) over the existing tariff vide order dated May 27, 2020 from Punjab State Electricity Regulatory Commission (PSERC). The commission had determined the cumulative revenue gap of Rs. 564.62 crore up to FY20. The revision in tariffs is expected to improve the profitability and liquidity profile of the company.

Liquidity

The liquidity profile of the company derives support from Government of Punjab in the form of subsidies received by the state utility. To tide over the uncertainty attached to the COVID-19 outbreak, the company had approached lenders for approval of moratorium for part of its debt obligations for April-May 2020 debt obligations, which is in line with the COVID-19 Regulatory Package announced by the Reserve Bank of India on March 27, 2020. The company had unutilized limits of ~Rs. 520 crore out of total fund based working capital limits of Rs. 1,460 crore as on April 30, 2020. The company has already paid the due debt obligations for REC and PFC for the month of June 2020. The subsidy payments stood at Rs. 9,036 crore and Rs. 6,577 crore during FY19 and FY18 respectively. The cash and bank balance stood at Rs. 228.49 crores as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

CARE's criteria on assigning outlook to credit ratings
CARE's policy on default recognition
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' methodology for Infrastructure Ratings

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)	FY18 (A)	FY19 (A)
Total operating income	29504	32797
PBILDT	3548	4025
PAT	-907	-38
Overall gearing (times)	2.81	2.80
Interest coverage (times)	1.28	1.39

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: 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	-	-	-	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	-	-	-	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds	LT	-	-	-	1)Withdrawn (16-Sep-19) 2)CARE BBB (SO); Negative (05-Apr-19)	-	1)CARE BBB (SO); Negative (05-Jan-18) 2)CARE BBB (SO); Stable (02-May-17)
2.	Fund-based - LT-Term Loan	LT	4447.02	CARE BB+; Stable	1)CARE BB+; Stable (07-Apr-20)	1)CARE BB+; Stable (05-Apr-19)	1)CARE BB+; Stable (06-Apr-18)	1)CARE BB+; Stable (02-May-17)
3.	Fund-based - LT-Cash Credit	LT	1460.00	CARE BB+; Stable	1)CARE BB+; Stable (07-Apr-20)	1)CARE BB+; Stable (05-Apr-19)	1)CARE BB+; Stable (06-Apr-18)	1)CARE BB+; Stable (02-May-17)
4.	Non-fund-based-Short Term	ST	1269.50	CARE A4+	1)CARE A4+ (07-Apr-20)	1)CARE A4+ (05-Apr-19)	1)CARE A4+ (06-Apr-18)	1)CARE A4+ (02-May-17)
5.	Fund-based - ST-Term loan	ST	83.33	CARE A4+	1)CARE A4+ (07-Apr-20)	1)CARE A4+ (05-Apr-19)	1)CARE A4+ (06-Apr-18)	-

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.*

Contact us

Media Contact
Name: Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name – Puneet Kansal
Contact no.- 011-45333225
Email ID- puneet.kansal@careratings.com

Relationship Contact
Name: Swati Agrawal
Contact no. : 011-45333200
Email ID : swati.agrawal@careratings.com

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