

Press Release

Rajasthan Rajya Vidyut Prasaran Nigam Limited (RVPN)

March 10, 2017

Rating Assigned

Total Instruments Rated*	Rs. 700.00 Cr.
Long Term Rating	SMERA Provisional AA** (SO#)/Stable (Assigned)

*Refer Annexure for details

#Credit Enhancement due to the presence of Debt Service Reserve Account (DSRA) in the form of Fixed Deposit

**The rating will be converted to a final rating after:

- i. Appointment of a SEBI Registered Debenture Trustee
- ii. Execution of the Trust Deed
- iii. Incorporation of the Structured Payment Mechanism (SPM) as a part of the Trust Deed
- iv. Receipt of a copy of the Letter of Comfort from the Government of Rajasthan

Rating Rationale

SMERA has assigned a long term rating of **SMERA Provisional AA (SO) (read as SMERA provisional double A (Structured Obligation))** to the Rs. 700.00 Cr. Proposed Non-Convertible Debenture (NCD) issued by Rajasthan Rajya Vidyut Prasaran Nigam Limited (RVPN). The outlook is '**Stable**'.

SMERA has taken a consolidated view of RVPN and its subsidiaries, namely Barmer Thermal Power Co. Limited, Banswara Thermal Power Co. Limited, Keshoraipatan Gas Thermal Power Co. Limited, Pink City Transmission Service Co. Limited and Lake City Transmission Service Co. Limited.

RVPN was incorporated in 2000 by the Government of Rajasthan (GoR) under the provisions of the Rajasthan Power Sector Reforms Act, 1999 as the successor to the Rajasthan State Electricity Board (RSEB). RVPN is engaged in the transmission of bulk power from generating stations to Discoms (Distribution Companies).

List of key rating drivers and their detailed description

Strengths:

Presence of structured payment mechanism: The rating centrally assumes adherence to the proposed Structured Payment Mechanism (SPM) by RVPN and the Debenture Trustee. RVPN shall maintain a Debt Service Reserve Account (DSRA) which will be created out of the proceeds of the NCD. DSRA will be equivalent to one year of interest payment in the form of a fixed deposit with a scheduled commercial bank. The Debenture trustee shall have a lien on the FD and can liquidate the same to fund the designated escrow account, in case sufficient funds are not made available by RVPN in the escrow account by T - 4 days (T being the due date).

In case the debenture trustee utilises funds from the DSRA to fund the escrow account, RVPN shall replenish the DSRA within seven days. In addition to the SPM, GoR will be issuing a Letter of Comfort to debenture holders for the proposed issue indicating its support to the issuer.

SMERA has based its rating on the premise that there will be a continued adherence to the aforementioned SPM by RVPN and the Debenture Trustee.

Ongoing support from the Government of Rajasthan (GoR): RVPN is a wholly-owned undertaking of GoR, a State Transmission Utility (STU) under the Electricity Act, 2003. It is a strategically important entity and forms the backbone of the power sector infrastructure for the state. It is the sole bulk power

transmission company in Rajasthan. SMERA believes that RVPN shall continue to benefit from the financial, operational and managerial support received from GoR from time to time.

RVPN's credit risk profile shall be supported by its access funds at low cost funds and its ability to mobilise financial resources from the capital markets, financial institutions and multilateral development institutions.

About the Government of Rajasthan (GoR)

As reported by the Comptroller & Auditor General (CAG), GoR's the Debt-to-Gross State Domestic Product (GSDP) ratio of the state stood at 25.69 per cent as on 31st March, 2015 (25.29 per cent as on 31st March, 2014).

The revenue deficit of the state as a proportion of the Gross State Domestic Product (GSDP) remained at 0.56 per cent in FY2015 (0.20 per cent in FY2014). The fiscal deficit to GSDP ratio of the state increased to 3.31 per cent in FY2015 (2.96 per cent in FY2014) primarily due to increase in capital spending.

Weaknesses:

Susceptibility of operating performance to offtake by discoms, timely realisation of receivables and Support from GoR: Major customers of RVPN include power distribution companies (Discoms) in Rajasthan such as Jaipur Vidyut Vitran Nigam Limited, Ajmer Vidyut Vitran Nigam Limited and Jodhpur Vidyut Vitran Nigam Limited. Since the credit profiles of these discoms are subdued, the timely realisation of receivables continues to be a key credit monitorable. RVPN's debtor days were at 167 in FY2016 as compared to 162 in FY2015.

Certain recent policy initiatives like Ujwal Discom Assurance Yojna (UDAY) scheme are expected to support the discoms by reducing their debt burden. However, the long term credit profiles of these discoms will be dependent on their ability to improve their key operating parameters by various measures like reduction of Aggregate Technical & Commercial (AT&C) losses.

RVPN being an STU is required to undertake substantial capital expenditure in order to maintain, upgrade and expand the power infrastructure in the state of Rajasthan. RVPN's Gross block (including Capital Work in Progress) increased by Rs. 1,699 crore in FY2014-15 and Rs. 2,167 crore in FY2015-16. A significant portion of this capital expenditure is funded by equity infusion/grants from GoR, government guaranteed debt instruments and borrowings from public financial institutions.

While the support from GoR is expected to continue over the medium term, any delays in equity infusion/grants will require RVPN to take on additional debt to support the capital expenditure program. RVPN is geared at 3.49 times as on 31 March, 2016 (as compared to 3.73 times as on 31 March, 2015) on account of total long term debt of Rs. 9,666.80 cr on 31 March, 2016 (against Rs. 8,835.94 cr on 31 March, 2015). In terms of debt servicing capability, RVPN reported a moderate Debt Servicing Coverage Ratio (DSCR) of 1.16 times in FY2016 indicating limited cushion available between debt servicing commitments vis-à-vis operating cashflows.

Any sharp increase in debt could cause downward pressure in the credit metrics and further pressure on the cashflows of RVPN. SMERA believes that RVPN's credit profile and its liquidity profile will be influenced by its ability to manage its receivables effectively and the magnitude & timing of support from GoR.

Susceptibility of the performance to changes in the regulatory framework: RVPN's revenues are influenced by the regulatory framework governing the power sector. Revenues of transmission players like RVPN are determined by state electricity regulatory commissions. The Rajasthan Electricity Regulatory Commission (RERC) takes into account key parameters like the cost structure and expected return on capital employed to arrive at transmission tariffs, wheeling and SLDC (State Load Dispatch

Centre) charges, SMERA believes that significant changes in the regulatory environment will impinge on the credit profile of the company.

Rating Sensitivity Factors:

- Adherence to SPM
- Timely Support from GoR
- Ownership of GoR
- Regulatory Environment

Analytical approach: SMERA has taken a consolidated view of the above entity.

Applicable Criteria

- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>
- Consolidation - <https://www.smera.in/criteria-consolidation.htm>
- State Government Support: <https://www.smera.in/criteria-gov.htm>
- Policy on Provisional Ratings: <https://www.smera.in/provisional-ratings.htm>

Outlook: Stable

SMERA believes that RVPN will benefit from its natural monopoly in the bulk power transmission business in Rajasthan and continuing financial and operational support from GoR. The outlook may be revised to 'Positive' in case of improvement in the credit risk profile of RVPN reflected in the improvement in gearing and debt servicing indicators. The outlook may be revised to 'Negative' in case of significant buildup in receivables beyond existing levels or sharp deterioration in GoR's credit profile.

About the Rated Entity

RVPN was incorporated in 2000 by GoR under the provisions of the Rajasthan Power Sector Reforms Act, 1999 as successor to the Rajasthan State Electricity Board (RSEB). The organisation is engaged in the transmission of bulk power from generating stations to Discoms (Distribution Companies).

RVPN reported consolidated Profit After Tax (PAT) of Rs. 69.85 cr. (Rs. 181.02 cr. in FY2015) against consolidated operating income of Rs. 2,791.94 cr. in FY2016 (Rs. 2279.00 cr. in FY2015). The consolidated net cash accruals (Profit after Tax plus Depreciation) stood at Rs. 729.76 cr. in FY2016 as against Rs. 835.89 cr. in FY2015.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: N.A.

Rating History for the last three years:

Name of Instruments	2017			2016		2015		2014	
	Scale	Amount (Rs. Cr.)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Proposed Non-Convertible Debentures	LT	700.00	SMERA Provisional** AA (SO#)/Stable (Assigned)	-	-	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Non-Convertible Debentures	N.A	N.A	N.A	700.00	SMERA Provisional** AA (SO#)/Stable (Assigned)

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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